

2021/22

**Group Annual Report**  
and Financial Statements



## Our Business

We supply top quality drinking water to 2.3 million customers in the south east of England. Through our network of 14,929 kms of pipes, we deliver around 540 million litres of water every day. The skill and expertise of our colleagues ensures our customers' water meets the highest of standards.

## Our Purpose

Our core function is as a provider of the public water service, for now and the future

[Read more on page 4](#)



## Our Vision

We want to be the water company people want to be supplied by and want to work for

[Read more on page 6](#)



## Our Strategy

We place customer satisfaction, responsibly delivered, at the heart of everything we do

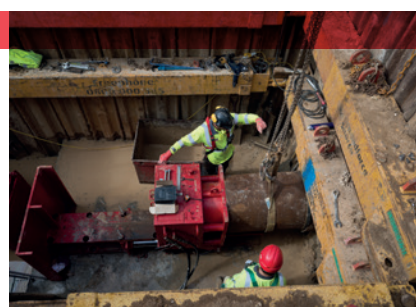
[Read more on page 16](#)



## Our Objectives

We measure success through 38 performance commitments and 10 responsible business commitments

[Read more on page 142](#)



## Our Values

Our values and behaviours underpin how we deliver our strategy

[Read more on page 200](#)



# Contents

- 5 Our performance
- 5 How we invest in your water

## STRATEGIC REPORT 8-141

- 8 Chair and CEO joint report
- 16 Our strategy
- 18 Our business model
- 24 Our business environment
- 30 Risk management and principal risks
- 48 Our business strategy
- 58 Business performance
- 64 Group structure and financing
- 66 Financial performance
- 76 Responsible business
- 94 Climate-related disclosures
- 124 Non-financial information statement
- 132 Position and prospects
- 134 Long-term viability statement
- 141 Going concern statement

## GOVERNANCE 144-199

- 144 Corporate governance statement
- 172 Remuneration report

## FINANCIAL STATEMENTS 202-280

- 202 Directors' report
- 208 Independent auditor's report
- 220 Group income statement
- 220 Group statement of other comprehensive income
- 221 Company income statement
- 221 Company statement of other comprehensive income
- 222 Group statement of financial position
- 223 Company statement of financial position
- 224 Group statement of changes in equity
- 225 Company statement of changes in equity
- 226 Group statement of cash flows
- 227 Company statement of cash flows
- 228 Notes to the financial statements



### Online annual report

Read our annual report online, including a link to our investors report: [southeastwater.co.uk/investors](https://southeastwater.co.uk/investors)



Find out more about our 25 year environment plan:  
[southeastwater.co.uk/25YP](https://southeastwater.co.uk/25YP)



## Our Purpose

To provide today's public water service and create tomorrow's water supply solutions, fairly and responsibly, working with others to help society and the environment to thrive.

# 536.7

million litres of drinking  
water supplied every day





## Our performance

### OPERATIONAL HIGHLIGHTS

Drinking water supplied

**536.7** million  
Litres each day  
(2020/21: 543.4 million)

Number of employees

**1,001**  
(2020/21: 986)

Greenhouse gas emissions

**30.4**<sup>\*</sup> kgCO<sub>2</sub>e/MI  
(2020/21: 230kgCO<sub>2</sub>e/MI)

### FINANCIAL HIGHLIGHTS

Revenue

**£251.3** million  
Increase of 1.3 per cent  
on last year

Capital expenditure

**£105.0** million  
Increase of 12.6 per cent  
on last year

Profit from operations

**£83.8** million  
Increase of 8.1 per cent  
on last year

Cash generated from operating activities

**£135.9** million  
Increase of 13.3 per cent  
on last year

\* The significant reduction in GHG emissions is due to switching to REGO (renewable energy guarantee of origin) backed energy which began on 1 April 2021.

## How we invest in your water

Where each £1 of your bill is spent by the appointed water business

Getting water to you



2020/2021: 43p

Water treatment



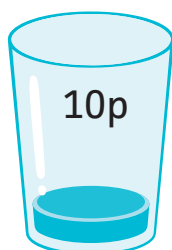
2020/2021: 23p

Interest and tax



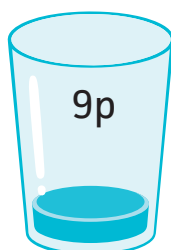
2020/2021: 14p

Water extraction



2020/2021: 10p

Customer services



2020/2021: 8p

Dividends\*



2020/2021: 2p

\* Dividends allocated to the appointed business.

# Our Vision

We want to be the water company people want to be supplied by and want to work for.

Supplying the **2.3 million** people who live in our area with safe, wholesome water is what we do.

Across Kent and Sussex and then to Surrey, Hampshire and Berkshire, we make sure homes, businesses, hospitals and all in our community that need water have access everyday to what they need to thrive.

## Water treatment and quality



**500,000** water quality tests each year – that's how we ensure your water meets the highest standards.

### WATER TREATMENT

**26%**

of each £1 of your bill is spent



87 water treatment works across the region ensure high quality drinking water is always available



We're now helping nearly 54,000 households afford their water bills by enrolling them onto our social tariffs

“

**Despite considerable challenges from the impact of the pandemic, this has been a strong year for the business**



Providing safe, high quality drinking water is at the heart of what we do. We monitor the appearance, taste & odour of our tap water and have exceeded our commitments this year. (see page 58 for more details)

## STRATEGIC REPORT

8	Chair and CEO joint report
16	Our strategy
18	Our business model
24	Our business environment
30	Risk management and principal risks
48	Our business strategy
58	Business performance
64	Group structure and financing
66	Financial performance
76	Responsible business
94	Climate-related disclosures
124	Non-financial information statement
132	Position and prospects
134	Long-term viability statement
141	Going concern statement



# Chair and CEO joint report



**Chris Train** OBE  
CHAIR



**David Hinton**  
CEO

This is a joint statement and as CEO, I'd like to take the opportunity to formally welcome Chris to the organisation. Chris is a former CEO of Cadent, Britain's largest gas distribution network. His knowledge and experience will be of invaluable benefit to us as we face new challenges ahead.

Chris succeeds Nick Salmon, who stepped down as Chair on 31 March 2022 after seven years' service, having presided over a crucial period of transformation and improvement for the business. Chris and I would like to thank Nick for his leadership and I would like to personally thank him for his support.

Nick presided over a period where we have continued to evolve the strength of the business. We intend to build on the firm foundation he has given us. We remain committed to our purpose; to provide today's public water service and create tomorrow's water supply solutions, fairly and responsibly, working with others, to help society and the environment to thrive.



**We are particularly proud of our achievements in the environment area of our business, as we know our connection to the natural world is crucial**

We feel that this review should start with a huge 'thank you' to everyone in the business, our contractors and our partner organisations who have continued to adapt and respond to the challenges that this past year has sent in our direction. Despite the overall level of Covid-19 restrictions lifting slightly during the year, the hurdles that we've had to overcome have been significant, whilst also focussing on returning to normal operations and preparing for the future.

It seems expecting the unexpected has become normal, as we reflect on another year of achievement, ambition and challenges and as we enter the mid-point year of the five year business plan period.

Despite considerable challenges from the impact of the pandemic, this has been a strong year for the business. We have made significant progress in the year on our regulated performance commitments. We achieved 87 per cent of our financial performance measures, and overall saw an improved performance in 80 per cent of our financial performance measures. The highlights include the lowest level of leakage that the company has ever recorded and our best ever performance for CRI, the DWI's lead measure of water quality.

We are proud to supply high quality drinking water to our customers at a time when other water companies are under scrutiny regarding storm water overflows. Protecting and enhancing our local environment is integral to what we do and you will see in this report the industry leading commitment we have made to planning how we protect our environment over the next 25 years.

The impact of the Covid-19 global pandemic has continued to be felt, affecting everything we do. As we entered the second year of Covid-19, the depth of the strong foundations we set in 2020/21 has reaped huge benefits. However economic conditions have worsened impacting our costs and this is set to continue in 2022/23. High energy costs and the rising cost of living are affecting our customers.

We have a number of key engineering projects underway to deliver improved resilience across our network. The temporary water treatment works in Aylesford, Kent – built in just eight months to replace the loss of a key strategic service reservoir caused by a sinkhole that opened up – continues to support the area. Construction is now underway on a permanent water treatment works solution on the site.

This project is just one of a number of significant investments we're making, such as the strategic pipeline being laid between Fleet and Greywell in Hampshire to enable more water to be pumped into the region as the population increases. We've also been working to upgrade our existing network. In Chilham we've invested £2.1 million installing new equipment in the area to prevent customers going without water during power cuts, and in Pluckley, Kent a £700,000 new 1.2 km water main will reduce the likelihood of bursts and supply interruptions.

The multi-million-pound expansion of our flagship Keleher treatment site in Bray was officially unveiled in February by the Rt Hon Theresa May MP, in her role as constituency MP for Maidenhead. The site is now capable of pumping up to 68 million litres of water a day – a 50 per cent capacity increase and enough to fill 27 Olympic-sized swimming pools.

Our ability to respond to increased demand has therefore increased, putting in place extra capacity where needed.

We have found opportunities to learn more about our customers, their expectations of us and our services and to promote water efficiency initiatives to protect the environment and help with the cost of living pressures.

## Chair and CEO joint report continued

We have increased our support for vulnerable customers and to help those customers who are facing financial hardship. An industry first data partnership with two councils in Kent has enabled us to automatically enrol customers onto our social tariff, helping those most financially at risk in our communities. We will continue to review the provision of these partnerships to reflect the changing economic climate in the future, supporting the most vulnerable in our society.

Once again our colleagues across the business have risen to the trials of lockdowns and the restrictions which have been placed on all of us, responding quickly and with professionalism. Those attributes extend to our contractors and partner organisations who once again supported us in every way.

We have reacted with agility to all the challenges that we have faced as an organisation, including macro environmental challenges such as those created by the instability in the global energy market and, of course, Storm Eunice – more of which later.

We are very pleased to present our group annual report and the audited financial statements for the year ended 31 March 2022.

Across the business we have continued to make progress on delivering on the commitments we have made in our five year plans and have ambitious targets. We are particularly proud of our achievements in the environment area of our business, as we know our connection to the natural world is crucial.

Climate change is – and will continue to be – a huge challenge for us. It's an area of uncertainty in terms of risk. We operate in an area of water-stress and in recent years have done a lot to overcome this, including our hugely successful Customer Metering Programme, where we have the highest level of meter penetration of any water company in the UK.







**We consulted with over half a million customers on our draft 25 year environment plan – the largest consultation we’ve ever undertaken**



Our catchment management team works with farmers and landowners to improve the quality of water at the source

However, as population growth continues we must make further changes and as new evidence and research emerges, we will use innovation and best practice to overcome the challenges that this will bring.

This year we have prepared our draft 25 year environment plan. This is a first in the water industry and we believe that this ambitious approach will make significant improvements to our environment within a generation.

We have sought feedback from stakeholders and customers alike. We invited over 500,000 customers to give us their views, which is the largest consultation we have ever undertaken. This feedback will be vital in helping us to develop our plan, and protect the unique environment which is an integral part of everything we do.

In addition, we have shown our commitment to working in partnership to make sure we secure our resources for the future by working with Water Resources in the South East (WRSE) to create a regional plan which looks forward to 2100. This will be the basis of our own water resources management plan designed for the long-term.

For a long time, we’ve been talking to the farmers in our region to see how we can join together to keep our water sources and rivers cleaner, to reduce the amount of fertilisers going in to them in the first place. This proactive partnership approach is making a marked difference in helping to clean our rivers.



**Draft 25 year environment plan**

Read more online: [southeastwater.co.uk/25YP](https://southeastwater.co.uk/25YP)

## Chair and CEO joint report continued

Our commitment to achieve net zero carbon by 2030 is also on track. We will continue to track our progress and make robust decisions which will ensure we achieve our goal as it edges ever-closer. We are always looking towards renewable energy sources, as well as how we operate more generally to improve the environment.

Of course, we consider ourselves a service industry and people are at the very heart of every area of service.

Whether it's our own colleagues whose expertise we want to harness and nurture or our consumers in the communities we serve, we aim to put service front and centre.

We have committed to learn more about our customers, their expectations of us and how we can help them to reduce their water bills and play their part in water efficiency drives.

We have continued to reach out to the sectors of the community that are more difficult to engage with and to learn more about how we can offer extra support.

An industry-leading data share initiative, where we are working in partnership with two local authorities to auto enrol customers onto a social tariff, is a great example of this. We are actively seeking to offer assistance as an early intervention to avoid customers becoming unable to pay their bills, especially where there may be financial pressures for families and individuals.

Providing excellent customer service across the board is not just an ambition for us, it is embedded in our vision and values.





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**Our on-going training services have been enhanced as we are keen to keep and develop our talent**



Our apprenticeship programme has resulted in the number of apprenticeships in the company increasing by 250 per cent

That's why being awarded the ServiceMark Accreditation with Distinction from The Institute of Customer Service – one of only a handful of companies to receive it – was so important to us. We are extremely proud of that achievement and it is a reflection of the teamwork across the business.

Among the areas highlighted by ServiceMark were knowledge and empathy, both attributes we encourage in all our colleagues.

That's why we have produced our people plan. This important accreditation is a validation of our people plan, which clearly sets out our vision and plans for how we will attract and retain the very best professionals to South East Water.

We are particularly pleased to be promoting apprenticeships as a means of training or retraining in all areas of our business, before moving on to focus on continuous professional development.

This programme has resulted in the number of apprenticeships in the company increasing by 250 per cent.

Bringing in new and diverse talent is also a long-term aim and we have engaged with the Leonard Cheshire Foundation to give talented graduates with a disability access to internships before they enter the workplace full time.

Our on-going training services have been enhanced as we are keen to keep and develop our talent. Many of our workforce live in our supply area and they are our best ambassadors.



## Chair and CEO joint report continued

Supporting our colleagues beyond the work environment is also important to us and the change in the way we work has presented an opportunity to reassess how work-life balance can be achieved.

We have created our hybrid working plan with the objective of moving towards an agile working approach, which we believe will also support our goal of attracting and retaining the best talent.

Of course, the year was not without adversity, most notably Storm Eunice, the worst storm to hit our region in more than a generation.

Sussex bore the brunt of the issues caused by the high winds, which hit again when Storm Franklin swept in immediately after.

Despite significant planning for the storm, including the provision of alternative power sources, unprecedented power outages left us in a very difficult position. In the aftermath of the storms, over 100 assets were inoperable due to lack of power. This represented the most significant loss of power in our company's history.

Whilst we worked closely with UK Power Networks to restore electricity, the power cuts also caused damage to vital equipment in some areas, which meant we weren't able to pump water into the network as soon as power was restored. Once again, our colleagues rose to the challenges, but some customers were affected whilst power supplies were impacted.

We were in direct contact with hospitals, supplying tankers to various NHS sites, and other healthcare centres to make sure they were prioritised, and supported our livestock farmers and their specialist needs. At the same time, we prioritised our vulnerable customers and made over 5,000 deliveries to those customers.

During the height of the emergency we set up and had volunteers at more bottled water stations than we have had in any previous incidents, the logistics of which alone were immense.

Our early and intense engagement with our stakeholders was also crucial in our success in getting essential messages to our communities in extremely testing circumstances, especially where many were without power and internet access.

We are doing all we can to support the communities worst affected and, as always, reflecting on any lessons to be learned, working with local stakeholders to gather feedback on how we can respond better in the future.

For impacted customers who fell outside our General Standards of Service (GSS), specifically those in East Grinstead, we set up a Community Fund of £100,000 to be distributed to charities, community groups and not for profit organisations, selected by the local community. Our customers are currently voting on how this fund should be distributed and we look forward to making a real difference in the community.

Overall we have made good progress against our plans set out under our four strategic themes and you will see more of those throughout this report.

As we return to more normal times, with the pandemic behind us, we will continue to develop the positive outcomes that we have delivered in challenging times. I am sure that this will put us in a great position to build strongly in the coming year.



**Overall we have made good progress against our plans set out under our four strategic themes and you will see more of those throughout this report**

## The year ahead

This year has shown again how we are facing ever-increasing challenges from the weather and rapidly changing economic pressures on our business and our customers.

In the year ahead we are looking to build on the improved performance from this year. We will focus on building resilience in our existing networks and creating plans to ensure we have the right investment in place for future generations via the up and coming Price Review process.

As part of this we will be publishing our 25 year environment plan which aims to understand and engage on the complex trade-offs between different environmental priorities and affordability using feedback from customers, staff and stakeholders.

This will be supported by our strategic direction statement bringing all our long-term plans and ambitions together in one place and set the long-term direction of the business driven from our overriding purpose.

We will continue to assist more customers in need of financial support, or our help during interruptions to supply, through our innovative data sharing exercise with our local authority partners. This is particularly important given the rising cost of living challenge our customers are facing.

We remain very confident that we will continue to deliver excellent service and deal with the challenges immediately ahead of us whilst beginning to plan the key activities and investment needed to sustain the vital service we provide for future generations and the good of the environment.

**Chris Train** OBE  
CHAIR  
14 JULY 2022

**David Hinton**  
CEO  
14 JULY 2022

# Our Strategy

We will achieve our objective to provide a trusted and reliable service for all, by creating a workplace where our people thrive, by putting community and society at the heart of what we do and helping the environment to thrive.

Our business plan is based on four strategic themes which underpin everything that we do

## Trusted and reliable service

We are entrusted to deliver a continuous supply of safe, wholesome drinking water direct to our customers' homes

Read more on page 26

## Thriving people

We have set an ambitious five year people plan to build a culture which inspires excellence in our people

Read more on page 54

## Community and society focused

Our corporate plan for 2020 to 2025 is built on customer satisfaction

Read more on page 72

## Flourishing environment

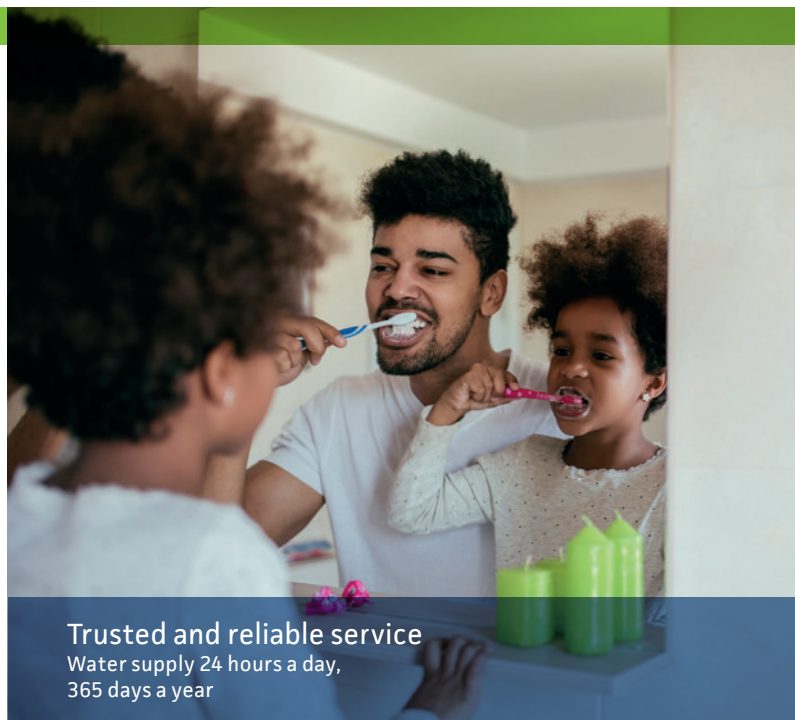
Operating in an environmentally diverse and water stressed area, we need to make the right choices for our local communities and the environment

Read more on page 126



### Our business strategy

Read more online: [southeastwater.co.uk/businessplan](https://southeastwater.co.uk/businessplan)



### Trusted and reliable service

Water supply 24 hours a day,  
365 days a year



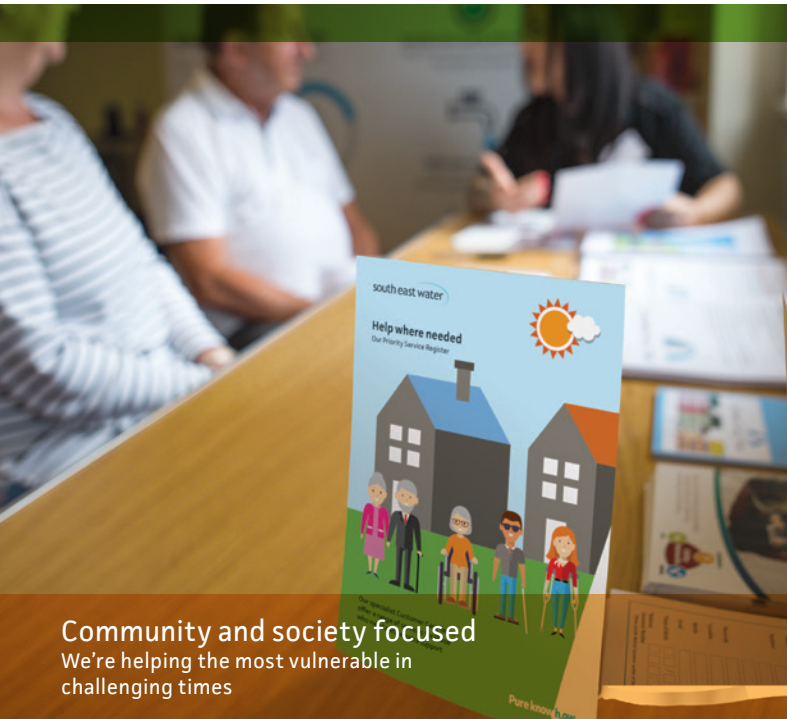
### Thriving people

Amongst our workforce, 10 per cent of our colleagues are benefiting from an apprenticeship





**Our business plan is based on four strategic themes which underpin everything that we do**



**Community and society focused**  
We're helping the most vulnerable in challenging times



**Flourishing environment**  
The 25 Year Environment Plan is leading the sector in addressing future challenges

## OUR BUSINESS MODEL

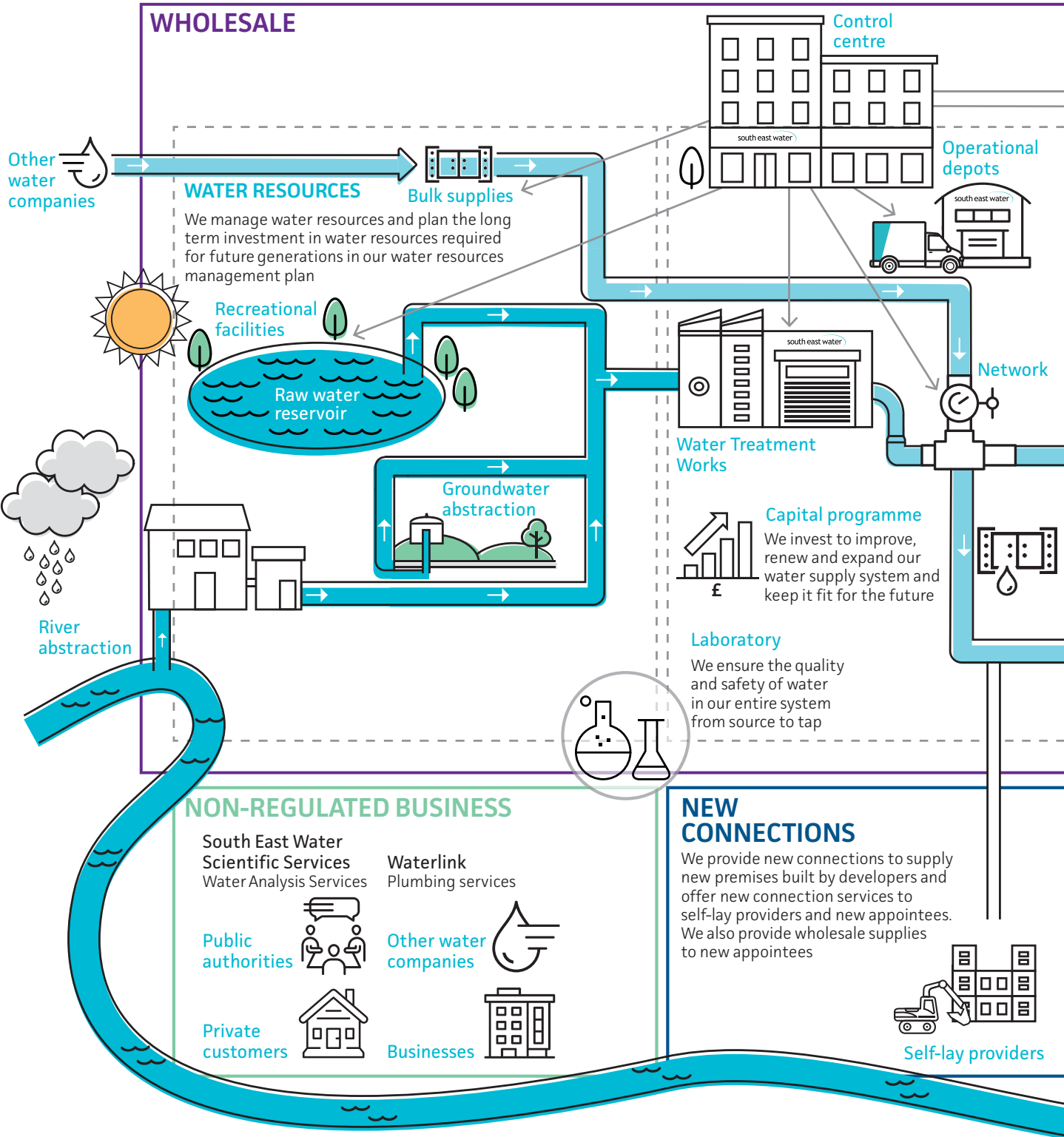
We are the regulated statutory water company in our exclusive supply area which is comprised of two non-contiguous regions in the south east of England. Our core purpose is to provide the public water service and to plan and invest in that service for the future. Wastewater services in our area are provided by either Thames Water or Southern Water.

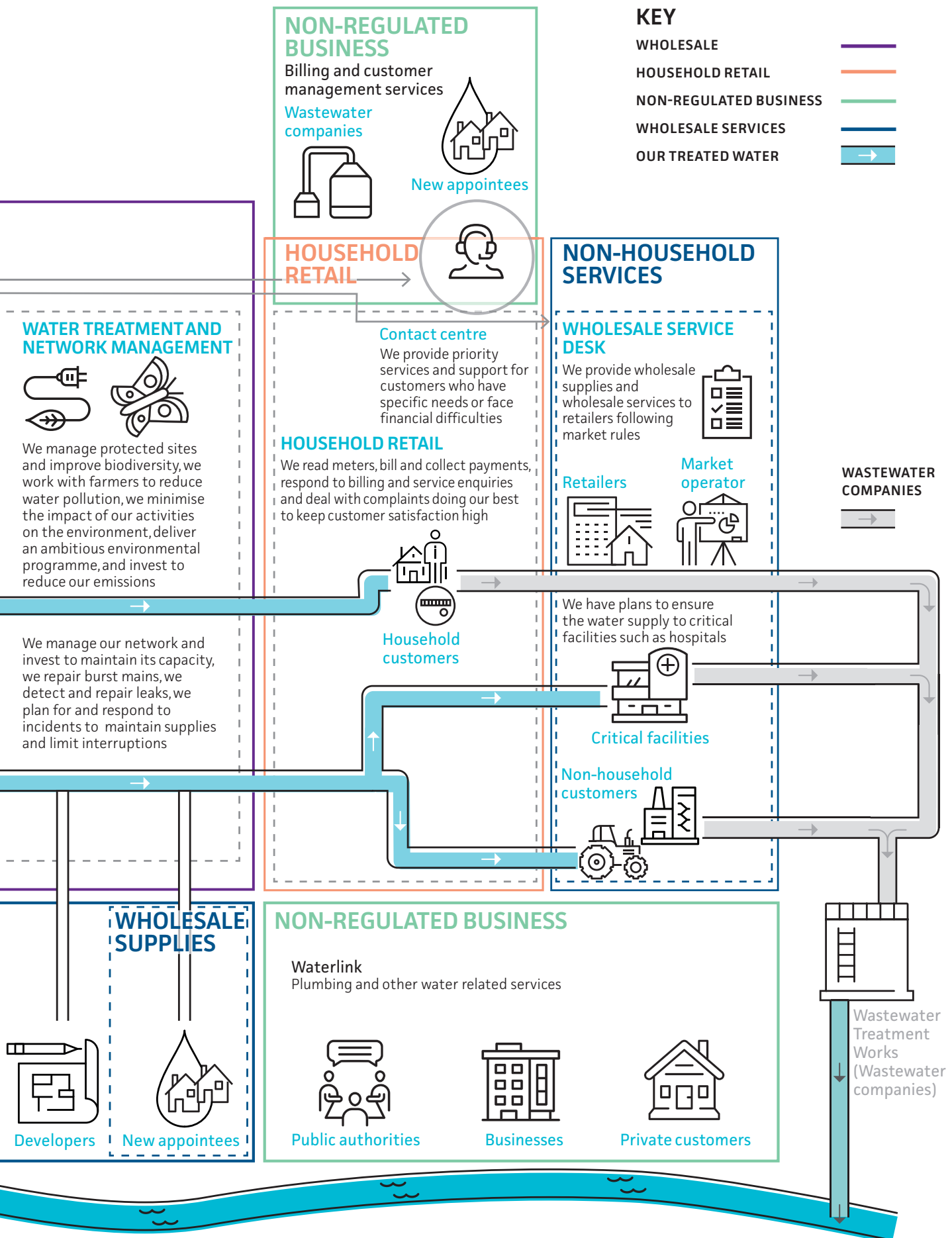
We operate across the full water value chain:

- We carry out all wholesale activities, managing water resources, treatment works and the distribution network to bring safe drinking water to all premises.
- We provide wholesale water supplies to retailers in the non-household retail market and to new appointee water companies that supply premises on certain new development sites located within our geographic area. We provide new connection services to developers, self-lay providers and new appointees to connect new premises. We carry out related works to ensure there is sufficient capacity in our water network to meet the demand from these new premises and maintain water pressure for existing customers.
- We provide all retail services to end-user customers in household premises in our area of supply. This includes meter reading, billing, payment collection, service and billing enquiries and dealing with complaints.
- Retail services to eligible businesses, public sector and third sector organisations in our area of supply are provided by separate water retail companies.
- We also provide non-regulated commercial laboratory services, billing and other retail services and plumbing services where we are able to achieve synergy and optimise the resources and know-how of the business.

Wholesale activities account for 89 per cent of total income, retail activities for seven per cent and non-regulated activities for four per cent.

# Our business model







## Our business model continued

### Key resources

#### Our assets and networks built over generations

The performance, condition and operation of our water resources assets, water treatment assets and our network built over generations, supported by information technology, are the essential elements of our business.

Our investment in current and future assets is also crucial to our current performance and our long-term ability to deliver the public water service and to fulfil our purpose. We must maintain a resilient service through asset management, investment and the effectiveness of our operations.

#### Fresh water and the environment

Our business model is intrinsically linked to natural capital and to the availability, sustainability and quality of fresh water resources. We rely on the environment and ecological services of the catchment, which filter, store and transport the fresh water resources, to provide our service.

#### Our human and intellectual capital

We rely on the collective skills and expertise within our business in the management of the public water service and the knowledge of our water supply system. Our relationships with key suppliers and partners are also essential to our success.

#### Financial capital

Our performance and the sustainability of our operations in the long-term require continuous investment in our assets and we need access to competitive financing to succeed.

### Key relationships

#### Our customers and communities

Consumers of the product we supply, the customers and communities we serve influence the decisions we make and their water use and behaviours impact our operational plans on a daily basis. It is vital we build collaborative relationships for mutual benefit and to minimise negative impacts as we plan future investment in the region.

#### Our people and culture

Everything we achieve as a business is through our people and the culture we collectively develop — there are 1001 directly employed by South East Water and hundreds more through our supply chain (see below). Many employees are long-serving and their knowledge and experience is important in helping us plan for the future as well as delivering excellent service today.

#### Our suppliers and partners

The supply chain is vital to the smooth running of our business, whether that is delivery of products for water treatment, infrastructure materials, or expertise to support the implementation of our investment programmes. We work with more than 100 suppliers and partners both locally and internationally. Our key suppliers provide engineering and technical skills that complement those of our employees. We also receive bulk supplies of water from some neighbouring water supply companies and we work closely with them on a regional basis to plan for long-term water resources.

#### Our regulators

As a regulated business, South East Water benefits from open and constructive working relationships with our regulators: Ofwat, the Environment Agency, the Drinking Water Inspectorate (DWI) and Natural England.

## How we create economic value

### How we create economic value

We generate revenue through:

- **Billing for (i) water supplies to household end-user consumers based predominantly on metered consumption with an overall level of metering of circa 90 per cent of household premises and (ii) wholesale water supplies to retailers on the non-household retail market and new appointees.**
- **We also provide new water mains and connections to our water network that are needed to supply new premises or similar new connection services to developers, self-lay providers or new appointees. The payments we receive for providing these new connection services are limited to a proportion of the costs we incur as determined in accordance with regulatory charging rules.**
- **Non-regulated activities which maximise the value of the business know-how and assets (laboratory services, water and sewerage billing and retail services as well as plumbing and water management services).**

The turnover and profit from operations of the regulated business equates to approximately 95 per cent of the company's total turnover and profit from operations. After allowing for finance income and costs, the profit before tax of the regulated business is 78 per cent of the company's total.

### Revenue from the regulated business

The revenue that the business is allowed to generate as a regulated water company is subject to price controls set by Ofwat every five years which define revenue allowances for relevant segments of the value chain: water resources, network and household retail.

The cost of capital, which includes an allowance for shareholder returns, is also determined by Ofwat.

### Factors impacting revenue and profit

When setting price controls, Ofwat takes account of how efficiently we operate our business and deliver our investment programme and of the quality of our services, as measured by performance commitments. Our revenue allowances are also adjusted by regulatory mechanisms for outperformance or underperformance of the targets set in Ofwat's determination (Outcome Delivery Incentives).

The business generates stable revenue streams but hot weather may cause seasonal increases in demand and revenue. However regulatory mechanisms operate to adjust revenue back to the revenue allowances set by Ofwat.

## Our business model continued

Dry and hot summers and cold winters can also have a significant impact on reactive maintenance costs and other operating costs and can affect our profitability. The management of payment collection and bad debt as well as the level of support provided to customers with financial difficulties also influence profitability, as our essential service must be maintained even in the case of non-payment.

### Revenue from the non-regulated business

Our commercial activities are developed on our core business strength and technical know-how. We provide billing, debt collection and related customer services to the wastewater companies that operate in our area, providing the convenience of a single bill to our common customers and to new appointees.

Our accredited laboratory provides analytical scientific services to other water companies, public authorities, businesses and private clients, building on the expertise and technical capabilities developed to meet our own water analysis requirements. Our Waterlink business offers a range of plumbing and water infrastructure services.

## How we create value for others

### Value to society

#### A reliable water supply

Our water supply is used by households and all sectors of the economy and society. They rely on it, in particular for hydration and hygiene, and expect it to be available where and when needed. We ensure they can all benefit from the value that water itself brings to them. We also plan and invest to ensure that our service will continue to be available to them in the future.

#### Public trust

The quality of our service determines the trust and satisfaction of our customers and those who rely on our service. Public trust in the safety of water is another essential value we generate with our regulator, the Drinking Water Inspectorate, and is also therefore one of our key priorities.

We provide priority services to customers whose circumstances make them more vulnerable and provide assistance to those who have difficulties affording our services.

How responsibly we carry out our business, how we manage our impact on others and the environment, and how we engage with customers and stakeholders are also key drivers of our legitimacy as a provider of an essential service.



## Supporting the economy

Our service is a key input for many organisations, including public services and businesses and we also support housing growth. We continuously invest in our assets, generating economic activity for our supply chain, and the taxes we pay contribute to the wider economy.

## Responsible impact on the environment

We manage the impact of our operations and our capital works on the environment, working to minimise our negative impact and improve our positive impact. We need to balance the impact of our abstraction on water bodies and the wider environment and the need to take water from the environment in order to meet the essential need of society. In this context climate change, population growth, demand management and leakage management are central to our planning and the long-term sustainability of our business model.

We work to improve the sustainability of our water abstraction. We also work with farmers and other stakeholders to reduce the level of pollutants in the raw water extracted from our catchment areas that need to be removed in our treatment works.

We collaborate with other water companies and stakeholders to promote ways of saving water to our customers, and are proud to have reduced leakage year on year.

We manage more than 30 protected sites and invest to improve their environmental condition and biodiversity. We invest to reduce our emissions and support the transition to a low carbon economy.

## Job opportunities and development

We provide training and career development opportunities and seek to promote the wellbeing of our employees. Given the nature of our business we must be able to operate without interruption, which enables us to offer stable, continuous employment and financial security to our employees, including throughout the Covid-19 pandemic. We provide learning and development opportunities in a wide range of disciplines.

## Supporting our communities

We provide jobs to 1,001 direct employees and 659 employees of our direct contractors who work specifically to support our business. Our business also supports the wider community through the creation of jobs that contribute to activities in our wider supply chain, either indirectly or in part.

We also support our communities through volunteering of our employees, community sponsorship activities and recreational facilities on our land, such as at Ardingly and Arlington reservoirs.

## Shareholder value

Water companies are attractive to investors because they are stable, regulated, efficient businesses providing a steady return. Through efficient operation and good performance we seek to provide a reasonable return to our shareholders and increase the value of the business.

The value we create for our investors is about more than just a financial return. South East Water's principal owners are signatories of the United Nations Principles of Responsible Investment (UN PRI) and are committed to strong environmental, social and governance performance as they recognise this protects the long-term value and sustainable success of the company and strengthens our licence to operate.

# Our business environment

## Natural environment

We rely on a secure supply of our natural resource – water. We must protect both the quantity and quality of our key environmental resource. Rainfall in the south east of England is lower than other parts of the country and the region is officially designated as an area of serious water stress. We must be prepared for the impacts of environmental change and adapt to these. We play an important role in mitigating climate change through our own actions to minimise our emissions and environmental impact – and supporting our community to do the same. We are significant landowners in the south east and with this we have tremendous responsibility in looking after our 33 sites which are within areas of Special Scientific Interest, including the national nature reserve at Lullington Heath in East Sussex, two nature reserves at Arlington Reservoir and Ardingly Reservoir in Sussex as well as numerous other Areas of Outstanding Natural Beauty.



## Society

Water is at the heart of our society, without it the community we serve cannot thrive. But society also has a huge influence on our work. Changing consumer behaviours can have significant impacts on our business, both positive (where more environmental awareness leads to water saving) or negative (if the changes lead to increased water use). As we emerge from the pandemic, we are continuing to monitor water use patterns, as society moves towards a “new normal”. Society provides our workforce, therefore the opportunities for learning skills and encouraging interest in careers in water across a diverse community is important. To manage our infrastructure we are often working in close proximity to our customers and therefore it is vital we coordinate our work with others and engage closely with those who will be impacted by our activities. The region we operate in has a higher percentage of older residents relative to other regions and therefore supporting customers who may have mobility issues or other age-related vulnerabilities is of high importance for us.



## Innovation and technology

Technology is always progressing and it is important that as a business we keep up with these ever-changing innovations. The opportunities they present enable us not only to work more safely and efficiently, but also to ensure we keep up with consumer and stakeholder expectations as these evolve in other digital and technological experiences. We are continuing to incorporate the latest technologies to support our colleagues in their work. We are moving towards establishing the most efficient new ways of working – blending the benefits of working from home with being together as teams in offices and operational hubs. We aim to connect with experts through many stakeholder forums such as UK Water Industry Research (UKWIR) and Chartered Institute of Water and Environmental Management and look for occasions to collaborate to take advantage of opportunities such as the Ofwat Innovation Fund or other funding streams that are available. We recognise that technology also holds significant risks, in particular cyber security and data protection must be a key focus.



## Economic environment

The economic climate impacts our business both through the ability of our customers to pay their bills, and the security of the supply chain we rely on. The south east of England is a relatively affluent part of the UK, but there are pockets of extreme deprivation and with an older population more pensioners who may have financial concerns. During the past year we have experienced unprecedented changes in the cost of energy for households, which could impact on the ability of our customers to pay their bills. With further increases in the energy price cap expected for 2022/23 we will continue to monitor this closely - both in terms of the help that we can give our most vulnerable customers and the impact that these macro-economic factors may have on the ability of our customers to pay their bills. Market rate movements, such as interest rates and inflation, also impact us, but we reduce risk as far as possible through our prudent financial management and five year planning.



## Political and regulatory environment

The political and regulatory environment changes significantly over time and we ensure South East Water is able to respond to these changes and where appropriate influence future policy through our participation in consultations and as active members of the water industry trade body, Water UK. For example we will continue to ensure we understand and influence changing policy that may come from leaving Europe. Our aim is to ensure any changes that affect the outcomes for our customers, shareholders and other stakeholders are positive.

We operate within a strict regulatory environment and work closely with our regulators to deliver a great service for our customers both now and in the future.



- The Water Services Regulation Authority (Ofwat) regulates our prices and levels of customer service.
- The Drinking Water Inspectorate (DWI) monitors drinking water quality.
- The Environment Agency (EA) covers environmental protection.
- CCW (formerly the Consumer Council for Water) represents customers' interests.
- Water Redress Scheme (WATRS) is an independent service designed to adjudicate disputes that have not been resolved through the water companies' customer service teams or by referring the matter to the CCW.
- Natural England (NE) is responsible for the protection of designated sites for nature conservation.
- Department for Environment, Food and Rural Affairs (Defra) deals with all aspects of policy relating to the water industry and operates under a licence granted by the Secretary of State.
- Centre for the Protection of National Infrastructure (CPNI) is the government authority for protective security advice to the UK national infrastructure.



## Trusted and reliable service

We are entrusted to deliver a continuous supply of safe, wholesome drinking water, direct to our customers' homes.

**A safe, reliable supply of drinking water to homes and commercial premises across our region is at the very heart of our business.**

We are proud of the quality of our water and the teams who produce it.

It is vital we have the trust of our consumers at all times.

To maintain it we constantly monitor our performance against customer expectations through a range of measures, including the taste and smell of our tap water and interruption to supply. Trust is also the cornerstone of our 'licence to operate'.

Our UKAS-accredited specialist laboratory at Farnborough in Hampshire carries out over half a million tests each year measured against regulator the Drinking Water Inspectorate targets.

These are:

- **Compliance with the risk index.**
- **Taste and odour contacts.**
- **Appearance contacts.**

In line with previous years, 99.98 per cent of our samples passed all tests. We sample our water before, during and after the water treatment process the results of which feed into our strategy for improving raw water quality.

Extensive sampling helps measure the success of network cleaning programmes, including flushing, where the natural build-up of iron and manganese is removed. It also ensures the chlorine dosing policy is appropriate to need.

Regular exercises looking at event risk ensures water quality is a key element of emergency planning.





**Our leakage reduction performance continues to be strong where we have again out-performed our annual target**



Continuous professional development and professional chartership ensures our laboratory employees are trained to the highest industry standards

Our leakage reduction performance continues to be strong, where we have again out-performed our annual target. This year we have delivered a 4 ML/d reduction against the previous year, down to 88.7 ML/d. This is the largest annual leakage reduction on record, which results in our leakage levels now being at an historic low.

This strong leakage performance was achieved by:

- Use of satellite technology to identify leaks quicker.
- Further development of our new leakage targeting system, Waternet, which translates our big leakage data into field investigations and leak repairs.
- Improved performance of our field engineers in finding leaks quicker with new equipment, supported by our Leakage Analysts.
- A large programme of pressure transient monitoring to identify and prevent bursts.
- Installing new meters on our large trunk mains to identify losses faster together with pipe condition assessment.
- Optimising our distribution network pressures and extensive maintenance of our pressure reducing valves.
- Implementing an improved four stage customer side leakage process aimed at reducing leak run time. Our dedicated Customer Side Leakage Manager, based in our operations team, focused on performance as well as providing informed support and guidance to our customers and third parties, such as housing associations, on repairs in their area.

## Trusted and reliable service continued

We delivered £105.0 million of capital investment during the year, which, as well as our ongoing maintenance programme, also included:

- Delivery of a new nitrate treatment plant at Woodgarston Water Treatment Works, and new UV treatment at our two sites in Ospringe.
- Delivery of a brand new interim water treatment plant at our Butler site, near Aylesford, to improve supplies to our customers in Maidstone.
- Delivery of 37 environmental investigations and working with landowners to improve raw water quality and biodiversity.

We have established a collaborative engineering delivery team with our newly appointed consultant, Atkins and engaged with different contractors, either through our existing frameworks or via open tender. Examples of this year's works are:

- Construction and commissioning of five UV disinfection plants and chemical dosing systems to improve the disinfection process and add resilience to the treatment process.
- Significant maintenance and construction works at a number of Water Treatment Works (WTW) and booster pumping stations to improve efficiencies and water quality, these include works at Barcombe WTW, Arlington WTW, Keleher WTW, Hockers Lane WTW, Stockbury WTW and Farringdon booster pumping station.

- Following the sinkholes at the Aylesford reservoir site in 2020, additional reservoir storage and water treatment were urgently required to replace the lost capacity and add resilience to the local network. Significant work was undertaken to deliver top quality water for our customers, and to ensure that the peak demand over the summer period could be met despite the loss of key reservoirs. Work included:
  - Construction of a new temporary 8 ML/d WTW.
  - Refurbishment, relining and conversion of an existing industrial reservoir to a potable service reservoir.
  - Upgrading and refurbishment of the pumping system and connecting the temporary WTW to our network.
  - Reconditioning of the existing boreholes with new headworks and pipelines to provide a water source for the temporary WTW.
- Reconstruction of the Aylesford Reservoirs has continued throughout the year. 5ML of storage was brought back into service in March 2021 and we remain on target to reinstate an additional 10ML storage on the reservoir site by April 2023.
- Construction and commissioning of a £5.5 million nitrate removal plant to improve water quality at Woodgarston WTW.
- Enabling works at the new permanent Butler WTW including the drilling of two new boreholes and the design of the new 20 ML/d WTW (20,000m<sup>3</sup> per day) proposed for completion by 2025. This treatment works will replace the temporary works constructed in the aftermath of the Aylesford sinkholes.
- Site investigation, pilot WTW and design preparation of a chromium treatment works at College Avenue, proposed for completion by 2025.





**We delivered £105.0 million of capital investment during the year with new plants at Woodgarston & Aylesford**

In addition to this we have laid approximately 21.5 km of water mains, delivering significant successes during the year with the completion of works at Godmersham, the River Stour crossing, A3 Portsmouth Road, the raw water main replacement at Arlington WTW and the Kingston to Affinity transfer main.

We delivered a scheme through the National Trust and Sackville Trust land in Sevenoaks, Kent where we were able to ensure a high quality reinstatement of the natural environment. The project had minimal impact to customers using these amenities

As with the rest of the industry, we submitted our asset management maturity assessment to Ofwat in May 2021. This document laid out our current approach to managing our assets, along with the improvements we plan to make to our capabilities over the next few years. This led to an industry insights and recommendations report being published by Ofwat in October. We have reviewed these recommendations and will be implementing a series of actions in the coming year.

We have also been developing a series of long-term strategies for key parts of our network. This includes developing a 25 year investment strategy for Barcombe Water Treatment Works, in Sussex, our largest treatment works which addresses new treatment approaches to deal with future challenges, such as climate change.

We have also now defined our approach for turning our network “Smart” through the significant deployment of additional sensors and meters, which will allow us to get more real-time information on what is happening on our distribution network.

Both of these strategies are critical for improving the resilience of our services, and to address future challenges, and will feed into our next business plan.

For this year we have also led in the establishment of the Water Only Company Asset Management Forum.

This allows the smaller water companies to meet, collaborate and share best practice in asset management. This has already led to the demonstration of a number of innovative approaches to measure and analyse the condition of pipes, which can allow us to pinpoint exactly where we should renew pipes without the need to dig down for a visual inspection.

A good financial performance is an important element of South East Water being able to meet all the challenges we face as a water company. During the financial year, revenue grew to £251.3 million, an increase of £3.1 million from the prior year and our profit before tax for the year was £17.0 million compared to £37.7 million in the 2020/21 financial year, the decrease being largely attributed to higher indexation charges on our index-linked debt.

Further details on our financial performance are set out on page 66.

# Risk management and principal risks

## How we manage risks

We have comprehensive systems of internal control and risk management and we monitor their effectiveness regularly in compliance with the principles of our corporate governance code. This risk management framework is also closely linked to the way we monitor and measure our performance and compliance with our statutory obligations and commitments which is subject to external assurance by third parties. This ensures that the board and the audit and risk committee review all material controls including financial, operational and compliance controls.

We maintain a formal risk register and risk management system for the identification, evaluation and mitigation of risks. The board defines South East Water's risk management framework and reviews the risks on the register and the effectiveness of the relevant mitigation measures at least once a year. The board also reviews monthly, quarterly and annual reports on performance which highlight risks and business or operational issues as they arise.

Individual managers and heads of department are responsible for identifying risks relevant to their area of responsibility and defining and implementing mitigations. Risks relevant to each directorate are monitored by the relevant director every month and the risk profile of a particular area is presented by the relevant head of department to the executive team.

The risk management systems described here have been in place for the year under review and up to the date of approval of the annual report and accounts.

Our company monitoring framework includes a risk assessment in relation to data and information provision which we use to ensure the information we publish is accurate and reliable. We provide more details on the assurance of our performance and other regulatory data in the annual performance report.

## Key characteristics of our risk management model

Our risk management model uses standardised risk descriptions and categories for the controls, impact and likelihood of risks. Each risk is allocated a priority score based on its potential impact and likelihood. The prioritisation of risks in the register takes account of the controls and mitigation measures currently in place.

Our risk management model also includes an assessment of planned mitigation measures. This gives visibility of the reduction in risk exposure expected from planned mitigation and is also used for reviewing the actual effectiveness of mitigation. This model allows the board to assess and manage risks at a strategic level and the executives to manage risks at an operational level.



**Risks are reviewed regularly by the executive team and the board. A number of our risks have been impacted by Covid-19**

Risks are reviewed regularly by the executive team and the board. A number of our risks have been impacted by Covid-19. Controls and actions have subsequently been strengthened or brought into place to mitigate these increased risks as much as possible.

The corporate risk register identifies risks that exist in the present and short-term and also includes potential risks to outcome delivery incentive (ODI) success in the 2020 to 2025 price control period. In total 104 risks were identified as potentially having a direct impact to one or more ODI performance measures. Identifying these risks ensures we are able to put early mitigation measures in place to optimise performance across our commitments.

To supplement the corporate risk register we also evaluate emerging and future risks – broadly targeting a rolling 10-plus year horizon span. Consideration of long-term risk planning also involves consideration of where political, social, and economic factors may take the business.

We have also assessed the impact of our main transitional and physical climate-related risks in the short, medium and long-term under different scenarios following the recommendations of the Task Force on Climate-Related Financial Disclosures.

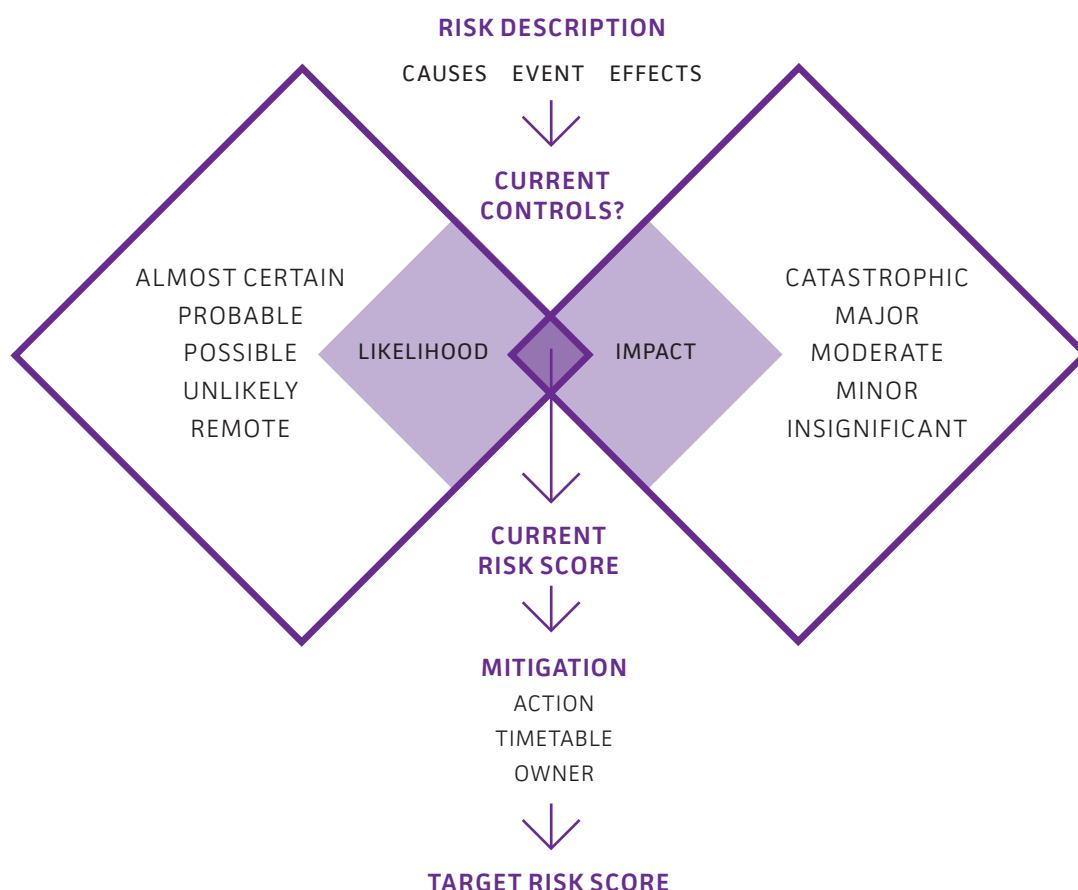
An understanding of these risks will allow the business to plan and build resilience to the future threats that these identified risks may pose. Risks identified to have no immediate solution can be channelled through our innovation programme and/or adaptive planning pathways to establish if as yet untested (or unused) technology/processes can be sought to reduce or control future risks.

We have also undertaken a review of the corporate risks with a responsible business lens on the register. These are reviewed by the responsible business committee on a regular basis.



## Our principal risks continued

### Risk Management Model



**RISK DESCRIPTION:** The tool ensures a consistent language regarding the description of risks is maintained. A risk must satisfy three criteria.

- **CAUSES** – are definite events or set of circumstances that exist which will give rise to uncertainty.
- **EVENT** – an uncertain event is the true risk, as it may or may not happen and gives rise to uncertain outcomes.
- **EFFECTS** – are unplanned variations that would arise as a result of the risk occurring.

**CURRENT CONTROLS:** The controls that are already in place to deal with the identified risk.

- **LIKELIHOOD** – the likelihood of the risk occurring must be assessed using set criteria.

- **IMPACT** – risks are categorised and their impacts determined. There are 12 categories ranging from financial through to operational or reputational impacts. Each category has a defined level of impact ranging from insignificant to catastrophic. This allows for a consistent approach to be adopted across the whole business. Where appropriate a risk may have more than one category e.g. both financial and reputational.

**CURRENT RISK SCORE:** This is the product of impact and likelihood. The most catastrophic risk is calculated with a score of 25, with the most insignificant scored at one.

**MITIGATION:** Actions being undertaken to reduce or manage a risk. Once embedded these mitigation steps will form part of the current control assessment.

**TARGET RISK SCORE:** A target risk score can be calculated to show where the risk level will be once the controls and actions are put in place.

## Principal risks and uncertainties

Principal risks are those which due to their likelihood or magnitude can significantly impact on the long-term success of our company. We consider their impact on our business model, future performance, solvency and liquidity. We also review the adequacy of the mitigations in place as recorded in our risk register.

As required by our corporate governance code, the audit and risk committee and the board carried out a review of our principal and strategic risks and of high impact and emerging risks on our risk register. We also compared our principal risks with those identified by other companies in the water industry.

We describe our principal risks, their potential impact and how they are managed on the following pages. These principal risks have been considered in the context of our business model and strategy and in the context of our current and foreseeable environment.

The principal risks described represent an aggregation of individual underlying risks in our risk register. The current risk exposure and trend presented is a reflection of the risk levels and trends of the related underlying individual risks in our risk register.

Some of the risks described in this section also bring business opportunities which we are preparing for. We also take advantage of the potential for business improvement that arises from risk management and the implementation of mitigations.

There was no significant change this year to the definitions and presentation of our principal risks other than the updated assessment of potential exposure, trends and to reflect changes in our environment.

We have introduced a new presentation of the key interactions between our principal risks and how some risks may increase a related risk or impact on the mitigation of a related risk as well as potential aggregation of risks that may increase the overall challenge to the business should they occur simultaneously or in close proximity.

## Overall risk assessment

Our assessment of principal risks and trends has resulted in a higher overall risk level compared with last year. This is due primarily to more challenging macroeconomic conditions affecting our costs, the delivery of efficiencies and of our business plan with the potential that this may bring additional financial challenges. We have also assessed the potential for cyber security threats to be greater as a consequence of the Russian invasion of Ukraine. There is additional uncertainty around some aspects of regulatory policy as the methodology for PR24 is being developed but not yet finalised and some uncertainty relating to the introduction of new environmental targets under the Environment Act 2021.

# Our principal risks

## Overview of our principal risks

Principal risk	Potential exposure	Potential exposure risk
1. Climate change	M	<p>High</p> <p>Impact</p> <p>Low Likelihood High</p>
2. Macroeconomic risks	M	
3. Strategic asset failure and major operational incident	H	
4. Failure to meet the peak demand for water	H	
5. Failure to deliver business plan and meet regulatory outcomes	H	
6. Security of assets, systems and data	H	
7. Financial resilience	H	
8. Adverse policies or political & social environment	H	
9. Regulatory, environmental and legal compliance	H	
10. Covid-19 pandemic	M	
11. Water quality incident	M	
12. Health, safety and wellbeing	M	
13. People and culture	M	

The potential exposure indicator reflects our assessment of the overall net risk exposure taking account of individual underlying risks in our risk register. The colour of the risk on the matrix indicates potential exposure.

### Key

#### Potential exposure



Major



High



Moderate



Low

#### Risk trend



Increasing



Stable



Decreasing

#### Related strategic themes



Flourishing environment



Trusted business



Thriving people



Consumer and community focused



## 1. Climate change



Global warming will lead to long-term shifts in climate patterns (such as hot and dry summers, changes in rainfall and sea levels rising) and to an increase in the frequency and severity of acute weather events such as floods, storms, droughts or heatwaves. This will affect the quantity and quality of water resources and disrupt our operations and those of third parties we rely on such as energy suppliers. The effect of climate change will increase the likelihood and impact of our main operational risks.

Failure to adapt our infrastructure, to improve its resilience and to manage demand would mean that we would not be able to meet our statutory duties and water demand in the future. It would also lead to additional costs that could affect the financial resilience of the company in the long-term. A failure to adapt to climate change and to deliver our own net zero carbon commitments could lead to significant reputational damage.

Our ability to invest in the adaptations needed to be able to meet our future obligations also depends on external factors such as the outcome of successive price determinations and how effectively the mitigation of and adaptation to climate change is addressed in the political and regulatory environment. The adaptation of other sectors on which we rely for our operations will also have an impact on our own resilience.

### Risk trend



### Related strategic theme



The UK has seen its warmest 10 years since 2002 and 2020 was the UK's third warmest, sixth wettest and eighth sunniest year in the national series. Recently, the 2020 heatwave put significant pressure on our water supply system and Storm Eunice caused widespread power outages that caused significant disruptions to our operations. The latest global annual to decadal climate update from the World Meteorological Organisation states that there is a 48 per cent chance that global temperatures will exceed 1.5°C above pre-industrial levels between 2022 and 2026 and a 93 per cent chance of exceeding the warmest year on record during the same period.

The latest contributions to the sixth assessment report of the Intergovernmental Panel on Climate Change highlight a brief and rapidly closing window for action and risks of maladaptation. There are concerns regarding the potential effects of tipping points in the climate system. This heightens the need for adaptation. The uncertainty explains why the risk is being categorised as major and increasing to reflect the potential mid to long-term impact of climate change.

### Mitigation

- Our Water Resources Management Plan and Drought Plan based on climate projections to determine the most appropriate solutions to develop water resources, improve the resilience of our supply system and manage demand.
- Investment in flood protection.
- A significant programme of environmental schemes including for managing the impact of our water abstraction.
- Our third adaptation report published in December 2021.
- Assessment of climate-related risks in line with the recommendations of the Task Force on Climate-Related Financial Disclosure (TCFD).
- A target to reduce our greenhouse gas emissions by 80 per cent by 2025 (when compared to 2017/18).
- Our commitment to achieve operational net zero by 2030 under our net zero routemap.
- Procurement of power purchase agreement relating to new renewable energy assets and planned investment in private solar generation.



### Climate-related disclosures

Read more on our climate-related disclosures on page 94

## Our principal risks continued

### 2. Macroeconomic risks



Our financial performance and resilience are influenced by external macroeconomic factors. The global and the UK economies have been significantly affected by the consequences of the Covid-19 pandemic (including as a result of China's continuing zero Covid-19 policy) and recently by the invasion of Ukraine by Russia which have led to high energy, commodities and food prices, disruptions to supply chains and transport systems, high inflation, lower growth expectations and financial markets volatility.

The Bank of England has increased interest rates and signalled further increases in a challenging environment with lower growth expectation, a tight employment market and some of the fundamental causes of inflation being less likely to respond directly to monetary policies.

A significant rise in inflation and related increases in interest rates may adversely affect the company's financial performance. The actual increase in our input costs may be greater than the increase in our wholesale revenue which is indexed on November CPIH, eroding profitability and making delivery of services and investment within our totex allowance more challenging. Rising interest rates could lead to poorly performing equity markets that may result in a deficit in the pension schemes we operate. Movement in interest rates can also result in an increase in our cost of debt.

#### Risk trend



#### Related strategic theme



Current economic conditions are resulting in significant increases in our input costs, especially energy and chemical costs as well as contractors' costs. The cost of living crisis increases the likelihood of bad debt for both domestic and business customers and the costs of supporting vulnerable domestic customers (e.g. increase in our social tariff and support to vulnerable customers). Revenue from our non-regulated activities may be negatively affected by current economic conditions, as well as the level of new connections and contributions from development activities.

#### Mitigation

- A mix of long-term financing arrangements, including fixed, variable and index linked interest rates and partial refinancing completed in 2019/20.
- Monitoring the impact of macroeconomic factors on our business and on our credit ratings including the long-term impact on the UK economy.
- Robust and challenging budgeting process to ensure costs are clearly identified and controlled during the financial year.
- Effective debt collection processes and support to our most vulnerable customers (social tariff and initiatives on affordability) with a good performance on collection of bad debt during the year in an increasingly challenging environment.
- Long-term pension strategy which we are developing in consultation with the Pension Trustees to move towards insuring/securing a buy-out of the schemes.

### 3. Strategic asset failure and major operational incident



Strategic asset failures and major operational incidents may affect our ability to deliver a safe and uninterrupted water supply to a large number of customers or cause damage to third parties. Disruption to our water supply has an impact on public health, on daily life and economic activities. These events may be caused by unplanned outages of critical assets (including due to ground movements or naturally occurring sinkholes), bursts of large water mains or severe weather events.

These risks may affect our own water infrastructure or those of other water companies which provide us with a bulk supply of treated water. We also rely on other utilities especially electricity providers to operate our facilities and prolonged or repeated energy outages may have a significant impact on our operations.

Incidents lead to additional production and distribution costs (such as additional treatment, repairs, incident management, emergency supplies of water etc.) and compensation payments to customers whose supply was affected. They may lead to ODI penalties for exceeding our targets on supply interruption. They generally affect customer complaints, satisfaction and the perception of the company by customers and other stakeholders and may lead to ODI underperformance or penalty under the C-MeX regulatory metric for customer experience. They may also lead to liabilities to third parties due to damage to their equipment. We must ensure that our response to incidents always puts the safety of our workforce first.

#### Risk trend



#### Related strategic theme



The general condition of our assets is stable, but sinkholes at our reservoirs in Aylesford combined with higher demand linked to the Covid-19 pandemic resulted in an increasing level of risk in 2021, although mitigating actions have been put in place. Severe weather events such as Storm Eunice can also have a significant impact on our power supplies and our own operations.

#### Mitigation

- Incident preparation teams for the pre-emptive management of weather related operational challenges, 24 hour network modelling capability to manage incidents, and emergency plans and procedures regularly tested and independently audited.
- Calm network strategy to reduce mains bursts and help achieve our leakage target, planned maintenance scheduled to achieve minimum outages during peak times, standby power generation at operational sites, systems approach to operational management and cross-skilled workforce.
- Asset management strategy implementing new asset health metrics, implementation of an asset management system compliant with ISO 55000 by 2025 and risk based prioritisation of maintenance with customer impact as a primary consideration.
- Resilience maturity assessment to ensure resilience, improved horizon scanning and adaptation to climate change and mitigation of key low likelihood but high impact risks.
- Improvements to interconnectivity and our ability to reconfigure the network and removal of single points of supply.
- Formal lessons learned process followed after each significant incident with implementation of action plans to improve our readiness, resilience and our response capabilities.

## Our principal risks continued

### 4. Failure to meet the peak demand for water



We rely on water in the environment to provide the public water supply. Our supply area is designated as an area of serious water stress and is densely populated. Weather events such as droughts put pressure on already stressed raw water resources.

Dry and hot weather may lead to peaks in demand that could exceed our ability to produce and distribute enough water. In the long-term, restrictions on water abstraction to protect the environment and the effects of climate change on the availability and quality of water will result in additional stress on the water resources needed to meet an increasing demand linked to population growth. This may also lead to increased risks of over abstraction and related prosecution and fines.

#### Risk trend



#### Related strategic theme



In 2020, the combination of the hot weather and changes in consumption patterns due to the Covid-19 restrictions resulted in exceptionally high demand, leading to supply interruptions in certain parts of our network. In the short-term, the increase in household water demand related to Covid-19 is expected to subside. In the long-term, underlying risk factors will continue to increase with further reduction to abstraction due to sustainability measures, population growth and climate change.

#### Mitigation

- Our water resources management plan to invest in future water resources and production capacity, working with regulators to ensure local resilience issues (e.g. local network capacity) are addressed in the WRMP.
- Our drought plan which includes clear steps for managing demand and securing resources in drought conditions.
- Reducing demand through our metering programme which was completed in 2020 and our commitment to reduce per capita consumption by 7.6 per cent together with a behavioural change programme for 2020 to 2025.
- Consistently meeting our leakage targets and our commitment to significant additional leakage reductions in 2020 to 2025.
- Mobilisation to meet summer demand and communication plans to alert customers on the need to use water responsibly during peak periods.
- Specific investment to address abstraction reduction such as our Fleet to Greywell main and to improve the resilience of our operations.



## 5. Failure to deliver business plan and meet regulatory outcomes



There are financial and reputational risks associated with a failure to deliver our business plan commitments. Our position at the next price determination may also be impacted.

The PR19 determination included a large number of outcome delivery incentives (ODIs) using targets defined by reference to upper quartile performance with the introduction of in-period reward/penalty adjustments. It also introduced new customer satisfaction measures (C-MeX) and new developer services satisfaction measures (D-MeX). These changes bring new compliance requirements and related risks.

Ofwat's approach to risk and return in its final determination, with more stretching targets, leads to an increased risk of penalties even with improvements in performance. In-period ODI adjustments will have an impact on our revenue during 2020 to 2025. Our ODI performance could also be affected by incidents affecting other companies that provide us with a bulk supply of treated water.

We must ensure that we efficiently deliver the investment necessary to maintain and improve our services to customers and to meet our long-term future obligations. The risks affecting the delivery of our investment are internal, relating to the management of the delivery of our programme, and external such as extreme weather conditions, incidents affecting works, supply chain risks or significant events affecting the economy.

### Risk trend



### Related strategic theme



Unprecedented demand due to Covid-19 during the 2020 heatwave and the disruption to our power supplies caused by Storm Eunice in 2022 resulted in the maximum penalty for interruption. The financial constraints imposed by the final determination (with stretching targets and higher risks of penalties) combined with the economic impact of Covid-19 and recent macroeconomic conditions resulting in increases in our input costs have increased the risks related to the efficient delivery of investment and business plan in the current regulatory period.

### Mitigation

- Detailed processes to ensure that we operate within the parameters of the price determination (including ODIs and investment) and that projects are planned and delivered on time and budget.
- Project scopes and planned efficiencies reviewed with our engineering partner and the early involvement of our framework contractors to identify risks and opportunities for savings.
- Steering groups monitoring key measures such as interruption, water quality, customer services, customer perception and leakage and implementation of resilience and innovation action plans.
- Processes to continuously monitor and report regularly on our compliance with regulatory obligations at senior management and board levels and take corrective actions.
- Continuously assess the deliverability and financeability of the final determination and any risk it may create for the company for the next regulatory period.
- Executive remuneration targets aligned with regulatory outcomes.

## Our principal risks continued

### 6. Security of assets, systems and data



The physical security of our assets and the resilience of our information technology infrastructure is essential to maintaining our service to the public and implement our business continuity plans.

We must protect our sites and our water supply against accidental or deliberate security threats. We must protect ourselves from loss of systems, data and cyber-attacks and keep customers' data up-to-date and safe.

Our reliance on IT systems to manage the activities of our front line staff and to maintain our normal activities through home working has meant that the security and resilience of our IT systems has become even more important, and the impact of any downtime could be greater than before the Covid-19 pandemic.

Failure to protect personal data may lead to fines, enforcement actions and legal actions and would cause reputational damage. Loss or corruption of data would result in disruption to the business and additional costs.

We must ensure compliance with the new requirements imposed by the General Data Protection Regulation as retained in the UK (UK GDPR) and the Network and Information Systems Regulations 2018.

#### Risk trend



#### Related strategic theme



We maintain this risk as high due to the constant emergence of new threats and the risk of exploitation of vulnerabilities that may not have yet been fixed by software providers. There is additional reliance on IT systems with the increase in home working initiated during the Covid-19 pandemic, but our level of mitigation has been maintained. The overall level of alert relating to potential cyber-attacks on the company and other utilities such as electricity companies is assessed as increasing since the invasion of Ukraine by Russia.

#### Mitigation

- Our corporate security steering group continuously monitors physical and data security and data protection matters to identify new risks and monitor the effectiveness of our security processes and the implementation of action plans.
- Department champions are trained on these issues and we continuously promote awareness of risks and provide training highlighting how unsafe behaviour could be exploited by external threats.
- Recognised cyber security certifications and investment in security measures against unauthorised access to our systems and in software to help us monitor activity on our network.
- Disaster recovery systems and facilities which are regularly tested.
- Work with relevant external organisations to test the effectiveness of our resilience and security measures and review the maturity of our security systems and procedures.
- We have updated our risk management process and practices to recognise the change in our risk profile in this area due to our additional reliance on IT systems to support home working.

## 7. Financial resilience



We have a significant ongoing funding requirement relating to our operational costs, capital programme and to refinance maturing debt. We must maintain key ratios to comply with covenants in our agreements with debt providers and relevant credit rating agencies ratios.

Failure to do this could lead to events of default and liquidity risks due to the trigger of restrictions on further borrowing or reduction of our credit rating that would affect liquidity.

Our licence requires us to maintain an investment grade credit rating. Failure to do this would result in cash lock up under our licence restricting our ability to pay dividends or in an event of default under our finance documents. It would also impact our ability to raise funds on favourable terms.

The PR19 final determination has created significant financeability challenges due to a very low cost of capital and the risk of significant in-period ODI penalties.

### Risk trend



Increase in risk exposure deriving from the PR19 final determination, the impact of in-period penalties and the impact of Covid-19 and of current macroeconomic conditions on costs and revenue which have increased the financeability challenges that we are facing and will face in the next few years. Our credit rating outlook remains stable as set out in our long-term viability statement.

### Related strategic theme



### Mitigation

- Continuous monitoring and regular reporting to our board on compliance with our financial covenants and on our credit rating. Maintaining our investment grade ratings of BBB/Baa2 and compliance with our financial covenants in 2021/2022.
- Renewal of our revolving credit facility with a larger facility and an additional £50 million of fixed rate debt to provide additional liquidity.
- Regular engagement with credit rating agencies to understand how they will interpret the position of water companies.
- Robust and comprehensive financeability testing for our business plan, corporate plan and annual budget and corporate plan updates, and for our long-term viability statement.



### Financial resilience

Read more on our long-term viability statement on page 134

## Our principal risks continued

### 8. Adverse policies or political & social environment



We operate in a highly regulated environment and changes to the regulatory or legislative framework may have an adverse impact on the overall risk profile of the business, financial resilience and on our ability to fulfil our purpose in the long-term. Such changes may also reduce investors' confidence and could affect our credit ratings.

Successive price reviews determine our ability to carry out the investment necessary to maintain an efficient and resilient water supply system and to prepare for the impact of population growth, sustainable water abstraction and climate change. There is a risk that the need for necessary investment may not be fully demonstrated or recognised by Ofwat at price reviews resulting in under-investment and/or delays in implementing solutions required to meet our long-term challenges which would impact our resilience and future customers. The implementation of supportive and consistent policies by different regulators and policy makers is also crucial to helping us deliver cost effective solutions or achieve our outcomes.

Market reforms such as the introduction of competition for water resources, demand management and leakage services, direct procurement, and the potential introduction of competition for household retail customers in the future and the evolution of the non-household retail and new connection markets create new risks of disruption to our business model and operations.

We are also exposed to risks arising from the general social and political environment such as the challenges to the ownership model of water companies and indirectly the scrutiny of the sewerage sector.

#### Risk trend



#### Related strategic theme



Risks relating to development in markets have remained stable. Our water resources management process is underway highlighting the challenges of achieving significant demand and leakage reduction and the need for supportive government policies as well as adaptive approaches. The process for the next price review in 2024 has started, bringing with it a level of uncertainty on the final methodology and how Ofwat will address priorities and the need for investment by companies (for example for achieving net zero).

#### Mitigation

- Working with the industry and stakeholders to anticipate the potential effects of policy proposals and to contribute actively to ensure that risks are identified and taken into account.
- Engagement with customers and stakeholders to understand their expectations and perception of the company to align our culture, governance and strategy.
- Keeping our commercial strategy and the structure of our business under review to be able to adapt to changes and to take advantage of new opportunities.
- Reviewing and anticipating the potential impact of regulatory changes on our ability to secure finance at no less favourable terms.



## 9. Regulatory, environmental and legal compliance

H

Our business operates within a specific legislative and regulatory framework and many of our activities have an impact on the environment. Our main regulators Ofwat, the Drinking Water Inspectorate, the Environment Agency, Natural England and CCW set standards and monitor our compliance. We need to keep pace with changes to these obligations as failure to do so could lead to non-compliance.

Failure to ensure compliance with environmental, regulatory and other legal requirements may lead to criminal and civil liability, regulatory enforcement actions, disruption to the business and loss of management time. Material failure to comply with our licence obligations and other duties of a water undertaker may result in an enforcement order, a fine up to 10 per cent of appointed turnover or termination of our appointment or special administration. We could face enforcement action if we do not demonstrate compliance with the new market arrangements and must also ensure continued compliance with competition law.

Failure to comply with our obligations would also affect the perception of South East Water by customers, regulators and other stakeholders and affect their trust in us as a provider of an essential public service.

### Risk trend



### Related strategic theme



Our controls remain effective and the transition to a new external assurance partner in 2021 provided an opportunity to review our reporting processes. The Environment Act 2021 provides for long-term environmental binding targets to be set in relation to air quality, water, biodiversity, and resource efficiency/waste reduction as well as environmental principles to guide decision makers. These targets and principles are not yet fully known, which introduces uncertainty at a time when our long-term planning is underway.

There are also other changes to legislation following Brexit that may have a significant impact on us (for example new procurement rules). There has also been greater scrutiny on environmental performance in the sector with more stringent enforcement of abstraction licences, discharge consents and other environmental permits.

### Mitigation

- Policies, processes and controls to ensure that we meet our duties and obligations. Subject matter experts available to advise colleagues and inform them of changes in requirements and recommend improvements to processes. Externally assured reporting processes and internal process for mitigating risks of incorrect reporting (company monitoring framework).
- Awareness training provided through online mandatory training updated regularly for key compliance issues such as anti-bribery and data protection.
- Review of processes in response to changes to relevant market arrangements, rules and guidance and monitoring of performance against market metrics and implementation of improvement action plan.
- Annual update to the audit and risk committee on anti-bribery and controls against fraud and annual update to the board on compliance with modern slavery legislation.



Find out more about our 25 year environment plan:  
[southeastwater.co.uk/25YP](https://southeastwater.co.uk/25YP)

## Our principal risks continued

### 10. Covid-19 pandemic

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The Covid-19 pandemic has affected most aspects of our operations in 2020/21 and for a significant part of 2021/22. We have demonstrated that we were able to continue our operations without significant disruption to our services. However, a failure to implement quickly new ways of operating and to adapt to the effect of the pandemic and restrictions on our customers and our supply chain could have significantly affected our ability to deliver the public water service.

The Covid-19 pandemic amplified our operational risks impacting (i) the health, safety and wellbeing of our workforce, (ii) our workforce's availability especially for our front line operational staff who could not work from home (iii) the demand for water as customers remained at home in our area and (iv) the efficient delivery of our capital programme.

The aftermath of the pandemic and cost of living increases will be challenging for a number of our customers and we will need to manage bad debt closely and provide additional support to customers who need it. Increases in input costs linked in part to the economic consequences of the pandemic in the UK and internationally is affecting our business.

#### Risk trend



#### Related strategic theme



The effects of the pandemic are better known. The vaccination campaign and less severe variants have enabled the removal of restrictions and resumption of normal economic activities. Water demand is reducing towards expected levels. This risk is now considered moderate and stable but we will maintain our readiness to respond to the possible emergence of a more severe variant.

#### Mitigation

- Maintaining our readiness to activate the measures, procedures and systems that allowed us to continue our operations in the past two years.
- Working with Ofwat to understand how it intends to take account of the effect of the pandemic on ODIs and penalties (per capita consumption and non-household voids).
- Reviewing how we may realise our capital programme efficiencies, recognising that input costs have increased significantly.

### 11. Water quality incident

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Our core purpose and most essential duty is to provide a supply of safe and high quality drinking water. A water quality incident could lead to a failure to supply wholesome water with implications for public health. This would significantly harm customer trust. Water quality risks relate to our own water supplies and to bulk supplies of treated water we receive from other water companies.

We may not be able to operate certain water treatment facilities as normal if there is a significant deterioration in raw water quality, pollution by third parties or a failure of our own treatment process.

Water quality events may lead to significant costs being incurred impacting our revenue and resulting in penalties for failing to meet relevant performance commitments. This may also result in investigations and enforcement actions and potential prosecutions from the Drinking Water Inspectorate.

#### Risk trend



#### Related strategic theme



While new metrics (Compliance Risks Index and Event Risk Index) and performance commitments apply in 2020 to 2025 our underlying performance remains stable.

#### Mitigation

- World Health Organization (WHO) water safety plan. Round the clock monitoring of our treatment works and distribution network. Extensive sampling of our water every day; analysed at our specialised laboratory audited and accredited by the UK's national accreditation body UKAS.
- Emergency plans and procedures for managing incidents, providing supplies to critical facilities and deploying alternative supplies where necessary.
- Active management of catchments and partnerships to reduce the discharge of chemicals by third parties. Programme of flushing, network management and investment in our treatment works to meet our water quality standards.
- Regular internal review of our processes and facilities and external audits by the Drinking Water Inspectorate. Sharing of lessons learned with other companies which we use to update and improve our own practices and procedures.

## 12. Health, safety and wellbeing

M

Our activities and assets present risks to the health and safety of our employees, contractors and the public. We must maintain the safety of our workforce during normal operations and when dealing with emergencies.

Failure to prevent accidents could have tragic implications for individuals and their families. There are severe criminal sanctions and civil sanctions for failing to have appropriate safety measures and failure to meet health and safety standards.

### Risk trend



### Related strategic theme



The increase in underlying risks to health and safety directly related to contracting Covid-19 have reduced. Constraints on carrying out normal safety audit activities during the Covid-19 pandemic have also been removed allowing us to apply our controls normally. We will maintain our readiness to implement appropriate measures in case of the emergence of a more severe covid variant.

### Mitigation

- Directors review health and safety performance at each board meeting and regular review at executive meeting.
- Comprehensive processes including policies, standard operating procedures, risk assessments and toolbox talks involving our employees, partners and contractors to identify risks to our workforce and the public and adopt safe practices. Health & Safety committee monitoring of the effectiveness of health and safety practices, policies, procedures, training and communication.
- Continuous actions on training and awareness to ensure that our employees and those of our contractors always adopt safe practices.
- Our Thrive 365! safety strategy designed to support the company vision and provide clear direction and a road map for continuous improvement of our health, safety and wellbeing performance.

## 13. People and culture

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Our business operates across the entire value chain within a highly regulated and technical environment. We need a workforce with a wide range of skills and disciplines and we rely on their technical and business knowledge. We need to attract and develop our people and manage talent to achieve our business objectives.

A shortage of skills in some technical disciplines may make it more difficult to recruit and meet our requirements. We must also retain our business know-how, which presents a challenge in operational areas where our workforce is more mature and business knowledge was sometimes acquired over many years in the field. We also rely on key individuals who have acquired a detailed technical and company knowledge and we must manage succession planning to avoid disruption to the business.

As the expectations of customers, stakeholders and employees change we need to promote a culture that meets those aspirations.

### Risk trend



### Related strategic theme



In a tight job market there are additional challenges to attract and retain staff in certain areas where turnover has been higher than previously. There may be an increase of the overall turnover related to social trends such as the "great resignation". We also need to manage changes in expectations and accommodate more flexible working practices where appropriate, while remaining mindful of the need to maintain the cohesiveness of our organisation.

### Mitigation

- Our people plan sets out our strategy to 2025 including our strategy on diversity, talent management, succession planning and the gender pay gap.
- Embedding our purpose and values into our day to day activities throughout the next five years.
- Regular engagement through our Staff Council, pulse surveys and bi-annual staff surveys followed by action plans shared and implemented with the support of staff.
- Our Speak Up (whistleblowing) Policy allowing colleagues to raise concerns to be investigated as appropriate.
- Successful apprenticeship scheme in Operations.

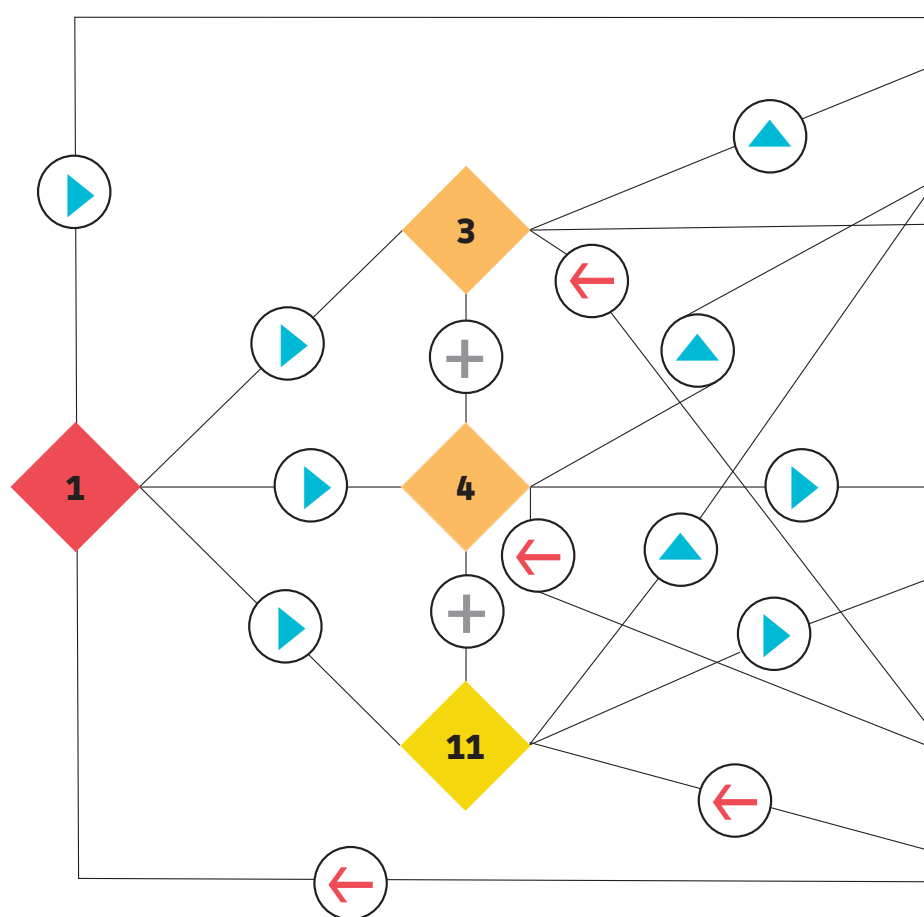
## Our principal risks continued

### Interactions between our principal risks

#### Principal risks

##### Key

- 1** **Climate change** – climate change will increase the risk of strategic asset failure or major operational incident by increasing the exposure of our assets to extreme weather events. It will increase the risk of not meeting peak demand as less water may be available to take from the environment and heatwaves would increase peak summer demand. It will also affect raw water quality, especially during hot summers as the concentration of pollutants increases or due to algae blooms.
- 2** **Macroeconomic risks** – can mean that our costs are higher and also affect our revenue (with additional bad debt) which makes the delivery of our business plan and investment more challenging; it can also impact our financial resilience.
- 3** **Strategic asset failure, Major operational incident & Failure to meet peak demand for water** – may present significant challenges if combined or if they occur in close succession (which will be more likely with climate change). They also increase the risk of not meeting regulatory outcomes (with associated financial penalties) and the risk of non-compliance with our obligations.
- 4**
- 5** **Failure to deliver business plan or to meet regulatory outcomes** – may affect the mitigation of our main operational risks if investment is not delivered efficiently and could result in less favourable policies or regulatory determinations.
- 6** **Security of assets, systems and data** – can result in breach of our obligations and disrupt significantly our operations resulting potentially in a failure to deliver our regulatory outcomes.

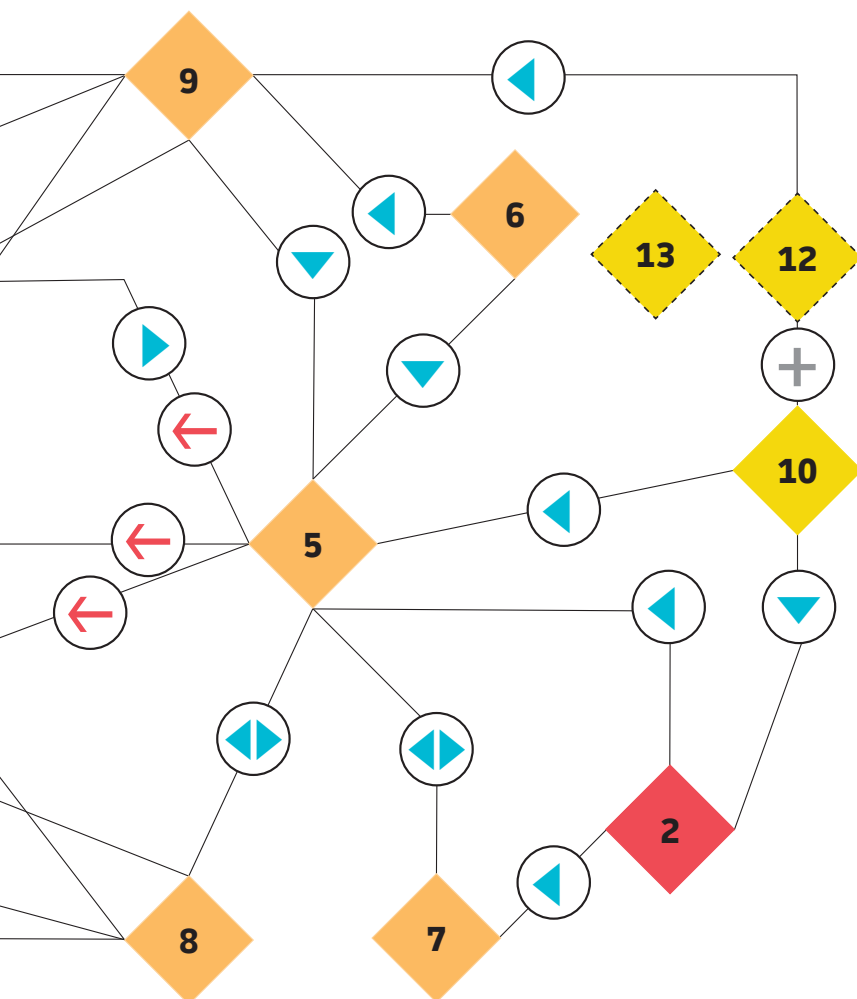


- Risk increasing the likelihood or impact of a related risk
- Potential aggregation of risks increasing overall challenges
- Risk reducing the ability to mitigate a related risk
- Bidirectional impact between related risks



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The potential exposure indicator reflects our assessment of the overall net risk exposure taking account of individual underlying risks in our risk register

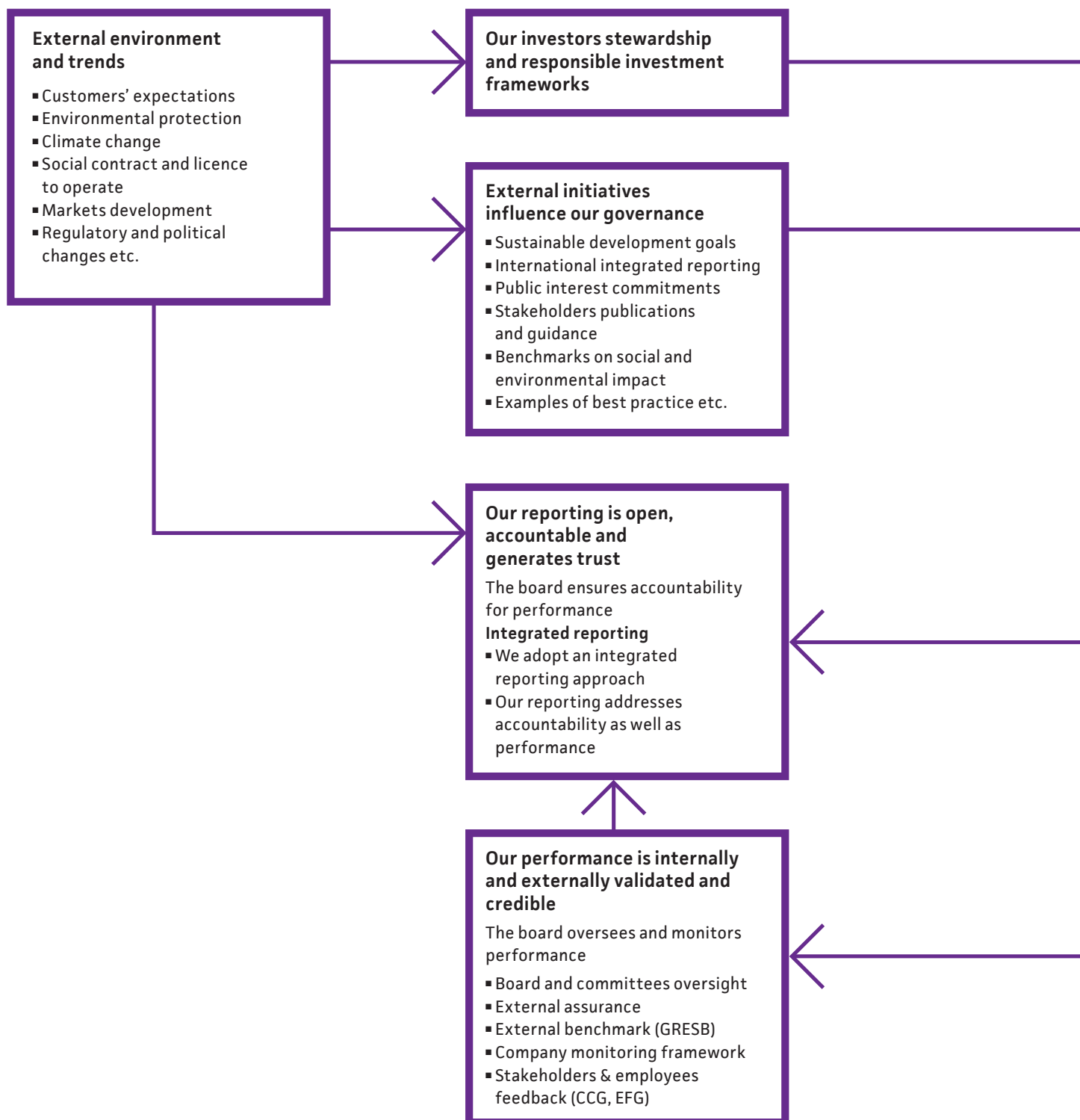


- 7 Financial resilience** – may lead to specific challenges by Ofwat at price reviews and be impacted by price determinations.
- 8 Adverse policies or political and social environment** – may impact the mitigation of our main operational risks and our mitigation of or adaptation to climate change if the need for investment is not sufficiently recognised or if policies are not timely or sufficiently consistent and coordinated.
- 9 Regulatory, environmental and legal compliance** – may mean that we do not meet certain outcomes of our business plan.
- 10 Covid-19** – did impact our operations and therefore our ability to deliver our plan and outcomes and also resulted in challenging macroeconomic conditions.
- 11 Water quality incident** – may present significant challenges if combined or if they occur in close succession (which will be more likely with climate change). They also increase the risk of not meeting regulatory outcomes (with associated financial penalties) and the risk of non-compliance with our obligations.
- 12 Health, safety and wellbeing** – could result in significant legal liabilities.
- 12 Health, safety and wellbeing & People and culture** – are pervasive risks that are relevant to all other risks as they relate to our human capital.
- 13**

# Our business strategy

Planning for water is a long-term business, our purpose makes it clear the role we play at South East Water. Our business strategy is how we fulfil our purpose, carry out our business and manage our risk.

## A governance framework to fulfil our purpose and promote long-term success





**Our business strategy is how we fulfil our purpose, carry out our business and manage our risk**

### Our corporate governance framework guides our decisions and commitments

The board defines our purpose, strategy and values and promotes a purposeful and stakeholder inclusive culture.

#### Our purpose

- Embedded in our constitution, code and board structure
- Our directors' duty to balance the interests of all stakeholders

#### Our culture

- A culture of ethics and public service values
- A stakeholder inclusive culture

#### Our principles & rules of governance

- Our corporate governance code and board structure
- Our code of ethics
- Our management of risks
- Our reporting and assurance

### Core requirements are integrated into our governance

- UK Corporate Governance Code
- BLTG\* principles
- Directors duties (s172)
- Conditions of our Licence
- Reporting requirements
- Best practice guidance etc.

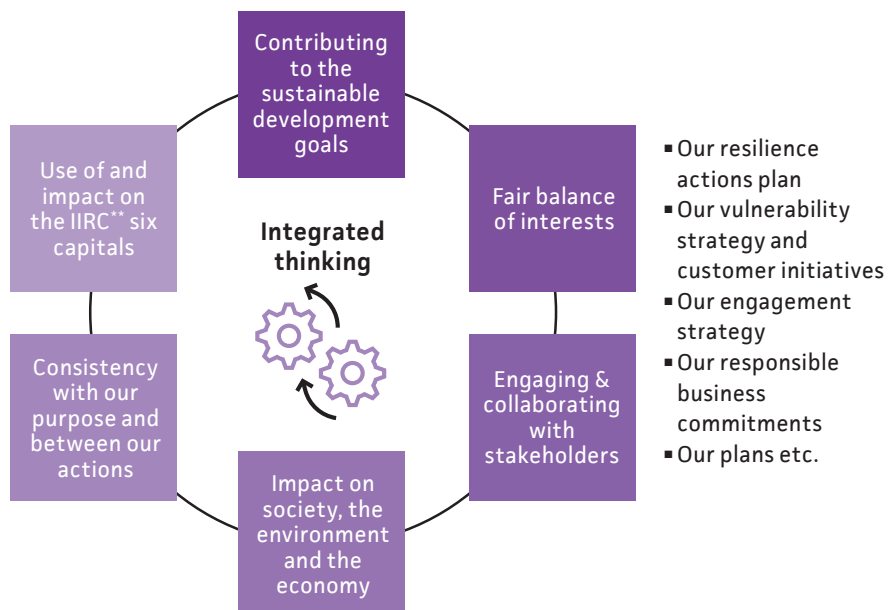
### Our corporate governance is integral to how we run our business

The board defines the strategic direction and business model

#### Our business model and strategy

The board approves policies and planning to deliver our strategy

Integrated thinking is how our board and committees, executive team, management and all our employees deliver our services and commitments to fulfil our purpose in line with our culture



\*Board Governance, Leadership and Transparency

\*\*International Integrated Reporting Council

## Our business strategy continued

### Our 2020 to 2025 plan

We have put customer satisfaction, responsibly delivered, as the central theme of our business plan for 2020 to 2025. The plan ensures we take account of all our other legal and financial obligations, which has meant we have a clear direction of travel; one which we believe is better signposted as a result of our innovative and holistic approach to measuring our future performance through outcomes.

To develop our 2020 to 2025 plan we consulted with more than 10,000 people with an interest in our business, from customers and employees through to community leaders and investors, to ensure we had developed a strategy that met their expectations and where possible went further. Their feedback helped us to develop our five-year business plan and to develop our corporate plan.



Read more online at  
**[southeastwater.co.uk/businessplan](https://southeastwater.co.uk/businessplan)**

Customer satisfaction remains a core theme of our 2020 to 2025 plan. We have taken this further and developed a wide range of responsible business measures and targets. We believe our plan is the right one for our customers and society, both now and in the future. We are driven by the same values of trust as our customers. We are a business made up of dedicated water people who want to make a difference – to customers, communities, the environment and society – so that everyone and everything thrives as a result of what we collectively do.

We are immensely proud of being a local water company with a passion for sharing our 'Pure know h<sub>2</sub>ow' – and we have used our customers' desire to know more about their water supply service to develop our 'resilient customer' concept. The priorities we have developed aim to exceed customers' expectations for us to ensure health and wellbeing through a quality, reliable water service, and improving the environment to secure a resilient service for the future.

They also include commitments to ensure we are supporting all our customers, including those who are vulnerable.





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**We have put customer satisfaction, responsibly delivered as the central theme of our business plan for 2020 to 2025**



### **The result is a plan which:**

- Remains built around customer satisfaction, but which has improved from measuring average satisfaction across seven service elements to measuring satisfaction by attitudinal segments so we meet the expectations of all our customers – whatever their needs or circumstances.
- Strengthens the link between satisfaction and resilience making customers part of the solution by giving them targeted information, and as such, greater control over their water use. We have used recent supply challenges in 2018 and 2020 – such as the freeze/thaw and heatwave events – to develop this further through our resilient customer concept.
- Has a focused innovation strategy which targets our customers' and stakeholders' priorities; and where we can make the most difference to lead the industry, not least using our toolboxes to deliver greater customer satisfaction.
- Has 10 responsible business commitments to reflect the actions and behaviours that customers expect a responsible business to display; and, in conjunction with great service, have the potential to create a step-change in trust of the water sector.
- Challenges us to deliver performance levels well beyond anything we have delivered before and new ones too, such as our performance commitments relating to vulnerable customers, the environment and customer satisfaction.
- Commits to all this at a price that is lower than today (before inflation). The challenge of doing more for less should not be underestimated. We have included 38 new performance commitments in our plan.

Our ambition to do more for less is what this plan is built upon and is what drives us to set a new tone of trust and transparency in the water sector.

## Our business strategy continued

### Water resources for the future

Every five years we update our water resources management plan (WRMP), which looks at how we will keep taps running while striking that delicate balance between protecting the environment and keeping bills affordable.

Historically these plans looked 25 years into the future, but because the south east faces a number of unique challenges in our latest plan, published in August 2019, we've looked forward 60 years to 2080. By doing this we can make sure the work we do now lays the best foundations for future generations.

Over the next 60 years the population in our supply area is set to increase by 49 per cent to 3.29 million. To ensure all existing and new customers continue to receive a reliable tap water supply we need to increase the amount of water available by an extra 221 million litres a day by 2080.

Our latest plan makes the water we already have go further – by reducing leaks in our pipes and developing water efficiency programmes. Although this will help, these measures alone won't be enough to meet the predicted shortfall in water.

#### Our plans for 2020 to 2045 include:

- Encouraging greater water efficiency amongst our customers, working with our customers to reduce per capita consumption from 148 l/h/d to 90 l/h/d by 2080, helping to save an additional 151.6 million litres of water a day.
- Halving the level of leakage from current levels by 2050, saving an additional 42.7 million litres of water a day.
- Construction of a new water treatment works by 2025 at the former Aylesford Newsprint site via a new licence trade arrangement. This will provide an additional 18.2 million litres of water a day.
- Developing and improving an existing water treatment works at Bewl Water in Kent by 2045, providing eight million litres of water a day.

- Creating a new reservoir at Broad Oak, Kent by 2033 to provide 19.6 million litres of water a day.
- Building a new reservoir adjacent to our existing Arlington Reservoir, East Sussex, by 2035 to provide 16.1 million litres of water a day.
- Developing a regional water transfer scheme from SES Water to provide nine million litres of water a day by 2042.
- Improving the levels of connectivity and resilience within our water supply network system to meet demand and manage extreme events.

By planning so far in advance we can find the most sustainable long-term options to meet the demands of both our existing and our anticipated new customers. Our planning supports the 'twin track' approach to ensure that we adopt the best options to manage both customer demand for water and the development of the most sustainable sources of supply.

We asked for customers' views while we developed our plans and thank everyone who took part in the consultation process. In particular we are grateful to the members of our Environmental Scrutiny Group who challenged our approach and helped ensure we developed an acceptable, resilient and innovative plan.

Collaborative regional water resources planning is a long established and integral part of how our own water resources management plans are prepared. Since 1997 South East Water, along with the other five south east of England water companies, has prepared regional plans as the Water Resources in the South East (WRSE) group. This collaboration ensures each individual company plan is integrated with regional solutions, to provide the most cost effective and resilient plans for both customers and the environment.

The latest water resource management guidelines prepared by Government seek to expand and build on the regional approach adopted by the WRSE group, by creating an additional four regional groups to cover the whole of England and Wales, supported by a national framework to help deliver consistency and co-ordination up to national level.

South East Water continues to play an active and vocal role in the work of the WRSE group and national work, to ensure our own company water resources management plan remains coherent with those plans. The regional plan will be published in 2022 and you can find out more at:



[wrse.uk.engagementhq.com](https://wrse.uk.engagementhq.com)

## 25 year environment plan

We are the first water company to develop a dedicated 25 year environment plan.

Over the course of seven months we worked with more than 250 customers, employees and stakeholders to create our draft plan together, with which we have undertaken a rigorous engagement process. This was the largest consultation we have ever undertaken, gathering feedback and insights from over half a million customers and stakeholders. In total we're pleased to confirm that we received nearly 400 responses. We will continue to engage with customers and stakeholder prior to the plan being published in summer 2022.

We know that making lasting change to the environment takes time and that no one organisation can do this alone. We need a long-term environmental strategy to provide a framework for the entire company, to protect and enhance the environmental resilience of our supply area, short and long-term.

This will exceed our statutory obligations and planning cycles, such as the Water Industry National Environment Programme, water resources management plan and dry weather plan. We recognise an important part of this is making sure that we consider wider environmental impacts from our own operations. To do this, we need to do all we can to create and maintain a resilient environment.

This plan provides a framework to help us manage all aspects of the environment holistically and allow us to make transparent decisions which lead to the best overall outcome for the environment long-term.

We have worked with our stakeholders, employees and customers to co-create a plan which sets out how we'll improve the environment within a generation.

For us, it's about more than just continuing to supply water – we care deeply about the environment and want to protect and enhance it for future generations.

For more information through the year and to sign up for our environment newsletter visit:



[southeastwater.co.uk/25yp](https://southeastwater.co.uk/25yp)

## Our objectives

We use performance commitments to measure our progress towards achieving our strategy. You can find out more on the following pages of our business performance, but also within our performance, people and planet report. Read more online:



[performance.southeastwater.co.uk](https://performance.southeastwater.co.uk)

# Thriving people

We have set an ambitious five year people plan to build a culture which inspires excellence in its people.

**Across the business our colleagues have continued to show dedication and agility, together with commitment and resilience.**

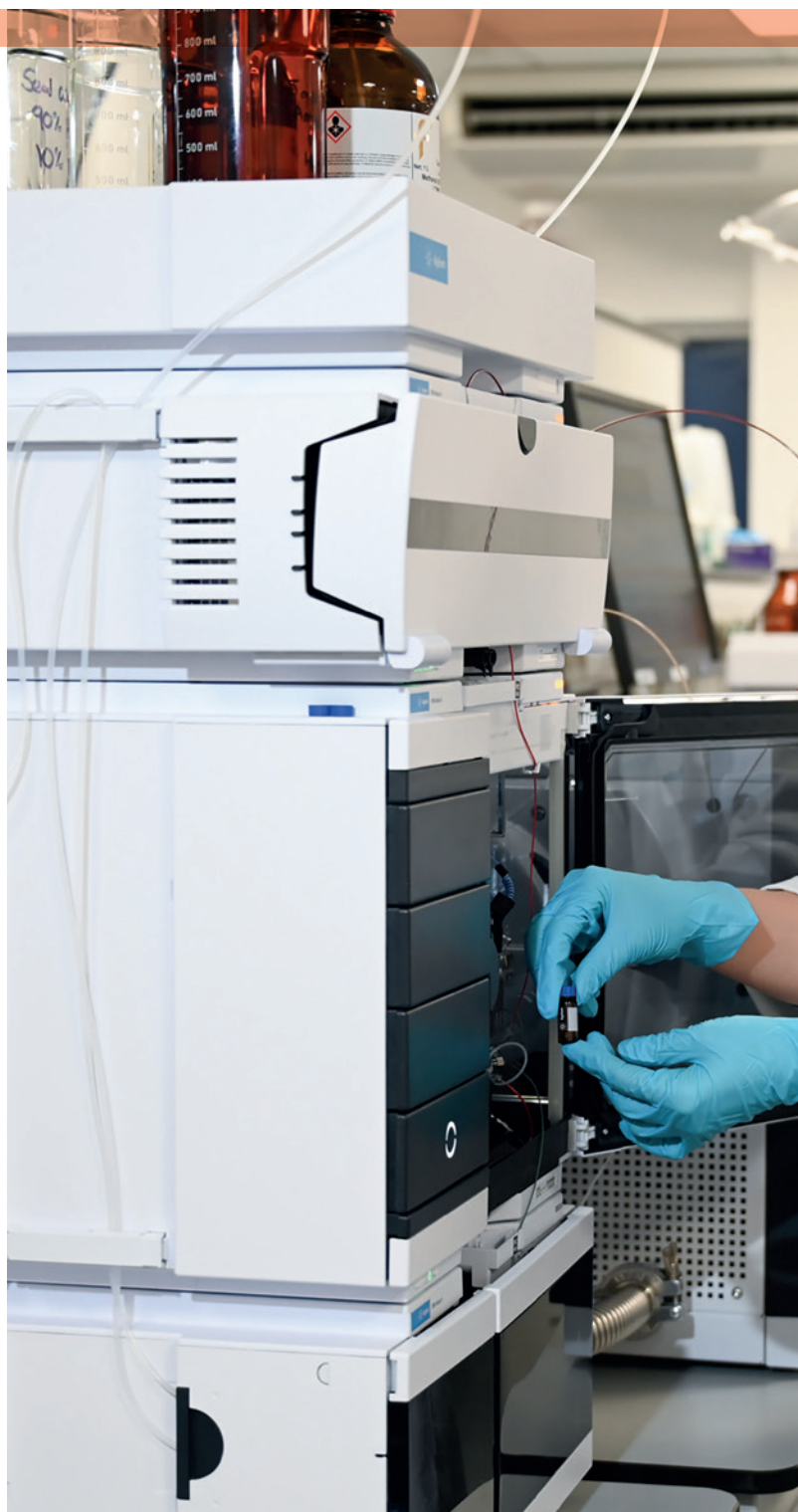
We are a 24/7 365 service and our teams rise to all the challenges that brings.

We rely on the expertise of a huge range of professionals, including our scientists in our laboratory, specialists out in the field, operational site managers, highly-professional customer service teams, our environmental experts, and our support services behind the scenes.

We set out an ambitious five-year people plan to support our business objectives and to drive our ambition to be the company that people want to work for. Year two of our people plan has been a busy one with activities ongoing under each of the four key areas of focus.

To develop our thriving and diverse workforce, our activities have included using specialist skill sets to improve our attraction and recruitment process and to ensure each resourcing manager receives the best level of service and support in recruiting the skills and capabilities they need. We have broadened our channels of attraction to include Linked-In and Facebook for the first time.

Our gender pay gap has improved again this year, reducing by 2.7 per cent this year and by 5.2 per cent over the last two years. We have also increased the number of women in both senior and management roles as we concentrate on diversity of thinking throughout the company. We are committed to developing more equal presence of men and women at each and every opportunity we have, especially more women in our operational roles and indeed, men in our retail roles.







**We have launched our apprentice plan which increases the number of apprenticeships by 250 per cent**



South East Water has an overall female presence in the workforce of 43 per cent, which compares to the industry average of 20 per cent (EU skills data 2018) and gives us a strong talent base to improve over time.

In addition to our activities, as set out last year, we have taken advantage of the changes in the way of working that the pandemic has created and that has allowed us to promote and develop our agile working practices. We are continuing to improve diversity in parts of the business where there is weighted bias in either direction, through specialist recruitment techniques and broadening our application pool.

We have launched our new wellbeing strategy which focuses on physical, mental, social and financial wellbeing for all our employees. An annual diary of events has been created including lunch & learn activities with external speakers, opportunities to engage with specialist advisors, signposting to support and taking advantage of the great benefits package we offer.

Across the business we now have 37 Wellbeing Champions in the business who have all undertaken level two Understanding Health Improvement training to complement our 42 Mental Health First Aiders who support employees and signpost to our internal and external help.

We are proud to be a UK safe space employer which demonstrates we provide exceptional support for those employees and family members suffering from domestic abuse.

This year we have engaged with the Leonard Cheshire Foundation and its Change 100 programme. This involves talented graduates who have a disability, but have yet to enter the job market, undertaking an internship for 100 days.

## Thriving people continued

To engage our talented workforce, we have invested in a new learning management system, entitled TAP. It encourages personal development and supports performance across the business. TAP houses more than 5,000 pieces of training collateral which supports that development. In addition, TAP allows us to issue, report and bespoke all mandatory and compliance training which can be completed via e-learning, face-to-face or a combination of the two.

For the first time all our employees will have a performance development plan which supports their personal and professional development.

This is supported by the launch of our new career development opportunities via our Aspire, Inspire and Lead portals which provide training, guidance, courses and professional qualifications at each level of our employees' development, whether they aspire to develop through our business, seek to inspire their teams or lead from the front.

We have redesigned our performance management process, using leadership behaviours and linking performance objectives to company objectives. This has helped our colleagues understand how they help the business to deliver our key targets and make a difference to our customers.

We also launched our market leading apprentice plan, which increases the number of apprenticeships in the company by 250 per cent. Made up of new apprentices across the business and apprentice and training opportunities to existing colleagues, this equates to approximately 10 per cent of our workforce undertaking an apprenticeship, which supports our future proofing and engagement with our industry.







**We have invested in a new learning management system – TAP. All colleagues have over 5,000 pieces of training collateral at their fingertips**



Our 2021 employee survey provided great insight and results. Action plans completed from the six pulse surveys carried out during the pandemic were shared with 'You said, we did' and we were pleased to see confidence in the company taking action from the results increased. Our 79 per cent response rate yielded an employee engagement score of 89 per cent and empowering our employees sits at 90 per cent.

Our employees felt we responded to the different needs of our customers with a score of 96 per cent, and 94 per cent believed we were committed to being ethical and responsible. Our company values also scored highly, amongst others at 94 per cent.

Future proofing our business activities has included formulating our hybrid working plan across the business as we come out of the pandemic and move to a more formal agile working approach. We also improved the level of self-service which supports all our colleagues, especially those out in the field.

As always, the health and safety of our colleagues is our number one priority. We have reinforced the message 'no job is too urgent not to be done safely' with internal communications throughout the year.

There were five reportable accidents during the year. We traditionally consider not only the actual harm recorded but also the potential for harm. Often the greatest benefit can come from a thorough investigation of events that do not result in injury but have high potential to have done so.

# Business performance

## Operational performance

The water regulator, Ofwat, has set out a group of 'common' performance measures that it wants all water companies to report against. In addition to these performance measures, we have developed an additional group of performance indicators through asking our customers what they feel we should target. While it is important to remember that no measure can ever capture everything, these metrics reflect the most important aspects of the service that we provide. If we can perform well against these targets, we will be providing a good service to all our customers, both current and future. We are always mindful that, as well as being providers of an essential service, we are also the custodians of a public asset (the water infrastructure).

These targets are referred to as 'performance commitments' (PCs).

The following table sets out what these measures are and why they are important.

## Performance measures

All the measures in the first table have financial incentives attached to them (also known as Outcome Delivery Incentives or ODIs).

Measure	Purpose
Supply interruptions	We aim to provide clean, safe water to 2.3 million customers, 24 hours, 365 days of the year. This measure captures the rare occasions on which supplies are interrupted. Our objective is to minimise these interruptions.
Mains repairs	The number of repairs which we have to carry out on the network is an indicator of the general health of the network, and this measure should be understood as a measure to ensure that the health of the network is being maintained. If we keep below our target (based on number of bursts per 1,000 km of main), it shows that the network is being kept in a good condition for future generations.
CRI	The CRI is a measure of water quality compliance. The perfect score is a 0, and our objective is to keep this as low as possible. It should be noted that in addition to this measure there is a very strict legal framework, which includes the potential for prosecution if water is supplied that threatens human health.
Unplanned outage	This measures the frequency with which above ground assets (mostly treatment works and pumps) are out of action. This is also an 'asset health' measure. Keeping this low indicates that these assets are being kept in good health for future generations.
PCC	This is a measure of the amount of water consumed by each person in our supply area (Per Capita Consumption). If we do a good job helping customers to consume water more efficiently we will reduce the amount consumed and do well on this measure.
Leakage	All water networks have distribution losses. We can minimise leakage by keeping the network in a good condition, by fixing leaks quickly when obvious leaks occur; and by having effective systems and processes to identify and repair the many smaller leaks that are not immediately identifiable.
C-MeX	This is a comparative measure of customer experience performance designed by Ofwat. It is based on sample surveys, where a third party specialist company contacts a sample of customers and asks them about their experience of our service.



Measure	Purpose
D-MeX	This is a comparative measure of customer experience performance designed by Ofwat, which targets developer services customers. Developer services are about connecting newly built properties to our network. It is based on sample surveys, where a third party specialist company contacts housing developers who are using our connections service and asks them about their experience of our service.
AIM	The Abstraction Incentive Mechanism is a compound measure that measures how much water we extract during times of water shortage. This is designed to give us an incentive not to extract raw water from the environment in a way that might lead to low flows in rivers and streams.
Appearance of water	This is a measure of how many contacts we get from customers to tell us that there is an issue with the appearance of their water (discolouration). These incidents do not represent a threat to human health.
Taste and odour of water	This is a measure of how many contacts we get from customers to tell us that there is an issue with the taste or odour of their water. These incidents do not represent a threat to human health.
Properties at risk of low pressure	This is a measure of how many properties on our network are at risk of receiving low pressure during times of high demand. Usually such properties are at the end of the network or at the top of a hill.
Household voids	This is a measure of how many properties are empty. If a high number of properties are empty, then other customers have to pay more to compensate. This measure incentivises us to keep that number to a minimum by keeping accurate records. A small number of properties are genuinely empty.
Non-household voids	This is a measure of how many business and commercial properties are empty. If a high number of properties are empty, then other customers have to pay more to compensate. This measure incentivises us to keep that number to a minimum by keeping accurate records. There is always a proportion of commercial property that is empty, but this has increased during the Covid-19 crisis and we are suggesting to Ofwat that this measure should be adjusted to compensate.
WINEP	The Water Industry National Environment Programme is a series of projects designed to protect and enhance the natural environment. This measures whether or not we deliver those projects on time.
Engaging and working with land owners	This measure is designed to protect our raw water resources. By working with land owners we seek to prevent raw water from being contaminated with chemicals which would require costly and environmentally inefficient treatment. This is known as 'catchment management' and the incentive is based on the hectareage of land that we applied catchment management policies to.
Protecting wildlife and increasing biodiversity	This measures the hectareage of land which we proactively manage and monitor in order to produce gains in biodiversity through our conservation work.
Sites protected from flooding	This measures the number of sites that the company has protected against a one in 1,000 flood risk. Although customers will not notice any effect of this work immediately, its completion will mean that customers are receiving a much more resilient service.

## Business performance continued

### Operational performance continued

The rest of the Performance Commitments do not have ODIs attached to them. For ease of reference, they are grouped into three separate tables below.

### Customer satisfaction measures

We have seven measures of customer satisfaction. They are designed to remind us that what we really want to achieve is customer satisfaction, not just good service levels and metric performance.

If the metrics are well chosen, then they will automatically achieve customer satisfaction as they will measure the things that customers care about. However, this is not automatic, especially in a rapidly changing world in which these performance metrics are only changed once every five years. We therefore think there is value in measuring customer satisfaction directly.

Measure	Purpose
Customer satisfaction by segment (measures)	This measure is divided into six customer segments. The purpose of these different segments is to remind us that water customers are not all the same. Different people have different needs and priorities. This measure therefore identifies the satisfaction levels of six different groups based on research of our customer base: 'mindful optimists'; 'global advocates'; 'just me and mine'; 'careful neighbours'; 'busy juggler'; and 'living for today'.
Value for money	This is a measure of customers satisfaction measured via a survey.

### Measures relating to vulnerable customers

As a company which operates a natural monopoly we have an unusual public service responsibility to make sure that we take care of vulnerable, or potentially vulnerable, customers within our customer base. The following measures are designed to measure how effectively we do that:

Measure	Purpose
Satisfaction of household customers who are experiencing payment difficulties	This measure targets a specific group. It measures (via a customer survey) the satisfaction levels of customers who are finding it hard to pay their bills. This is a group of vulnerable, or potentially vulnerable people and we need to interact with them with particular care and empathy.
Satisfaction of household customers who are receiving, or applying for, non-financial support	This is another measure that is designed to make sure that we pay particular attention to a group of potentially vulnerable customers. In this case, customers who are on, or applying to be on our Priority Services Register. Customers can be on this register for a variety of reasons such as age, health, or disability. Such customers can be prioritised for additional support in certain circumstances, such as the delivery of bottled water to their homes in the case of an interruption.
Satisfaction of household customers on our vulnerability schemes during a supply interruption	This measure is another survey measured metric which specifically measures the satisfaction of customers on the Priority Services Register with the services that they receive during a supply interruption. This is designed to measure how well we protect this vulnerable group during supply interruptions.

### Measures relating to vulnerable customers continued

Measure	Purpose
Household customers receiving financial support	This is a measure of the number of customers that are receiving financial support in the form of bill control or bill reductions. Such reductions are offered to vulnerable customers and this measure tracks our performance in ensuring that these customers are supported.
Satisfaction of stakeholders in relation to assistance offered	This is a measure (based on surveys) of the satisfaction of vulnerable customers and their representatives.
Priority Services for customers in vulnerable circumstances – Reach	This is a measure of the percentage of overall households which appear on our Priority Services Register. Vulnerable customers can be hard to identify and this metric measures our effectiveness at reaching out to them.
Priority Services for customers in vulnerable circumstances – Attempted contact and actual contact	This measures the percentage of customers on our Priority Services Register that we have attempted to contact over a two year period. This is a measure of how effective our proactive contact with these customers is. The actual contact part of the metric measures how many of those customers we have actually made contact with.

### Other performance measures

Measure	Purpose
Gap sites	Gap sites are properties that exist, but are not included in our billing system. Such properties receive free water at the expense of other customers. This metric incentivises us to find those properties and add them to our system.
Risk of severe restrictions in a drought	This is a measure of the percentage of our customers who are exposed to the risk of severe restrictions during a drought period. Severe restrictions means discontinuity in supply, not just hosepipe restrictions. Our target is nil.
ERI (Event Risk Index)	This is a composite measure produced by the Drinking Water Inspectorate (DWI). It measures the risk to customers of water quality events and incentivises us to reduce the risk of such events.
Delivery of water industry environment programme requirements (WINEP)	This is a simple measure of whether we have 'met' or 'not met' all of these requirements.
Greenhouse gas emissions	This measure commits us to achieving a 68 per cent reduction in greenhouse gas emissions by 2025. We have a further commitment to achieve net zero emissions by 2030. This will reduce and then eliminate the carbon footprint of our operations.
Engaging and working with abstractors to improve catchment resilience to low flows	This metric encourages us to engage with other abstractors of water (mostly farmers) to help them find ways to reduce their water use and to thereby help avoid low flows in the environment. This specifically measures the percentage of a target list that we have engaged with. The target list is produced in conjunction with the Environment Agency.

Customers can also visit the website **[discoverwater.co.uk](https://discoverwater.co.uk)** which gives everyone access to comparative information on the performance of water companies. We believe this is an important tool which enables customers and stakeholders, in particular our Customer Challenge Group, to compare the progress against our targets with other water companies to ensure we are striving for continuous improvement and stretching ourselves to provide the best possible service.

## Business performance continued

### Other performance measures continued

The following table shows all of our Performance Commitments, the targets for 2021/22 and the incentives or penalties earned. Overall, there is a net penalty of £3.2 million (including an estimate of penalties under C-MeX and D-MeX), compared to a net penalty of £4.4 million in 2020/21 (including the final C-MeX and D-MeX figures as assessed by Ofwat), despite the fact that targets this year are generally more stretching than previously. This year's leakage performance and CRI performance are both the best levels the company has ever achieved.

We have made representations to Ofwat that they should exclude the supply interruptions which resulted from Storm Eunice and other storms in February 2022, and that they should adjust the WINEP penalty to take account of revised dates agreed with the Environment Agency. If Ofwat accept our representations in full, the net penalty would be £1.4 million.

PCC and business voids penalties have been affected by Covid-19 and have therefore been deferred for reconsideration by Ofwat at PR24. Both of these ODIs are excluded from the totals above.

The net penalty will be returned to customers in the form of bill reductions in the 2023/24 year.

Overall, performance is improved or stable, compared to last year, in 87 per cent of our financial performance measures.

Performance Commitment	Unit	Target in 2021/22	Actual performance in 2021/22	Penalty or Reward (£m)
■ Leakage	% reduction	0.4	3.3	1.023
■ Mains repairs	Per 1,000 km of main 1	171.5	129.3	0.000
■ CRI	Score	0	1.21	0.000
■ Unplanned outage	%	3.76	3.44	0.000
■ PCC	% reduction	2.9	-8.3	(2.190)
■ Supply interruptions	Min : Sec	00:6:08	01:12:33	(3.157)
■ C-MeX*	Score out of 100	N/A	76.59	(0.770)
■ D-MeX*	Score out of 100	N/A	81.34	(0.194)
■ AIM	ML/d	0	-148	0.000
■ Appearance of water	Per 10,000 population	1.02	0.98	0.038
■ Taste and odour of water	Per 10,000 population	0.38	0.36	0.016
■ Properties at risk of low pressure	Per 10,000 population	0.5	0.3	0.015
■ Household voids	%	2.1	1.97	0.111
■ Non-Household voids	%	8.1	10.24	(0.717)
■ WINEP	Schemes	43	38	(0.325)
■ Engaging and working with land owners	Hectares	5,687	5,986	N/A
■ Protecting wildlife and increasing biodiversity	Hectares	1,218	1,427	N/A
■ Sites protected from flooding	Number of sites	0	20	N/A
■ Strategic main Wellwood to Potters Corner	% delivered	0	9.45	N/A
■ Customer satisfaction by segment 1 - 'mindful optimists'	Score out of 5	4.2	4.0	N/A
■ Customer satisfaction by segment 2 - 'global advocates'	Score out of 5	4.4	4.2	N/A



Performance Commitment	Unit	Target in 2021/22	Actual performance in 2021/22	Penalty or Reward (£m)
■ Customer satisfaction by segment 3 - 'just me and mine'	Score out of 5	4.3	4.0	N/A
■ Customer satisfaction by segment 4 - 'careful neighbours'	Score out of 5	4.3	4.2	N/A
■ Customer satisfaction by segment 5 - 'busy juggler'	Score out of 5	4.4	4.1	N/A
■ Customer satisfaction by segment 6 - 'living for today'	Score out of 5	4.3	4.0	N/A
■ Value for money	Score out of 5	3.8	3.6	N/A
■ Satisfaction of household customers who are experiencing payment difficulties	Score out of 5	4.3	4.3	N/A
■ Satisfaction of household customers who are receiving, or applying for, non-financial support	Score out of 5	4.2	4.3	N/A
■ Satisfaction of household customers on our vulnerability schemes during a supply interruption	Score out of 5	3.8	3.2	N/A
■ Household customers receiving financial support	Number	58,000	53,981	N/A
■ Satisfaction of stakeholders in relation to assistance offered	Score out of 5	3.7	3.8	N/A
■ Priority Services for customers in vulnerable circumstances – Reach	%	5	5.2	N/A
■ Priority Services for customers in vulnerable circumstances – Actual Contact	%	35	57.5	N/A
■ Priority Services for customers in vulnerable circumstances – Attempted Contact	%	90	93.5	N/A
■ Gap sites	Number of sites	25	42	N/A
■ Risk of severe restrictions in a drought	%	0	0	N/A
■ ERI (Event Risk Index)	Score	0	20.463	N/A
■ Delivery of water industry environment programme requirements	Met / Not met	Met	Not Met	N/A
■ Greenhouse gas emissions	kgCO <sub>2</sub> e/MI	119.9	30.4	N/A
■ Engaging and working with abstractors to improve catchment resilience to low flows	%	0	0	N/A

\* These are relative measures and because of Ofwat's processes, the penalty and reward numbers will not be completely finalised at the time of publication. (estimates are shown).

■ Target met

■ Target not met

For further information on all of our outcomes and targets please refer to our performance, people and planet report at [performance.southeastwater.co.uk](https://performance.southeastwater.co.uk) and our annual performance report at [southeastwater.co.uk/about/resources/publications/financial-reports](https://southeastwater.co.uk/about/resources/publications/financial-reports)

# Group structure and financing

## Group structure

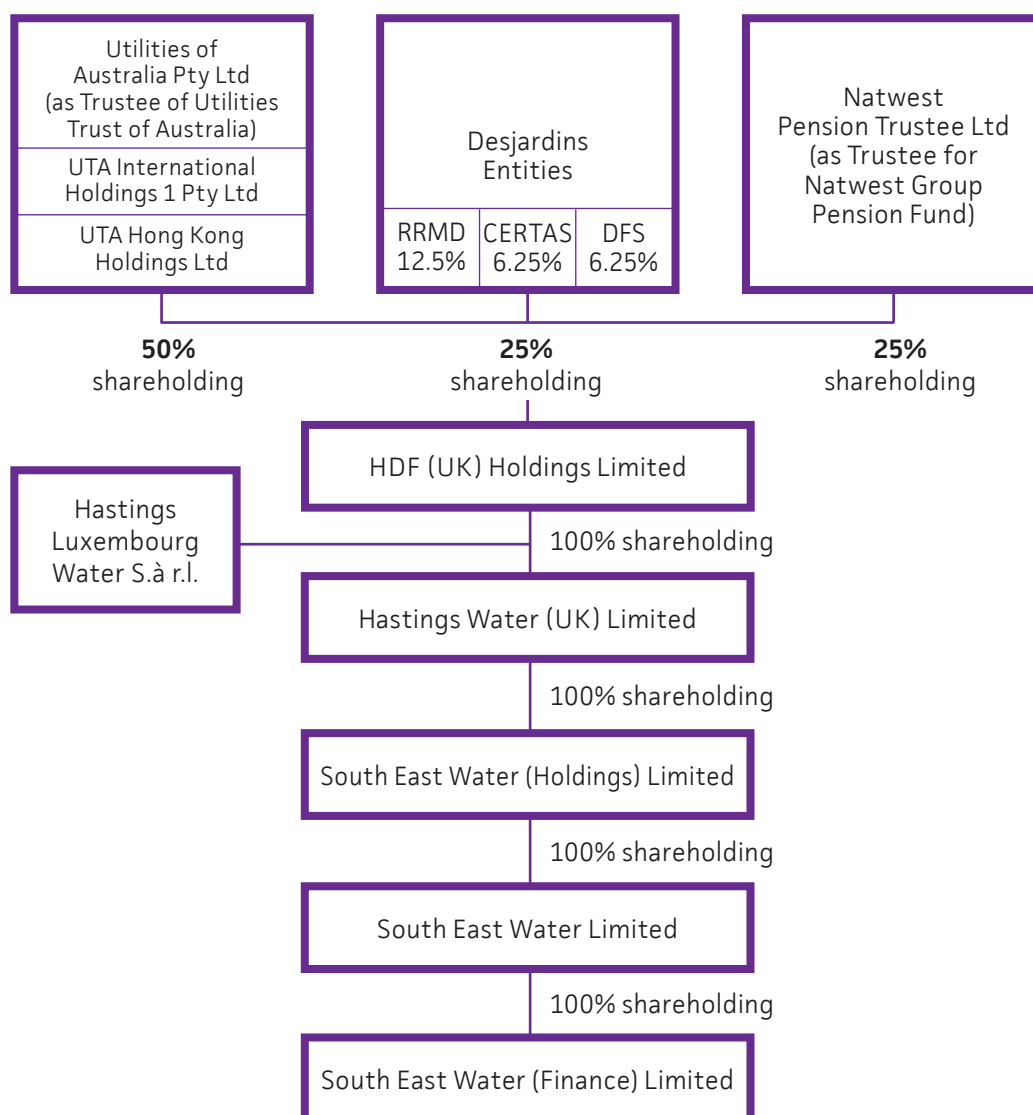
South East Water Limited is the main operating company in the group of companies headed by HDF (UK) Holdings Limited ("HDF"). There are two intermediate holding companies between South East Water and HDF: South East Water (Holdings) Limited and Hastings Water (UK) Limited, both of which, together with HDF, are registered and resident in the UK.

The ultimate owners of HDF are Utilities of Australia Pty Ltd (as Trustee of Utilities Trust of Australia), NatWest Pension Trustee Ltd as trustee for the NatWest Group Pension Fund (Main Fund Section) and three entities of the Desjardins cooperative financial group based in Quebec (Régime de Rentes du Mouvement Desjardins, Desjardins Financial Security Life Assurance Company and Certas Home and Auto Insurance Company).

Recent debt financing has been arranged directly through South East Water Limited. Historically, debt financing of South East Water has been arranged through our only subsidiary, South East Water (Finance) Limited. South East Water (Finance) Limited is a company registered in the Cayman Islands but does not gain any tax benefit from this as the company is resident for tax purposes in the UK. South East Water also has some existing directly issued debt finance which originated in Mid Kent Water Limited prior to the two companies merging.

There is further debt finance in the HDF group, which is a mixture of both external and shareholder loans. This debt is issued by a separate group company, Hastings Luxembourg Water S.à r.l.

## Group of companies



## Sustainability finance framework






South East Water has developed a Sustainability Finance Framework to finance a range of activities, not only environmental projects but also ones which will benefit society such as improving drinking water quality. The framework highlights how our activities are supporting five of the United Nations Sustainable Development Goals, including climate action and sustainable cities and communities.

In order to ensure this Sustainability Finance Framework is followed correctly, we have set out that we will comply with the ICMA Green Bond Principles (GBP), Social Bond Principles (SBP), Sustainability Bond Guidelines (SBG) and LMA Green Loan Principles.

These principles are each a set of voluntary guidelines that recommend transparency and disclosure and promote integrity in the development of the sustainable finance market by clarifying the approach for Sustainable Finance issuance. We published a dedicated report during 2020 to demonstrate the impact this finance has made.



Find out more  
[southeastwater.co.uk/sff](https://southeastwater.co.uk/sff)

ICMAGBP /SBP category	Brief description of South East Water eligible sub-categories list	Examples of eligible projects	UN SDG*
Sustainable water and wastewater management / Affordable basic infrastructure (Clean drinking water)	<ul style="list-style-type: none"> <li>- Water demand-side management and customer-side growth</li> <li>- Water supply schemes</li> <li>- Water quality</li> <li>- Raw water environmental works</li> <li>- Capital maintenance: replacement and enhancement on a proactive basis of existing assets</li> <li>- Network extension: to provide a sustainable supply of clean drinking water to all new properties</li> <li>- Resilience</li> </ul>	Investment and operating expenditures in, but not limited to:	
		- Improved metering for more frequent data to identify and address issues such as leakage	
		- Water efficiency programmes	
		- Water Resources Management Plan - a twin track plan to ensure a sustainable supply of water 60 years into the future, through demand reduction and new supply options	
Terrestrial and aquatic biodiversity conservation	<ul style="list-style-type: none"> <li>- Protecting wildlife and increasing biodiversity</li> </ul>	- Restoring sustainable abstractions	
		- New infrastructure to replace unsustainable resources	
		- New infrastructure to replace ageing water mains	
		- Groundwater and surface water catchment management	
		- Water treatment works refurbishments that improve efficiency (water/energy/chemical)	
		- Connections of water supply from network to new property	
		- Flood defences at treatment works, boreholes and pumping stations to ensure resilience and maintain a clean water supply at times of flood	
		Investment and operating expenditures in, but not limited to:	
		- Invasive Non-Native Species (INNS) projects included in Water Industry National Environment Programme (WINEP)	
		- Delivery of biodiversity enhancements on water company landholdings	
		- Management of company owned Sites of Special Scientific Interest (SSSIs)	

\*United Nations Sustainable Developments Goals

# Financial performance

We have now completed the second year in the current Asset Management Period (AMP7). The financial performance of the group has been good, especially when set against the background of the continuing effects of Covid-19 during the year and the increasing cost of energy and materials towards the end of the year. The group is continuing to learn new ways of operating in the post-pandemic era. This includes a more flexible approach to how office based staff use technology and revised procedures to ensure field based staff are kept safe. The main focus of these new procedures is to ensure that we can continue to deliver on our service commitments to customers.

We continued our investment plans in infrastructure assets to improve water quality and add flexibility and resilience to the network during the year. The way our customers work continues to change as we all come to terms with the “new normal” which has emerged in the aftermath of Covid-19. An agile approach is being taken to ensure that investment is targeted to meet the changing requirements of customers.

The financial requirements of our shareholders have been met throughout the year. The wider needs of our stakeholders are also high in our priorities as we strive to improve as a responsible business. The impact of Covid-19 and the resultant changes in the operations of the group continued to trigger additional costs in the year and these are discussed below.

There are a range of financial performance indicators that we use to monitor our business. These are linked to the key strategic financial requirements of our instrument of appointment and to those of our investors which underpin our capital structure and the financial governance that we apply to our business. In addition, we monitor profitability, capital expenditure and cash performance. The table below shows these indicators and measures for the 2021/22 and the 2020/21 financial years.

The group financial statements are set out on pages 201 to 281. The group accounts are prepared under International Financial Reporting Standards (IFRS) and report the results for the consolidated South East Water group. The group accounts include the results of South East Water (Finance) Limited.

KPI	Measure	2021/22	2020/21
Credit rating	Standard & Poors	BBB	BBB
	Moody's	Baa2	Baa2
Interest cover	multiple	3.9	3.6
RCV (Regulated Capital Value)	£m	1,490.9	1,382.0
Net debt to RCV	%	74.6	78.4
Turnover	£m	251.3	248.2
Operating profit	£m	83.8	77.5
Profit before tax	£m	17.0	37.7
Capital expenditure	£m	105.0	93.3
Cash	£m	14.5	41.6



## Revenue

The turnover for the year was £251.3 million compared to the previous year of £248.2 million. The increase of £3.1 million included an increase in water revenue of £0.4 million and increased non-water income of £2.7 million.

Under the regulatory price control mechanism, the tariffs are adjusted to recognise the movements in projected consumption against the revenue set at the publication of the Final Determination. For 2021/22 our tariffs decreased by 0.5 per cent, reflecting the increase in consumption driven by Covid-19 in 2020/21. The reduction in revenue generated from the decrease in prices was £1.2 million.

Water revenue from household usage was £6.7 million lower than 2020/21 but around 5 per cent higher than the pre-Covid-19 position for 2019/20. This shows that customers have continued home working during the year despite the ending of lockdowns. Non-household revenue consumption was £8.3 million more than 2020/21 reflecting the lifting of Covid-19 restrictions for businesses and includes the historic settlement adjustment noted above.

Turnover resulting from non-water sales increased by £2.7 million in the year to £11.7 million. This 30 per cent increase was mainly due to increased demand from developers as they recover from the pandemic. New connections revenue increased by £1.2 million and revenue from infrastructure schemes, for example new mains and diversions, increased by £1.3 million.

Other income has increased by £10.5 million to £21.9 million during the year. Other income includes the receipt of £6 million of insurance receipts in respect of the damage to the reservoirs at Aylesford in 2020/21 and £4 million of insurance receipts for business interruption to cover the increased costs incurred by the failure of these reservoirs. The other income stream that has increased year on year is laboratory income, which has returned to the pre-pandemic levels with an increase of £0.35 million to £2.7 million.

## Operating expenditure

Our operating costs for the year, including charges for doubtful debts, have increased from £182.1 million to £189.4 million, an increase in costs of £7.3 million in the year. Depreciation and amortisation increased in the year by £2.3 million, which is consistent with the new assets brought into operation in the financial year.

Another significant impact on costs in the year was Storm Eunice, which generated £1.6 million of operating expenditure, primarily on contractors' costs and customer compensation payments. Within this cost was a goodwill fund in East Grinstead, made to protect reputation in an area where our General Standards of Service meant that individual household compensation payments were not required. We created a £0.1 million Community Chest fund to support charities, community groups and not for profit organisations. Affected customers were invited to vote as to how the fund should be shared. Funds are being distributed during summer 2022.

Energy costs increased by £1.1 million due to the impact of inflationary pressures on the cost of energy. The group had largely protected itself from increased energy costs during the year, but the continued higher than expected demand due to Covid-19 resulted in additional energy being purchased at the higher prices.

## Financial performance continued

The charge for bad debts in the year was £5.0 million compared to £3.8 million in the prior year. The provision is based on our revised approach adopted in 2020/21 using the cash collection history for the past three years. This places greater emphasis on our recent cash collection history and better reflects the current economic circumstances. The increase in bad debt shows the continuing problems in the collection of older debts through the year, coupled with the increasing inflationary pressures on household finances and anticipated future collection rates.

Off-setting the increases in costs were reductions in reactive maintenance costs of £2.6 million after a year without extreme temperature events leading to historically low burst and communication pipe repair activity. A further benefit of the more usual temperatures in the summer was a reduction in the costs of bulk supplies of water from other companies of £1 million.

In the financial year 2020/21, an adjustment was made to past service costs on one of the group's defined benefit pension schemes as a result of changes to the index used for future increases in pensions. This reduced staff benefit costs in the prior year by £7.8 million. No similar adjustment has been made in the year ended 31 March 2022.

## Profit from Operations

Operating profit has increased from £77.5 million to £83.8 million, an increase of £6.3 million, as detailed above.

## Finance costs

We hold a number of different long-term financial instruments to finance our operations, including index linked loans, variable rate loans and fixed rate bonds and loan notes. We also use a short-term revolving credit facility to manage our short-term cash flow requirements. The maturity dates of the long-term finance ranges from 2025 to 2042 and further details with respect to these financial instruments are set out in note 18 to the accounts.

The associated finance cost of these loans is £67.6 million in the year compared with £43.0 million in the prior year. The increase in finance costs is due to higher indexation charges in the year on our index linked debt. Inflation increased from 1.5 per cent in 2020/21 to 9.0 per cent in 2021/22 with most of the increase being seen in the last quarter of the year. This has resulted in an increase of £23.1 million in the indexation attaching to the index linked loans, although a more modest increase of £0.6 million in interest payable in the year on this debt.

## Profit before tax

Profit before tax for the year was £17.0 million compared to £37.7 million in the previous year. Despite the good operating performance, profit before tax has been significantly impacted by the increase in finance costs in the year.

## Loss after tax

The group returned a loss after tax of £28.9 million in the year compared to a profit of £31.3 million in the prior year. The movement from profit before tax to loss after tax has been caused by the deferred tax charged in the year as a result of the change in corporation tax rates from 1 April 2023.

The tax charge in the year of £45.9 million (2021: £6.3 million) comprises:

- **Current tax of £0.6 million (2021: £2.6 million).** The decrease in current tax reflects the decrease in taxable profit after allowing for appropriate tax deductions.
- **Deferred tax of £4.5 million (2021: £3.7 million).** The increase in deferred tax is due to a charge for the prior year as a result of changes between the prior year financial statements and the tax computations submitted.
- **Deferred tax of £40.8 million as a result of the change in corporation tax rate from 1 April 2023 from 19 per cent to 25 per cent.**

Further details on the current and deferred tax calculations are set out in note 9 to the accounts.

## Treasury

Our treasury policy seeks to ensure that sufficient funding is available to meet foreseeable requirements and maintain appropriate headroom for contingencies. We manage the financial risks of the business through a series of hedging policies and ensure that our short and long-term facilities are appropriate to the strategic objectives of the business. Our policy considers inflation risk, interest rate risk, currency risk and investment criteria. The policy is underpinned by the obligations of our securitisation structure. Our assessment of the associated risks are set out in note 21 and details of our long-term loans are set out in note 18.

During the year, a new revolving credit facility was arranged for £125 million, replacing the previous facility of £90 million. The balance owed on the old facility at the beginning of the financial year of £80 million, including £40 million drawn to safeguard against any potential liquidity risk as a result of Covid-19 has been repaid utilising £30 million of cash reserves and through the issuing of £50 million of fixed rate loan notes. The revolving credit facility was undrawn at 31 March 2022.

The interest rate benchmark LIBOR ceased to be used as the reference rate for our floating rate debt at the end of 2021. During the year, the group transitioned its floating rate debt from LIBOR to the SONIA benchmark rate.

## Financial performance continued

### Pensions

During the year £4.1 million (2021: £4.0 million) was paid to the South East Water scheme and £1.4 million (2021: £1.4 million) was paid to the Mid Kent Water scheme. The company pays contributions to the South East Water and Mid Kent Water defined benefit schemes which both closed on 31 March 2015 to future accrual.

Further details on these schemes are set out in note 23 to the accounts. In addition the company operates and funds a stakeholder pension scheme which is a defined contribution scheme. During the year 1,140 (2021: 1,000) employees contributed to the scheme and the company made payments of £2.5 million by way of employer contributions to this scheme (2021: £2.5 million).

### Net debt and cash flow

We use a combination of long-term funding and short-term working capital to finance the extensive capital programme and to fund the ongoing operations of the business. During the year the operating cash generated was £135.8 million (2021: £119.9 million). Net payments in respect of capital expenditure in the year totalled £85.2 million compared to £94.6 million in the prior year. Net payments in respect of interest and other finance income and costs were £37.0 million in the year compared to £33.7 million in 2020/21.

The higher net interest paid in the year follows the repayment of the £136.0 million parent company loan in the prior year and the resultant loss of interest income (£2.3 million) and the increase in interest payable on the group's index linked loans (£0.6 million).

The group statement of cash flows on page 226 shows a decrease in the cash balance, from £41.6 million at the beginning of the financial year to £14.5 million at the end of the year. The reduction is largely as a result of the net repayment of £80 million of the revolving credit facility and the issuance of £50 million of new loan notes.

### Dividend

We pay dividends to our shareholders in accordance with our dividend policy, and the principles that the dividends do not impair our ability to finance our business and that dividends are expected to reward efficiency and the management of economic risk.

Our dividend policy is that dividends should provide a suitable return to shareholders for their investment whilst ensuring that the company is able to finance its functions and meet its obligations as a water undertaker without impairing its long-term financial resilience. When assessing the appropriate level of dividend, considerations will include the company's actual and forecast level of gearing, the need to maintain its credit rating, the allowed cost of capital, any outperformance achieved or forecast and the level of any equity injections received.

Dividends are considered in the context of the overall performance and financial resilience of the company, which also depends on our performance under outcome delivery incentives and any reward or penalty. Dividends are also considered by reference to forecast financial and operational performance to ensure that they would not compromise the future performance of the company. The overall level of ordinary appointed dividend paid compared with the level of dividend deemed reasonable in Ofwat's assessment of the allowed return on equity is also considered.

Dividends in the year totalled £9.0 million compared to £147 million in the previous year. The prior year dividend included a special restructuring dividend of £136 million paid in December 2020. Normal dividends were paid in equal quarterly instalments.

South East Water (Holdings) Limited used part of the £11 million dividends it received in the prior year to pay interest to the company under the loan referred to above, until it was repaid on 15 December 2020, resulting in net ordinary dividends of £8.8 million.

The dividend yield in the financial year ended 31 March 2022 is 1.7 per cent, but after deducting non-appointed contribution, the dividend yield in respect of the appointed business is 1.6 per cent, which is well below the nominal 4 per cent dividend yield that we have committed not to exceed in our dividend policy.



## Credit Rating

Under our instrument of appointment, we are required to maintain an investment grade rating, and we are currently rated BBB with Standard and Poor's and Baa2 with Moody's. Our financial performance targets support these ratings and we review our actual and forecast indicators regularly to ensure that we are on track to maintain compliance. Equally important are the requirements of the securitisation underlying the capital structure of the business. The maintenance of the financial covenants set out under our loan documentation is essential for the continued support of our investors.

We manage our capital structure in a way that enables us to maintain our investment grade credit rating and comply with our loan covenants. We monitor interest cover ratios and the ratio of net debt to regulated capital value (RCV), ensuring covenant compliance both in the current and future reporting periods.

## Gearing

The company operates a securitisation structure. Our long-term funding at the end of March 2022 was £1,127 million which represents 74.6 per cent of our regulated capital value. Our securitisation requirements are that we should maintain a level of gearing of 85.0 per cent or less. We monitor the gearing closely and there is sufficient headroom as at 31 March 2022.

## Taxation and tax policy

Our taxation policy is set out in the directors' report and the regulatory annual performance report. A more detailed explanation of our tax policy is available on our website. We have a significant capital programme and as such hold significant capital allowances to offset tax liability, coupled with losses generated elsewhere in the group.



Find out more  
[southeastwater.co.uk/governance](https://southeastwater.co.uk/governance)

# Community and society focused

Customer satisfaction, responsibly delivered is at the heart of everything we do.

## **We are proud to be very much at the heart of the communities we serve.**

We actively seek organisations we can support, especially those which have a direct relationship to water and the environment.

Our consumers are also a priority for us and their satisfaction is very much at the heart of how we tailor our services.

The industry wide Customer Measure of Experience (C-MeX) and Developer Measure of Experience (D-MeX) surveys enable us to compare ourselves with other water companies.

Our C-MeX position this year remained constant, being placed 13th in the industry league table.

We saw lower scores in some geographical areas across water supply contacts, general customer experience (brand) and even across our billing processes which we believe is linked to a number of issues;

- **Disruptions to customers on the network including Storm Eunice and impacts in previous years.**
- **Confusion between us and other water and sewerage companies in the south east.**

We also have a strong customer improvement programme in our customer services directorate that will continue with our ongoing enhancements. This includes significant developments to our customer channels through moving to an omni channel solution and potential automation to improve the customer journey.

Consumer satisfaction is at the core of our business so we were very pleased to be awarded the ServiceMark Accreditation with Distinction from The Institute of Customer Service.





**We were very pleased to be awarded the ServiceMark Accreditation with Distinction from The Institute of Customer Service**



We are just one of 71 organisations – 18 with distinction – to receive this accreditation.

The Institute's ServiceMark, a national independently run standard, has recognised our achievement in customer service and our commitment to upholding service standards.

It was awarded based on customer satisfaction feedback and an assessment of employee engagement with the customer service strategy.

The Institute's ServiceMark Assessment report said: *"Customers are clearly at the forefront of what South East Water does, employees put themselves in their customers' shoes and show empathy and appreciation for their customers' challenges."*

*"Employees appear knowledgeable in their roles and the impact that their actions can have. Many reported that the reason they wanted to work for South East Water was the ability to give back to the community, to be part of a vital service provision and to help shape a more sustainable future."*

A key area of focus has been to identify areas where we can better support customers, especially those who may be difficult to engage with or need additional help.

A major focus has been on assessing the reach of the Priority Services Register, the accuracy of the data we hold and the take up of the affordability tariffs.

We continue to provide three key support schemes for our customers.

These include the Social Tariff which helps customers with a household income of less than £16,105, less disability and housing benefits. This tariff caps metered customers at the equivalent cost of a Single Occupier Assessed Charge

## Community and society focused continued

In addition, Water Sure is a government scheme providing for customers on benefits who have three children living at home or a medical condition which means they use more than average water. It gives a capped bill based on our average household bill.

We have continued to see a strong level of registration by customers onto our Priority Services Register (PSR).

Starting the year we had 3.2 per cent of customers on the PSR, ending this year with 5.2 per cent of our billed properties on the register. This is an increase of 17,817 customers registering in the year.

Excellent links to community organisations has increased our reach to customers who may need additional support on a long-term basis.

As part of our ongoing help for patients with specific conditions which may involve increased water use, we partnered with Kent Kidney Patients Association (KKPA) and gave a £5,000 donation to fund its work.

The organisation cares for the welfare of kidney disease sufferers and their families across the county. This work will continue on a long-term basis.

We increased customers on our affordability schemes by 11,351 with a total number of households supported of 53,981.

Our customer satisfaction scores, for both customers on our PSR and those struggling to pay, are strong.

This is a direct result of our partnership working with Third Sector organisations with agreements to signpost support available on our own website and communicating further help.

We had a strong uplift following the setting up of data sharing agreements with several borough councils in Kent using the powers provided in the Digital Economy Act. This enabled us to auto-enrol eligible customers for support. We were the first water company to have utilised this legislation with local councils directly

In November we held our annual virtual Inclusive and Accessible Stakeholder and Partnerships Networking event.

In total 45 delegates attended representing charities, housing associations, local authorities and other utilities.

Delegates heard from Lu Molina, Chair of the Kent Kidney Patients Association (KKPA) who shared her perspective on the vital lifesaving role that water plays for dialysis patients. We have been working with KKPA for some time as part of our commitment to help our customers who may need extra support.

The findings from the events will help shape how we move forward in supporting those with additional needs over the coming years.

In Kent we have been working with Kent Green Action to promote water efficiency targeting low income households by promoting the link between reduced water consumption and lower bills.

We worked with Kent County Council and Southern Water to encourage residents to reduce water use. This was through a social media campaign and direct mailing to lower income households where they were encouraged to apply for free water saving devices.

A postcard was sent to 40,000 homes in the Ashford area which had been identified as being in the lower income bracket.

We saw an uplift in device ordering activity in this area with 514 orders from the targeted postcode areas in comparison to 142 device orders the previous month.

Due to this spike in activity, we conducted additional research in the Ashford area to understand how many customers had seen the mailing and to gain feedback.





**Over 11,000 customers were moved onto one of our affordability schemes – we're now supporting nearly 54,000 customers across the region**

A quarter of customers surveyed recalled seeing the image and nearly two thirds of these claimed to have reduced their usage at home as a result of this. Out of the customers who did not recall seeing this image, 53 per cent said it would make them think about saving water and 87 per cent of these would consider installing a free water saving device.

Our My Account website portal designed for ease of access for our customers wherever and whenever they want to, has continued to see increased use.

There are now more than 413,000 customers registered with 63,000 logging on per month on average.

The portal gives a self-serve option for everyday account needs, including moving home, payment plans, contact detail updates, meter readings, campaign information and sign ups to notifications and alerts.

This year we increased the functionality of the portal with the option to pay bills with Apple, Google and Edge Pay together with automated forms for our support tariffs, exemption declarations and bereavement.

Our website was refreshed at the end of 2021 with the new format brighter, easier to navigate and fully compliant with current accessibility legislation and best practice.

We are very much a part of the communities we serve – we aim to be visible, responsive and highly professional at all times.

With this in mind, we were very pleased to win the Communication Leadership category of the Street Works UK annual awards. The accolade reflected our exceptional communication with our communities where our planned engineering works take place.

In addition, we were delighted to open our Community Chest fund to offer a total of £20,000 in grants to grass roots and larger charities who support individuals and interests across our region.

In support of the community in East Grinstead, who were adversely affected by Storm Eunice, we opened a £100,000 Community Chest fund to recognise the impact that the storm had on local water supplies. Customers in the area were invited to vote electronically through 'My Account' and nearly 1,000 customers took part. Charities, community groups and not-for-profit organisations that benefited from the fund will be receiving grants in the summer 2022.

Whilst schools were re-opening after lockdown during the financial year, the focus of many schools from an education point of view has been on closing the gaps that have opened up in core pupil progress over the last two years.

Our employee led education programme of school talks and activities has reached about 10 per cent of the level that we had originally targeted for the year.

We have also been developing a new educational engagement platform, called 'Aquasmart'. This platform will initially provide primary schools with a suite of engaging and fun digital tools with which to engage and educate young people in becoming more water wise.

An initial pilot of this programme took place for Key Stage 1 age groups in June 2022, and we hope that we will be able to expand this out across further age groups.

As a digital platform we will be able to automatically increase the reach of our school programme, whilst providing valuable digital tools for teachers to help with the delivery of education around water within the national curriculum.



# Responsible business

## Report from the Responsible Business Committee

### Current committee members

#### Director members

<b>Anne-Noëlle Le Gal</b>	(Chair) Non-Executive Director
<b>John Barnes</b>	Independent Non-Executive Director
<b>Mark McArdle</b>	Non-Executive Director
<b>David Hinton</b>	Executive Director

#### Non-Director members

<b>Oliver Martin</b>	Regulation and Strategy Director
<b>Emma Goddard</b>	Head of Environment
<b>Chris Lunn</b>	Head of Health, Safety, Quality
<b>Robert Crumbie</b>	Head of Communications
<b>Nicolas Truillet</b>	Company Secretary

In 2021/22: Anne-Noëlle Le Gal became a director member of the committee on 18 June 2021 and Chair of the committee on 27 January 2022. Rachel Drew was Chair of the committee from 31 May 2021 succeeding Marissa Szczepaniak. Marissa Szczepaniak and Rachel Drew were director members of the committee until their resignations on 18 June 2021 and 9 February 2022 respectively. Oliver Martin and Robert Crumbie, who replaced Jo Osborn as Head of Communications, were appointed non-director members of the committee on 2 December 2021. Mark McArdle was appointed a director member of the committee on 9 February 2022.

The responsible business committee assists the board in defining its strategy relating to environmental, social and governance (ESG) matters and in reviewing the practices and initiatives of the company relating to ESG matters ensuring they remain effective and up to date. We also oversee the execution of our ESG strategy and initiatives and monitor performance against the responsible business commitments in our business plan. We help ensure that the board maintains a primary focus on customer engagement, our communities and the environment.

Over the last 12 months:

- We considered the characteristics of leading sustainable corporations and observations from Zoe McLeod, Chair of our CCG, on how we compare as a company. We considered suggestions to define more precisely the boundaries and rationale for our responsible business strategy, incorporating further natural and social capitals in our decisions, building sustainability and responsible business into the design of our plans and stakeholders' engagement.
- We monitored progress against our responsible business commitments and considered how to improve the monitoring of performance and reporting on our responsible business and ESG performance.
- We reviewed the findings of a perception audit and discussed the feedback from stakeholders on how they perceived the company especially in respect of key ESG matters.
- We considered Ofwat's public value principles, comparing them to our own responsible business principles and our approach for delivering wider social and environmental benefits through the delivery of our core purpose. We discussed South East Water's response to Ofwat's discussion paper.

- We compared the approaches of Ofwat, the Environment Agency and CCW on public value, natural capital and related topics and the principles or guidance they had put forward in relation to their respective remits.
- We discussed how our responsible business strategy should be defined and refreshed beyond responsible business commitments to remain up to date and effective, focusing on setting the direction of travel taking account of stakeholders feedback and promoting internally fundamental values, ethical standards and culture.
- We reviewed the preparation for and progress of our GRESB submission for 2021 and the GRESB assessment of that submission which achieved a score of 92 compared to 90 in 2020, maintaining our position as one of the top performers in our group.
- We oversaw the preparation of our performance, people and planet report on a new microsite presenting our performance and impact which allowed us to provide more data, make it more accessible and easier for customers and stakeholders to access information on specific topics of interest.
- We reviewed our ESG risks and improvements to the identification of ESG risks and their impact in our risk register to ensure key ESG risks were clearly monitored to help the committee focus its attention on the main priorities. We also considered how we may improve the monitoring of the effectiveness of the relevant controls and the consistency of our approach with relevant ESG frameworks such as GRESB.
- We reviewed the preparation of our TCFD disclosures and updates on the development of scenarios and scenario analysis focusing in 2021/22 on the qualitative assessment of climate-related risks and opportunities that would be developed in subsequent years to include an assessment of financial impacts. We considered future UK reporting requirements and how we would meet these requirements in advance of them becoming mandatory.
- We reviewed the results of our 2021 staff survey results, which had an overall response rate of 79 per cent and included new employee experience measures on engagement, empowerment and enablement. We considered how the results reflected our desired culture and high scores relating to the importance of customers, our values, the environment and wellbeing were positive indicators of the alignment of the culture of the business with our strategy.
- We reviewed the development of a strategic direction statement and of key strategic themes that may be used to express the general strategic direction of the business to 2050.
- We reviewed the effectiveness of the committee as part of the board evaluation and the members of the committee and directors were satisfied that it is operating effectively in accordance with its terms of reference.

**Anne-Noëlle Le Gal**

CHAIR  
14 JULY 2022

# Engagement to deliver our purpose for the benefit of all

## Section 172(1) statement

The board’s main responsibility is to set the company’s strategy and monitor its delivery in alignment with our purpose. The two main aspects of our core purpose are to provide today’s public water service and to create tomorrow’s water supply solutions, ultimately helping society and the environment to thrive. In this context most decisions taken by the board need to balance the long-term and short-term interests of the company, its customers, employees, the environment and maintaining key relationships with other stakeholders and partners, as well as taking account of current and future regulatory requirements. Most decisions of the board at a strategic level require balancing all these considerations and we see the long-term success of the company as achieving a fair balance.

There are numerous examples throughout this strategic report of how the board has regard to each of the matters in section 172(1) of the Companies Act 2006. This is achieved within a general decision framework combining governance, internal systems of control and risk management, and engagement with stakeholders which is designed to ensure we consider all the matters in section 172(1) of the Companies Act 2006. This is done in respect of each decision the board considers. We provide a summary of the activities of the board in 2021/22 on page 157.

**Matters for consideration in section 172(1)**

The likely consequences of any decision in the long-term.	The impact of the company’s operations on the community and the environment.
The interests of the company’s employees.	The desirability of the company maintaining a reputation for high standards of business conduct.
The need to foster the company’s business relationships with suppliers, customers and others.	The need to act fairly as between members of the company.

An important aspect of our governance has been the incorporation of our purpose into our articles of association and the reformulation of the duty of directors under section 172. This provided a significant shift in emphasis on the duty of our directors to fulfil our core purpose (providing the public water service and creating future water solutions) and, in doing so, to provide wider social and environmental benefits following an inclusive approach to stakeholder engagement. Considering all the interests and considerations set out in section 172 has become more crucial since we adopted our new articles of association which reflect our role as provider of an essential public service.

This section 172(1) statement explains:

- **How we and the board have engaged with employees and with key stakeholders (customers and communities, regulators, environmental groups and other stakeholders with an interest in our activities, and suppliers).**
- **How the board had regard to the relevant matters set out in section 172(1) when performing their duties including how the board has reached key decisions, how they considered the company purpose, and the likely impact of those decisions, including how it has taken account of relevant matters and the interests of stakeholders in doing so.**

**Relevant aspect of our decision framework****Read more**

Our corporate governance framework, corporate governance code, and culture (purpose and values) and board practices.	<ul style="list-style-type: none"> <li>- A corporate governance framework focused on engagement, stakeholder inclusiveness, integrated thinking (i.e. balancing all relevant considerations in our decision making including those in section 172(1) CA06).</li> <li>- A purpose and values focused on delivery to customers, planning for the future, protecting the environment and contributing to society.</li> <li>- A corporate governance structure that ensures that all aspects of the business receive the appropriate scrutiny including matters in section 172(1) CA06.</li> </ul>	<p>Our corporate governance framework on page 48.</p> <p>Board leadership and company purpose on page 148.</p> <p>How our board, committees and executive team operate on page 154.</p>
Our vision and strategy.	<ul style="list-style-type: none"> <li>- A vision and strategy focused on our customers, our people and the protection of the environment.</li> </ul>	Our vision on page 6 and our strategy on page 16.
Our long-term planning.	<ul style="list-style-type: none"> <li>- Long-term water resources and drought planning is a core function to ensure we can meet future demand for water and also encourage our customers to save water.</li> <li>- Our long-term adaptive planning also seeks to ensure that we will be able to provide our service and meet future challenges such as climate change.</li> </ul>	Water resources for the future on page 52.
Stakeholder participation.	<ul style="list-style-type: none"> <li>- Engagement which ensures that stakeholders are directly involved in our decision process: including our Customer Challenge Group, our Environmental Scrutiny Group, Affordability Forum and partnerships for the delivery of our environmental programme, our employee and stakeholder engagement programme.</li> <li>- Extensive engagement and consultation for all our key plans.</li> </ul>	Stakeholder engagement on page 80.
Our business model and our external environment.	<ul style="list-style-type: none"> <li>- A business model focused on value creation through responsible business, a long-term focus, engagement with stakeholders and collaboration.</li> </ul>	<p>Our business model on page 17.</p> <p>Our business environment on page 24.</p>



## Engagement to deliver our purpose for the benefit of all

Section 172(1) statement continued

### Responsible business commitments

Our 10 responsible business commitments, which are part of our business plan for 2020 to 2025, have been selected following engagement with our staff and stakeholders and reflect the priorities they identified.

#### Our responsible business commitments for 2020 to 2025

- 1 Develop a future generation schools programme on water.

#### Acting responsibly

- 2 Play an active role regionally in relation to the impact of housing growth on water.
- 3 Improving health, safety and wellbeing of our people and communities.
- 4 Trusted corporate governance.

#### Transparency

- 5 Transparency of reporting.

#### Motivating our people

- 6 Ensure fair pay, reward and recognition for all our employees.

#### Caring for our community

- 7 Create more partnership community projects on water use and vulnerability.
- 8 Support the tap water Refill campaign to reduce plastic bottled water.

#### Planet focused

- 9 Develop natural capital accounting.
- 10 Renewable energy measures.

### Stakeholder engagement

Our board appreciates the importance of effective stakeholder engagement, and that stakeholders' views should be considered in its decision-making. Here we explain our key stakeholder groups and why they are important to build the relationships that are key to value creation.

Throughout the year we have engaged with these groups as a business, but also the board directly through our board engagement programme. This engagement helps us understand their key issues and expectations and enables us to make decisions based on their feedback.

We know that purposeful companies engage effectively with their customers and stakeholders, so to achieve our ambitions it is essential we collaborate. Stakeholders are experts within their particular field and therefore it is vital their views are listened to and placed at the heart of our decision making and strategy setting processes.

By undertaking quality engagement with our stakeholders and understanding their priorities, values and needs we will be able to achieve our stretching commitments, maintain accountability, educate, build trust and resilience as well as enhance our reputation and drive innovation.

Stakeholder engagement is an important part of everyone's role, with the onus on leaders to make sure all levels of the business understand the purpose and importance of engagement and how it will be undertaken to reach business and departmental objectives.

Our Stakeholder Engagement Strategy clearly sets out why, when and how stakeholder engagement should take place as well as how feedback is recorded and fed into business decisions. It sets a direction of travel in order to embed best practice throughout the business. In 2022/23 a formal review will take place to understand the embedding successes and gaps, before updating the strategy.

Our overarching ambition is to gather valuable insights by embedding best practice engagement methods throughout the business. This will create a meaningful two-way partnerships with wide ranging stakeholder networks who represent all relevant environmental and societal areas.

In order to deliver high quality stakeholder engagement, we are committed to adhering to the AccountAbility AA1000 Stakeholder Engagement Standard (2015). This ensures that our stakeholder engagement is:

### Inclusive

We ensure that departments tailor their engagement towards their specific stakeholder groups, devising stakeholder maps, setting agreed objectives, adapting engagement where necessary, encouraging open dialogue.

### Responsive

All feedback gathered from stakeholder input is fed into the company Insights Hub. We then ensure that stakeholders understand how they have influenced change.

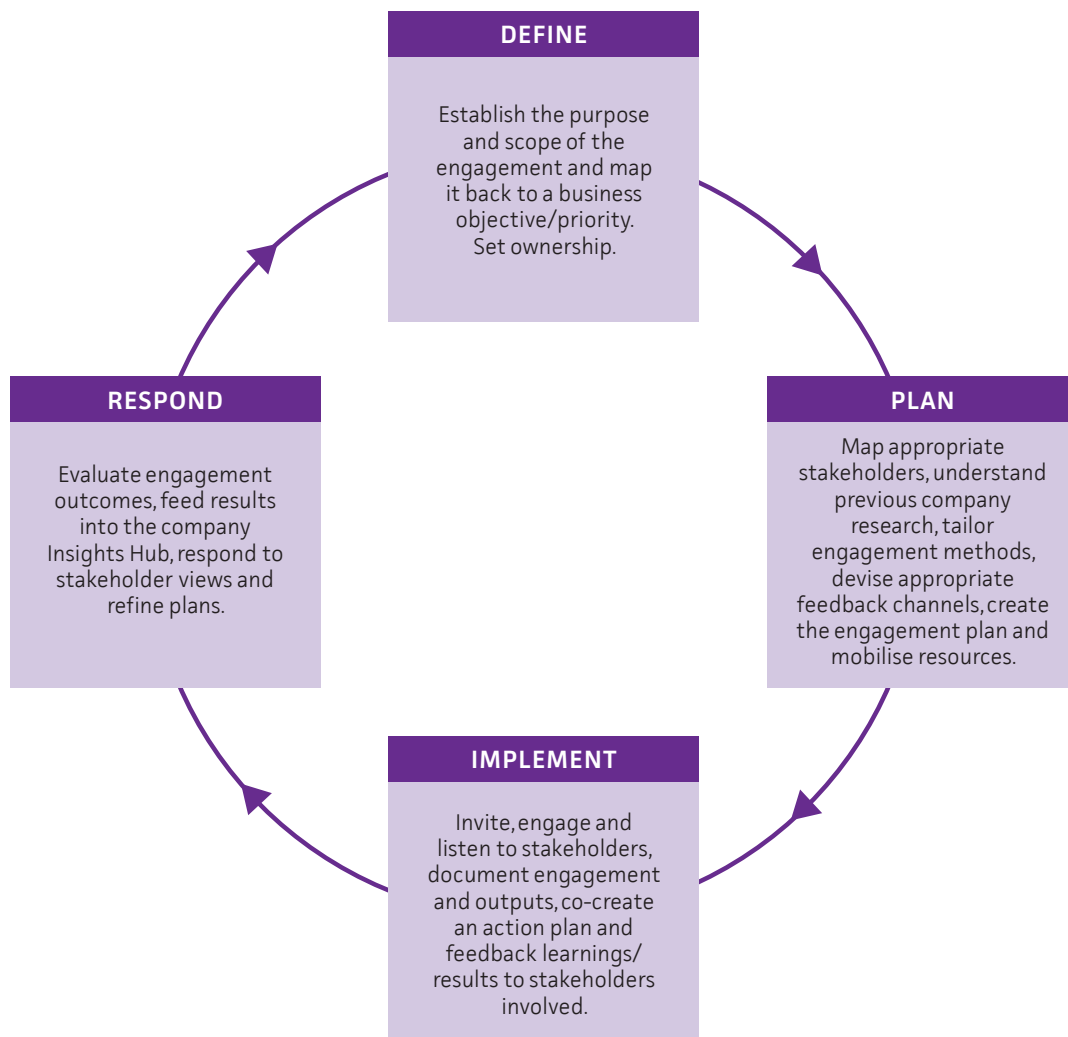
### Material

We ensure that engagement is timely and relevant. Stakeholders are made aware when they can/cannot influence plans and why.

### Impactful

As part of our regulatory requirements we publish the performance, people and planet report annually to highlight our activities and impact on our wider business.

We follow a process of define – plan – implement – respond. This ensures that previous insight/knowledge is considered, the reason why we need to engage is defined, and the most appropriate engagement method is used to get the best results to inform the business in future planning:



## Engagement to deliver our purpose for the benefit of all

Section 172(1) statement continued

### Stakeholders' engagement continued

Engagement can take a variety of forms, based on how relationships are mapped on a case-by-case basis. If the objective is to inform, then we will use a variety of routes such as emails, newsletters, website updates or presentations.

We monitor stakeholder feedback through our perceptions audit undertaken every other year, whilst also tracking media coverage, social media and websites. Where we consult and involve our stakeholders, we undertake surveys, focus groups, meetings, workshops and panels to allow for a two-way dialogue, enabling learning for both stakeholders and the company alike.

At its highest levels stakeholder engagement will take the form of collaboration and empowerment. Where we collaborate, we are creating a two-way, or multi-way engagement.

This creates joint learning, decision making and taking of actions. Finally, at its most integrated level, we empower stakeholders with new forms of accountability; decisions are delegated to stakeholders and they play a role in shaping our organisational agenda.

We continue to monitor and evaluate the tools available with which to engage and will test and embed where appropriate. An example of this is where we are undertaking a pilot of the online Engagement HQ consultation platform, which provides us with an interactive platform to engage, monitor and evaluate our stakeholder engagement activity.

## Our key stakeholder groups

At the heart of undertaking high quality stakeholder engagement is ensuring the right stakeholders are involved at each opportunity. We map stakeholders from a wide variety of areas - as demonstrated in the wheel below - and then engage those stakeholders

based on the amount of influence they have. For some stakeholders the role of engagement is purely to inform and monitor, whilst at the highest level of mapping our objective is to involve, consult, collaborate and empower.



## Engagement to deliver our purpose for the benefit of all

Section 172(1) statement continued

### Our customers and communities

#### Why is this stakeholder group important to us?

- Why we do what we do – we provide an essential service that is also a human right.
- Meeting their expectations is a key condition of our licence to operate.
- Our performance is assessed based on customers' feedback.
- Managing water requires customers to change their behaviour.
- Their feedback helps us develop plans for the future that they support.

#### What are the key issues for this stakeholder group

- A safe, wholesome supply of water.
- A reliable water supply and service performance.
- Great customer service.
- Affordability and value for money.
- Stable bills.
- Assistance in times of need.
- Well managed street works.
- Local employment.
- Proactive role in relevant community issues.



#### How we engage

The development of our plans and strategies (e.g. our business plan and main long-term plans such as WRMP, Drought Plan) always includes significant engagement with customers to understand their priorities, expectations and their support for our proposals.

We carry out regular customer surveys and satisfaction surveys throughout the year to understand issues, identify causes and take corrective actions.

Our independent Customer Challenge Group (CCG) provides challenge to us in a range of areas including vulnerability, engagement, leakage, customer interruptions and our responsible business commitments.

We are members of the Institute of Customer Service which gives us access to benchmarking and advice on good practice to continuously improve our service and demonstrate objectively high standards of services.

We work with National Energy Action to help us understand issues of affordability in our supply area.

We work with the Kent Kidney Patients Association (KKPA) which cares for dialysis patients as part of our commitment to understand the needs of our customers who may require extra support.



For all capital programme works we assess the impact on our customers and communities near the works. We consult systematically and extensively with those affected using a range of methods including direct mail, the media, social media and advertising, hosting events, stakeholder meetings and briefings to understand views and how we can mitigate disruptions and to explain the reasons for and benefits of our works.

We engage with CCW and receive feedback on our customer services practices and performance as well as on some escalated complaints.

We have partnerships with other organisations to help us support our customers and work jointly to meet our common objectives about customer service, vulnerability, affordability and support to our communities. This includes charities, housing associations, local authorities, government organisations and other utilities.

We hold events for retailers and non-household groups, and developers to discuss and get feedback on service improvements and changes to our tariffs.

### Feedback we received and the actions we take

We used the Digital Economy Act 2017 to implement data sharing with local authorities (Maidstone Borough Council, Tunbridge Wells Borough Council). This partnership enables us to put low income households automatically onto our social tariff making sure help is given where it is needed most, without our customers needing to ask. We are currently working on further agreements with other councils which will form part of our ongoing strategy. We have been sharing the details of this approach with other water companies and with Ofwat, CCW and Defra and were finalists in the Utility Week Customer Vulnerability Award category for this ground breaking initiative.

We have applied for and been awarded the ServiceMark Accreditation with Distinction from The Institute of Customer Service. We are one of 71 organisations, 18 with distinction, to receive this award. This is a national independently run standard that recognised our achievement in customer service and our commitment to upholding service standards. It was awarded based on customer satisfaction feedback and an assessment of employee engagement with our customer service strategy.

We received recognition for our engagement with communities relating to our engineering works winning the Communications Leadership award by Street Works UK.

We have been judged to be providing best practice for customers in the latest annual CCW assessment of seven key support service areas becoming the first water only company to achieve this status. This comprehensive assessment from CCW covered: charitable trust or in-house crisis fund, payment matching to clear debt, payment breaks, benefit entitlement checks, water efficiency home audit, lowest bill guarantee as part of meter option, money and debt advice referral arrangement.

We are also working with virtual debt advisers as part of a free arrangement developed with the Money and Pension Service with support given through our new Breathing Space scheme.

We have outcomes and metrics to measure our performance in relation to affordability and vulnerability to increase the number of customers on our social tariff, increase the number of customers registered for our priority services and ensuring the accuracy of customer data on our priority service register to ensure it remains up to date. We have also specific metrics to measure the satisfaction of customers registered for our priority service and those experiencing payment difficulties.

We have been working closely with Kent County Council to allocate almost £400,000 of government funding directly to those in need of additional financial support during the Covid-19 pandemic. The money was made directly available to councils to help households with utility bills and we were able to step up quickly to the challenge during 2020/21 to allocate the first £175,000. KCC was given extra funding this year and sought our help in bringing together other water companies to deliver the help quickly. As a result of our work we were able to distribute a further £250,000 to customers struggling in Kent with Thames Water, Southern Water and Affinity Water also distributing smaller funds to Kent customers using the same criteria we had defined.

We introduced a number of changes to the communication plan to increase channels and ways to collaborate to get water saving messages across.

## Engagement to deliver our purpose for the benefit of all

Section 172(1) statement continued

### Our people

#### Why is this stakeholder group important to us?

- Our human capital is our main capital.
- They make our purpose, values and culture a reality.
- They help develop and implement our strategy.
- They drive our progress and innovation.
- They are our main source of knowledge and experience.
- They deliver our service 24 hours a day, every day of the year.

#### What are the key issues for this stakeholder group

- Purposeful jobs that make a difference.
- Health, safety and wellbeing.
- Diverse and inclusive workplace.
- Opportunities to reach full potential.
- Open and honest environment.
- Fair pay and reward.
- Flexible working and work life balance.



#### How we engage

Board engagement with our employees takes place through the Staff Council (our employee representative body) and Célia Pronto (independent non-executive director and Chair of the remuneration committee) has been designated for general engagement with the workforce and more specifically in relation to executive remuneration.

A board engagement programme provides opportunities for directors to engage with different parts of the business and different levels of management.

Our Staff Council is there to encourage conversation and idea-sharing with the Board, executives and teams as well as providing staff representation on business matters. It contributes to continuous improvement and a better working environment through sharing information about company strategy, seeking informed views through consultation with the Staff Council and promoting open and timely communication with representatives.

There are several committees, such as the safety committee, that encourage participation of employees to raise issues and monitor the progress of actions.

Our CEO, David Hinton, and other senior managers deliver monthly virtual presentations with Q&A sessions for employees and there are weekly email communications by members of the executive team. These are used to provide updates and information of concern for employees and to provide awareness of current issues that affect our operational and financial performance, and to communicate on business priorities and strategy.

Our employee intranet is also used as a platform to communicate relevant information on the business and practical information for employees. It is also a platform for exchange that promotes news articles, key communication and key events. Managers and employees regularly blog via this platform about important issues and anyone can comment freely on all articles.

Managers are provided with a monthly manager toolkit, health and safety briefings and core briefing slides to encourage dialogue.

In 2021 we carried out one of our regular company-wide staff surveys which allows us to measure participation, engagement and get feedback from our employees on key issues.

### Feedback we received and the actions we take

Diversity and inclusion was included as a pillar of our people plan which includes specific actions that we are taking between 2020 and 2025.

A wellbeing area was set up on our intranet highlighting where to go for support and our wellbeing and mental health champions send weekly emails with advice and information on events.

We set up a WhatsApp broadcast to communicate key messages to staff especially those in the field that could not easily have access to their emails or to the intranet.

We provided specific training for managers to connect with teams remotely.

An action plan, based on the results of the 2021 staff survey, is being developed with the direct participation of our employees to ensure that concrete actions are taken based on the survey results. Feedback and ideas for improvements are encouraged and shared.

Our Staff Council was refreshed this year with new representatives from across the business appointed to the liaison roles and new training delivered to them as well as to managers on how to engage effectively with the Staff Council.

Célia Pronto attended the meeting of our new Staff Council on 1 July 2022 to discuss the board engagement with employees and executive remuneration in the context of the wider workforce remuneration.

We marked the annual celebration of excellence in customer service with events for employees in our contact centre and the wider business. It focussed on training, handling difficult situations and the Service with Respect campaign, which aims to highlight the need to end abuse of customer-facing staff.

## Engagement to deliver our purpose for the benefit of all

Section 172(1) statement continued

### Our stakeholders and regulators

#### Why is this stakeholder group important to us?

- They influence or set policies that determine our long-term success.
- They assess our performance.
- They can take actions in case of shortcomings.
- They represent the key interests we need to consider.
- They are a source of knowledge and insight.

#### What are the key issues for this stakeholder group

- Performance against regulatory outcomes.
- Trust and transparency.
- Governance and compliance.
- Sustainability and protection of the environmental.
- Resilience and investment in the future.



#### How we engage

We engage with our regulators (Ofwat, the Drinking Water Inspectorate, the Environment Agency, Natural England and CCW) and relevant Government Departments (Defra, BEIS) through direct interaction and consultation responses. This ensures that we understand key issues, discuss our responses to these and collaborate on finding solutions.

Our independent Customer Challenge Group (CCG) and our Environmental Scrutiny Group include representatives of key regulators and other experts. This ensures we receive challenge and feedback about a wide range of topics.

Through Water UK, the body representing water and sewerage companies in the UK, we engage with decision makers and regulators on the development of policies.

We hold an annual event on inclusive and accessible services with delegates representing charities, housing associations, local authorities, government organisations and other utilities. These events help share knowledge on how support offered to customers can be improved, discuss best practice and open doors to future partnership working. The findings from these events help shape how we move forward in supporting those with additional needs.

Our board programme includes, whenever possible, attendance of key regulators or stakeholders' representatives to create opportunities for direct discussions with the board on important topics. This year there were sessions with representatives of Defra, UKCIS and Water UK.

Our non-executive directors attend the annual engagement session held by Ofwat which is discussed at the following board meeting.

The CEO updates the board at each meeting on stakeholder activities and feedback and board papers include update on stakeholder expectations or feedback as appropriate.

We produce a monthly stakeholder report that keeps stakeholders informed of our activities and relevant issues which helps to ensure that we maintain a regular communication with stakeholders that generates feedback.

We introduced a new stakeholder contact email to give community stakeholders an easier route into the business.

We consult with customers and a wide range of charities, NGOs and regulators on our key strategic and regulatory plans.

Through Water Resources South East (WRSE) we received more than 2,500 contributions on the development of the regional water resources plan which will be the basis for our own water resources management plan. WRSE also created four specific stakeholder groups utilising further environmental, engagement, NGO and industry expertise within our supply area.

We hold regular events with farmers to increase awareness of the range of free advice and financial support we provide farmers and landowners to improve land management to help protect the quality of our raw water and also address other environmental and sustainability topics.

We provided our regulators with a monthly update on our activities to protect customers and employees during the Covid-19 pandemic.

## Feedback we received and the actions we take

We have integrated Ofwat requirements relating to long-term delivery plans and common reference scenarios in the development of our water resources management plan, our TCFD scenarios and disclosures and our adaptive planning process. We will incorporate other requirements for PR24 in our long-term plans and our next business plan.

We have developed our drought plan and ensured it meets the Environment Agency guidelines, including moving technical details into the WRMP and building a tactical operational plan and creating clear customer and stakeholder friendly versions. Our final drought plan was published in May 2022.

We took account of the insight on future challenges for the water industry discussed with Water UK for the development of our strategic direction statement.

We published our final adaptation report following consultation.

Following feedback on the importance of environmental issues for customers and other stakeholders, we decided to develop a 25 year environment plan to align with Government ambitions. This is being co-created with a diverse range of stakeholders and we plan to publish the final plan later in 2022 following the consultation which took place in April-May 2022.

WRSE undertook a separate public consultation in March 2022 on the regional water resources plan. They published their response document in May 2022. The feedback from the consultation on the regional water resources plan is used to develop a best value regional plan as well as our 2024 company plan which we will consult on during the autumn/winter of 2022.



## Engagement to deliver our purpose for the benefit of all

Section 172(1) statement continued

### Our suppliers and partners

#### Why is this stakeholder group important to us?

- The safety of the entire workforce (employed by us or our contractors).
- Achieving our performance commitments.
- Delivering our investment programme and efficiencies.
- Technical expertise for our long-term plans.
- Maintaining our reputation and high standards of business conduct.
- Ensuring the continuity and resilience of our operations.
- Compliance with legal obligations.
- Sustainability.

#### What are the key issues for this stakeholder group

- The safety of the entire workforce.
- Balanced contractual arrangements.
- Profitable business.
- Fair payment terms.
- Collaborative working.
- Mutually beneficial and predictable business relationships.



#### How we engage

We involved our key contractors in the planning of our Covid-19 safe methods of working and in the ongoing crisis management throughout the year.

Our procurement processes include a number of checks and reviews to ensure that any suppliers we engage with can meet the requirements of our Ethical Purchasing Policy (which also includes requirements relating to modern slavery) or that they have an equivalent policy themselves. We also have standard contractual provisions to allow for periodic and targeted audits of compliance while using a risk-based approach and our key suppliers have an obligation to report any non-compliance with our ethical purchasing policy.

We require that our supply chain carry out due diligence checks and adhere to similar standards as ours in relation to their employees (including paying a living wage) and we also require compliance with our policies (such as data protection and IT security) as appropriate.

We carry out audits of our suppliers' compliance and systems of internal control following a risk based approach.

We have regular performance review meetings with our key suppliers to review performance against KPIs that reflect our own performance commitments and where both parties can raise issues and propose improvements.

Wherever possible we work with our suppliers to address performance or other contract related issues within the constraints of procurement rules to promote a fair and sustainable relationship and to help them raise their standards where necessary.

We proactively engage with our suppliers to address potential supply chain disruptions (as was the case during the Covid-19 pandemic and in relation to Brexit). This is particularly the case for essential supplies of chemicals that ensure we can maintain water quality. Such issues are often managed at industry level to ensure coordination and facilitate mutual aid between companies and in liaison with relevant government departments.

### **Feedback we received and the actions we take**

We used feedback from our suppliers in defining our Covid-19 safe methods of working and coordinated our actions, especially for our joint teams. We also used their feedback to help resolve their own operational issues arising from the Covid-19 pandemic.

In the context of Covid-19 and Brexit, where appropriate we ensured we had sufficient stock for strategic items in place and also managed this through industry-wide collaboration to ensure there was no risk of any company stock-piling and causing knock-on impacts.

Working with our supply chain, requests to reduce payment terms were reviewed on a case by case basis by the CFO and shorter more favourable terms have been put in place to assist suppliers during the Covid-19 pandemic.

We also take account of the size and nature of the business of our suppliers when agreeing payment terms with them.

We have joint working groups and other forms of coordination and cooperation with our key contractors on health and safety to ensure the highest standards of safety for our entire workforce (directly and indirectly employed) and for exchange of best practice and alerts on potential risks.

We have partnering arrangements with some of our key suppliers where their teams and ours work side by side. We also have forums for early engagement of construction and engineering partners in the planning or design of works which ensure we can identify issues early and benefit from their early input.

We worked with Water UK, the other water companies and relevant suppliers to address the resilience of the chemical supply chain and the availability of certain chemicals during the year caused by specific incidents. Regular updates were provided to the Board by the CEO and the Operations Director.

Our renewal and maintenance contractor (Clancy) raised issues with us on the financial sustainability of some aspects of the contract in relation to traffic management obligations and costs and in relation to reactive work. We worked with them in compliance with procurement rules to set up an improvement programme and we considered several options to improve the management of reactive works and agreed a new method of working collaboratively on how reactive work is issued, controlled and managed with a view to improve the predictability of the work for our contractor.

## Engagement to deliver our purpose for the benefit of all

Section 172(1) statement continued

### Key decisions in the year

Consideration of the matters in section 172(1) also determines the regular activities of the board such as the monitoring of performance against our commitments to ensure that we deliver the targeted outcomes for customers, the environment and the investment in the infrastructure needed to support our communities.

We provide examples of how the board has had regard to relevant matters in respect of key decisions made this year below.

#### Covid-19 and “new normal”

At the earliest stage of the pandemic, the board made the decision to ensure the protection of our staff and the public while maintaining our essential service. As the pandemic persisted in 2021/22, our approach to the pandemic remained focussed on keeping everyone safe.

We ensured that all who could work from home were allowed to and had the necessary support. (Early in 2020 the board had decided that introducing home working as early as possible would allow us to test new methods of working and improve our resilience.)

We ensured that new ways of working and safety protocols were implemented for our critical workers in the field and in the laboratory who could not work from home. Cleaning regimes were enhanced, additional hand sanitisers were installed and face masks were made available.

We continuously monitored the evolution of the pandemic and Government recommendations together with industry best practice in all operations across the business. As the situation evolved and new variants emerged we adapted our protocols. We also provided additional mental health and wellbeing support through our network of mental health first aiders.

Based on our experience during the pandemic, we decided to develop a new agile working approach that should be implemented in phases and based on the feedback from our employees.

#### How stakeholders were considered

The changes implemented during the pandemic to our method of working and the investment in new technology opened up new possibilities, and it became clear that our employees were developing new expectations about ways of working, their working environment and their work-life balance.

We had consulted widely and regularly during the pandemic on health and safety and wellbeing and how to adapt to new ways of working.

We also consulted on longer-term changes to our ways of working, recognising that home working and flexible working would be more prominent across our entire workforce.

From the feedback we received, it became clear that different teams and individuals had different expectations and requirements. New starters needed time in the office and direct interaction with their peers to get to know people, processes and the business as a whole. They valued the learning opportunities and social interaction that working in an office environment could bring. Teams had also different needs and expectations in terms of joint working, use of technology and interactions with other parts of the business. Some of our employees had felt isolated during the pandemic and their home working arrangements were not optimal for them. A lot of emphasis was placed on maintaining the cohesion of teams and our culture. There was also a difference of perception between field teams and those who could work remotely, and it was important that new arrangements should also be relevant to them.

#### Outcomes and expected long-term impacts

We set up an agile working group to plan for new ways of working post-pandemic. We reviewed the induction process for new starters covering new topics based on the feedback received. We developed a set of minimum principles for attendance in the office but did not impose a central and standard approach. We let managers and local teams decide what was best and efficient for them within those general principles, asking them to consider individual needs and preferences. We recognised the strength that the agility, flexibility and commitment demonstrated by our workforce gave us in our response to the pandemic and that this would also help us find the right balance in our approach for the future. One of our key considerations in setting principles for attendance was to maintain the cohesion of teams and the culture of the business, and we will continue monitoring these two aspects very closely.

#### Storm Eunice and Community Chest

During Storm Eunice, our customers in East Grinstead were affected by an interruption to their water supply caused by the loss of the power supply to our major water treatment works in Barcombe and a number of other losses of power we were experiencing in the network at the time. Due to the exceptional circumstances, we were not required to make payments under the Guaranteed Standards of Service scheme to these customers. However, we wished to acknowledge the impact that the exceptional events in February had had on the community in and around East Grinstead and we decided to provide an alternative form of support.

### How stakeholders were considered

We received feedback from CCW and other stakeholders who recognised the exceptional nature of the storm and power interruptions but were keen that we provide a form of support.

We decided to set up a Community Fund of £100,000 for the East Grinstead area that would be distributed amongst charities, community groups and not for profit organisations. We involved our key stakeholders in the area and worked in partnership with them in developing this approach.

### Outcomes and expected long-term impacts

Working with local stakeholders, including Mims Davies MP (who has been a prominent supporter of the initiative, sharing details on her social media platforms) and residents of East Grinstead, 20 charities, community groups and not for profit organisations were selected as beneficiaries of the fund. Every affected customer was given the opportunity to vote on how the fund was distributed. The top five organisations to benefit were: East Grinstead Food Bank, Age UK East Grinstead, Jigsaw Child Bereavement, East Grinstead First Responders, and Stone Quarry Community Café. We have been making payments to them based on customers' votes in June and July 2022. This was also an opportunity to engage directly with the community and develop a better understanding of their needs and also explain the challenges that can affect our operations and planning.

## 25 year environment plan

We have decided to produce a 25 year environment plan which sets out how we will limit our impact on the environment and improve its overall health and how we will work to improve environmental resilience to the effects of drought, flooding and increasing demand for tap water. We are the first water company to produce such a plan. We also decided to consult extensively with customers and stakeholders.

### How stakeholders were considered

We received strong and consistent feedback from stakeholders that we should play an active role in protecting the environment and achieving environment and biodiversity gains working with others and going beyond compliance or the delivery of our own environmental obligations. We also recognised the impact that others have on our catchment and on the availability and quality of the raw water we need to provide our service; and the crucial role that environmental issues play in our long-term plans and strategy.

Given the importance of environmental issues for our customers and other stakeholders, we decided to co-create our plan and to engage widely with them. However, we also recognised that media coverage about wastewater companies, especially relating to storm overflows and pollution was likely to have a negative reputational impact on us (based on our own experience and that of other water only companies), as a number of our customers would confuse us with the wastewater companies operating in our area. In this context, there was a risk that extensive engagement could lead to negative feedback and complaints about issues unrelated to our own activities as a water only company.

### Outcomes and expected long-term impacts

Our Chair of our Customer Challenge Group, Zoe McLeod, was involved from the beginning of the development of our environmental plan, joining us in the early stages for an ideas-generating 'sprint' session with stakeholders. We created our draft plan in the space of just seven months, engaging with more than 250 customers, stakeholders and employees.

Despite the reputational risks, we launched the largest consultation we have ever undertaken, asking for feedback and insight from over half a million customers and stakeholders. We have received more than 400 responses and had more than 10,700 visits to the webpage.

Nearly 60 per cent of respondents were either 'satisfied' or 'very satisfied' with the draft plan, commenting that the following areas should be a key priority for us in the future: water capacity and storage, sewage discharge, leakage and then improvements to raw water quality and operating as a sustainable business.

Of the 40 per cent of respondents that were dissatisfied with the draft plan, a quarter of these comments related to confusion over sewage discharge, whilst other areas of concern related to leakage, water capacity and storage and water quality.

We will use this consultation process as an opportunity to explain our role as a water company and the distinction between water and wastewater companies. We hope that this will allow us to engage more constructively in the future with those customers who commented negatively on issues relating to the performance of wastewater companies.

Overall, we decided that the benefits of consultation outweighed the disadvantages and we were pleased to receive high quality submissions especially pertaining to the reliance in our plans on leakage reduction and demand management and the risks this may present to the water supply if these reductions were not achievable. We will use the feedback we received in finalising our 25 year environment plan that will be published later in 2022.

# Climate-related disclosures

The climate is already changing; over the last decade the UK has experienced warmer conditions, with record high temperatures, an increase in sunshine hours, and some significant flood and storm events. Taking a longer-term view, the UK has warmed by more than 1°C since pre-industrial times, sea levels have risen by 16cm since 1900, and the likelihood of hot summers has doubled. Average annual temperatures in the south east of England are already around 1.5°C higher in the 21st century compared with the end of the 19th century.

In these climate-related disclosures, which have been prepared following the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD), we set out how we incorporate climate change in our strategy. Our aim is to develop a comprehensive and integrated approach to the management of climate change risks that is at the core of our long-term planning and our related disclosures.

Our focus in 2021/22 has been on the development of scenarios and the qualitative analysis of our main climate-related risks and opportunities, building on the adaptation report we published last year. The scenario analysis we started this year will support our long-term adaptive planning and in 2022/23 we will develop our analysis of risks, improve our understanding of critical thresholds and carry out further analysis of the financial impact of climate-related risks.

We present in this section of our annual report our current approach to the management of climate-related risks and opportunities, as well as our reporting on emissions following the four thematic areas set out in the TCFD recommendations: governance, risk management, strategy, and metrics and targets.

## Governance and risk management

### Board oversight

The board is responsible for promoting our long-term sustainable success and for all aspects of our regulated business. A core component of our purpose is to “create tomorrow’s water solutions”. Our main duty is to develop and maintain an efficient water supply system. Our service is inherently linked to the environment from which we collect raw water and our operations are directly impacted by the climate and weather events. Climate change is therefore an essential consideration for our board.

- It reviews our principal risks (which include the risk of climate change) and an annual risk report that assesses our climate-related risks.
- It approves our annual reporting including our disclosures under the TCFD recommendations and our emissions reporting under the streamlined energy and carbon reporting (SECR).
- It receives regular updates on and approves our long-term that set out our responses to the impact of climate change (our WRMP, Drought plan, adaptation report, net zero routemap).
- It receives regular updates on the delivery of our capital programme (including on the delivery of our flood resilience schemes or drought resilience schemes).
- This year, it approved proposals to enter into power purchase agreements that will help us demonstrate our contribution to the development of new renewable energy capacity and considered the WRSE emerging regional plan and the development of our own WRMP24 along adaptive pathways that reflect different assumptions on the impact of climate change.

### Responsible business committee

The committee has direct oversight of our responsible business policies, including the management of climate-related issues and of our TCFD disclosures.

This year,

- It considered updates on TCFD implementation and progress reports.
- Reviewed our ESG risks including relevant climate-related risks.

### Audit and risk committee & remuneration committee

The audit and risk committee reviews and recommends for approval by the board our annual reporting, including reporting on climate-related risks, with a focus on consistency with financial statements. This role will increase as we develop our financial disclosures in 2022/23. It also has oversight of the effectiveness of our risk management and systems of internal controls.

The remuneration committee has set targets related to TCFD disclosures and objectives relating to aligning our approach with the Science Based Targets initiative.



## Management's role

### Executive team

The executive team, under the direction of the CEO, comprises the CFO, regulation and strategy director, customer services director and operations director. It defines and implements our strategy and manages the operational and financial performance of the company. It coordinates how climate-related issues are identified and managed consistently across the various areas of the business.

### Key

➔ Sets direction, advises and provides challenge

➔ Implements, reports, monitors and escalates

### Regulatory strategic group and thematic working groups

The regulatory strategic group provides oversight for the development of our main long-term regulatory plans and policies which define our strategy to respond to the long-term effects of climate change.

Other working groups relating to investment and operational issues also consider the impact of climate change in their decisions.

### Key business functions

Several teams are responsible for assessing and managing climate-related risks across the business, especially for our long-term planning. The main issues that each role deals with are:

- **Company secretary:** disclosures under the TCFD recommendations.
- **Head of water resources:** the impact of climate change in our WRMPs working with WRSE.
- **Head of environment:** the impact of climate change on our environmental policies and practices, including relating to water sources.
- **Head of asset management:** ensuring that our water supply system will be resilient to climate change through adaptation and adaptive planning.
- **Head of economic regulation and strategy:** ensuring our business planning reflects our long-term goals on resilience to climate change.
- **Carbon strategy and economic manager:** managing our risk management process (including for climate-related risks), implementing our net zero routemap, PPAs as well as emissions reductions & reporting.

### Responsible business steering group

It implements actions and develops proposals on responsible business initiatives, including relating to climate change, and reports to the responsible business committee.

Members of the responsible business steering group are also non-director members of the responsible business committee which ensures that the committee has access to a wide range of expertise and is able to consider transversal and complex issues across the business.

## Climate-related disclosures continued

How we integrate climate change risks in our strategy and the management of our business

### Water resources management plans

Our WRMPs, updated every five years, seek to ensure that future water supplies will be resilient to climate change and that the impact of our water abstractions on the environment will be sustainable as it is itself subject to increasing pressure due to climate change. Our WRMPs are based on different adaptive pathways, reflecting climate uncertainty and other relevant factors.

### Drought plans

Our drought plans set out the range of management, operational and communications actions we will take to manage the water supply in drought conditions. This covers the permits, orders and other authorisations needed to implement drought management actions, including monitoring, mitigation and prevention measures.

### Long-term strategic planning

We aim to develop an integrated approach to the management of climate-related risks, adaptation, mitigation and environmental management.

We will do this by coordinating our actions across our long-term plans and developing our understanding of future challenges through scenario analysis.

### Integrated thinking

Climate change is dealt with as a specific issue, but focusing on it in isolation would not recognise the fact that our future challenges, although strongly influenced by climate change, will result from multiple factors. To fulfil our purpose in the long-term we must understand the combined impact of climate change, population growth, sustainable water abstraction, demand and leakage management, customers' behaviours, and the availability and maturity of relevant technology. The impact of policies by regulators and government on us and on other sectors that will determine how much water can be taken from the environment or how much is used by customers.

### 25 year environmental plans

Our environment plan sets out our ambitions and principles of environmental management to help address climate-related issues such as sustainable abstraction, raw water quality deterioration, biodiversity loss and resilience of ecosystems through nature based solutions such as catchment management and the stewardship of our designated sites.

### Adaptation reports

Our adaptation report identifies and assesses our main climate-related risks and the actions that we will take to adapt to the impact of climate change.

### Asset management strategy

Our long-term asset management strategy and long-term delivery plans consider different adaptive pathways, reflecting possible climate change impacts combined with other relevant factors to maintain the resilience of our assets and services. We will incorporate further consideration in our investment planning such as embodied\* carbon.

\* Embodied carbon refers to the greenhouse gas emissions arising from the manufacturing, transportation, installation, maintenance, and disposal of building materials.

### Consistent business implementation

Our five year business plans are regular steps in the delivery of our long-term objectives. Energy being one of our main costs, the transition to renewables (PPAs) and power procurement is a key aspect of our financial budgets and forecasts. We have also developed a sustainability finance framework.

### Mitigating our impact

Our strategy also considers how we may reduce our own emissions including:

- Our net zero routemap, which sets out how we will reduce our emissions to reach operational net zero by 2030.
- Initiatives on natural capital accounting and embodied carbon reduction to implement relevant policies from 2025.

## Risk management

In addition to the processes described for the identification and assessment of climate-related risks, we have comprehensive systems of internal control and risk management and we monitor their effectiveness regularly in compliance with the principles of our corporate governance code.

Our risk management framework is closely linked to the way we monitor and measure our performance and compliance with our statutory obligations and commitments which is subject to external assurance by third parties.

Our climate change adaptation report has identified priority risks from climate change and how these impact our functions and activities across the business. We have identified mitigations and monitoring plans to adapt to climate change impacts.

We maintain a formal risk register and risk management system for the identification, evaluation and mitigation of risks. Significant climate-related risks, and their impacts on functions and activities across the business, have been incorporated into our corporate risk register and scored following our standard methodology. We are able to report specifically on these risks – providing additional focus and scrutiny of risks, controls and mitigating actions.



Read more on our risk management systems and principal risks on page 30.

## Climate-related disclosures continued

### Strategy

#### Scenario analysis

Climate-related risks and opportunities were identified and assessed through a process of scenario analysis carried out during a number of workshops with key personnel, which helped us test our strategies in light of possible future threats or opportunities considering three main themes: environment, operations and assets & supply system. These workshops helped us refine our understanding of the climate-related risks previously identified in our risk register and in our adaptation report. This will form the basis for continuous monitoring and strategy adjustment as we develop our understanding of trigger or leverage points to select various adaptive pathways.

#### Description of our scenarios

Our TCFD scenarios are derived from the SSP-RCP framework, combining projections under representative concentration pathways (RCPs) with shared socioeconomic pathways (SSPs).

We have developed five scenarios which are based on combinations of the emissions projections of four RCPs (low: RCP2.6, central: RCP4.5/6.0 and high: RCP8.5) with two relevant SSPs (SSP2 for RCP2.6-6.0 and SSP5 for RCP8.5) which have been enriched with policy assumptions adapted from the network of central banks and supervisors for greening the financial system (NGFS).

Ofwat's common assumptions (set out in "PR24 and beyond: Long-term delivery strategies and common reference scenarios") and insights from our own STEEP analysis have also been incorporated as relevant driving forces within these scenarios.

#### Physical risks

Our analysis of physical risks was carried out across five scenarios, each one being based on either an orderly or disorderly central transition assumption. Physical risks were assessed in the short and medium-term under two scenarios: orderly (steady global transition - RCP4.5/6.0) and disorderly (delayed UK and global transition - RCP4.5/6.0). In the long-term they were assessed under all five scenarios adding to the analysis the optimistic (rapid global transition - RCP2.6), hot house (steady UK transition & delayed global transition - RCP8.5) and pessimistic (delayed UK & global transition - RCP8.5) scenarios.

#### Transition risks

Our assessment of transition risks was carried out across three of our scenarios: optimistic (Paris-aligned, fast and ambitious global transition scenario), orderly (central case, steady paced global transition scenario), and disorderly (slow, delayed and fragmented UK and global transition scenario) describing a rapid, moderate and slow transition, respectively. They reflect different combinations of assumptions on the implementation of climate policy, wider environmental ambition, and technological changes and on the alignment of these drivers with our strategy (and do not directly equate to low, medium, and high transition risks).

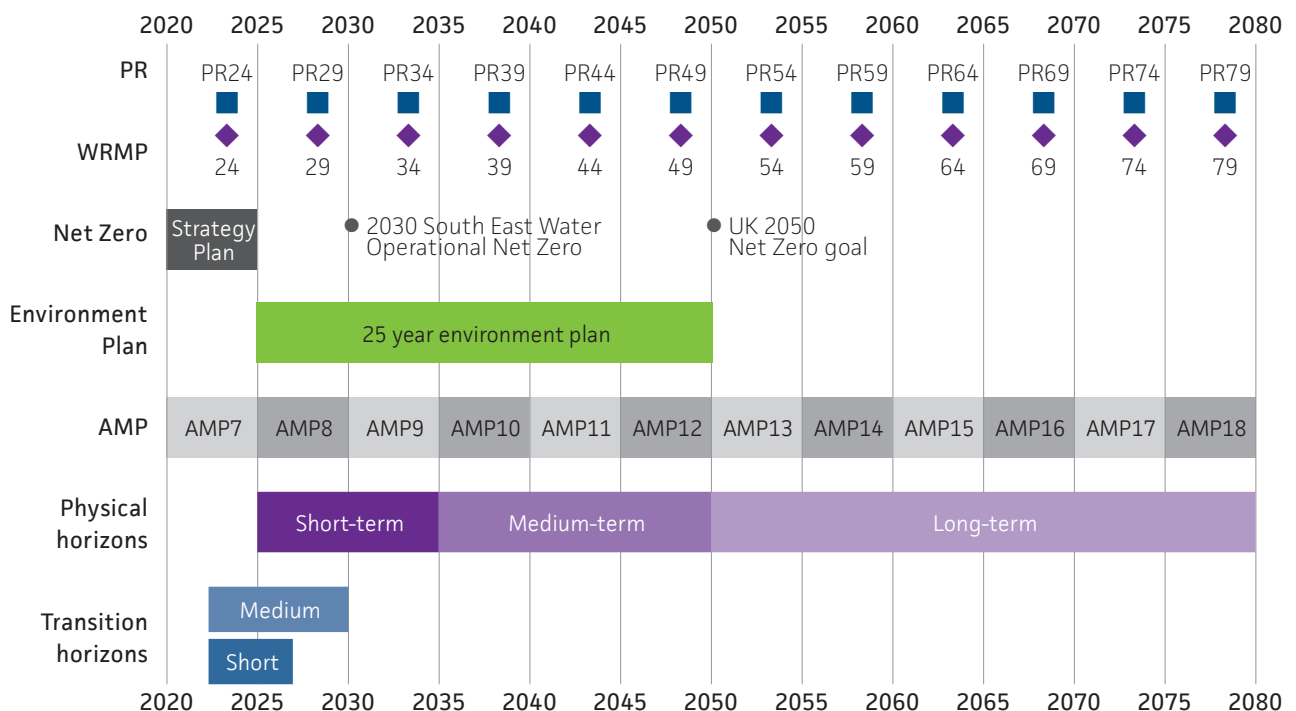
### Selected time horizons

The time horizons for our scenario analysis have been selected to be compatible with our capital planning and investment horizons (including those used by WRSE for the regional water resources plan), the life of major assets and have been harmonised with national and international climate policies and projections.

Physical risks have been assessed to 2080 across a short (2025 to 2035), a medium (2036 to 2050) and a long-term (2051 to 2080) horizon. As climate change manifests itself more strongly from 2050 with significant divergence between climate projections from that point, high emissions scenarios have only been assessed for the long-term horizon. The optimistic scenario has also only been assessed for the long-term horizon as warming plateaus in 2050 under RCP2.6.

Transitional risks have been assessed to 2030 (with a short-term horizon of 5 years and a medium-term horizon to 2030) reflecting the greater uncertainty that arises from relevant drivers (policy, technology and market) beyond that horizon.

This horizon is aligned with our (and the water sector) commitment to achieve operational net zero by 2030 and encompasses the PR24 and PR29 regulatory planning cycles.





## Climate-related disclosures continued

### Scenario Description

#### ● **Optimistic:** (SSP2 – RCP2.6) +1.5°C Rapid global transition scenario

Significant and rapid policy change by 2030 within and outside the UK with acceleration of the UK's Net Zero roadmap and financial incentives from the regulatory system. Rapid technology changes with significant investment in new technologies to achieve a low carbon economy. Significant regulatory change and high environmental ambition within and outside the water sector and beyond. Physical climate risks are of a low frequency and/or magnitude, steadily increasing before plateauing across the long-term horizon, with average warming of 1.5°C by the end of the century.

#### Relevance of scenario to analysis

Physical risks	Time horizon	Transition risks	Time horizon
✓	<b>Long</b> 2051 to 2080	✓	<b>Medium</b> 1 to 10 years

#### ● **Orderly:** (SSP2 – RCP4.5) +2.6°C Steady global transition scenario

Steady progression of the UK's Net Zero roadmap by 2030 with some relevant financial incentives from the regulatory system. Moderate investment in new low carbon and water saving technologies. Moderate environmental ambition outside of the water sector, with more ambitious environmental targets within the water sector. Physical climate risks steadily increase in frequency and/or magnitude with average warming of 2.6°C by the end of the century.

#### Relevance of scenario to analysis

Physical risks	Time horizon	Transition risks	Time horizon
✓	<b>Short</b> 2025 to 2035	✓	<b>Short</b> 1 to 5 years
✓	<b>Medium</b> 2036 to 2050	✓	<b>Medium</b> 1 to 10 years
✓	<b>Long</b> 2051 to 2080		

#### ● **Disorderly - delayed policy:** (SSP2 – RCP4.5) +2.6°C Delayed UK & global transition scenario

Delayed and limited policy changes by 2030, with little to no financial incentives, result in the UK falling behind on the UK's Net Zero roadmap. Moderate investment into water saving technology but moderate to limited investment elsewhere. Moderate environmental ambition within the water sector with regulation unchanged and relatively low ambition elsewhere. General misalignment in environmental ambition, policy, legislation, and technological development. Physical climate risks steadily increase in frequency and/or magnitude with average warming of 2.6°C by the end of the century.

#### Relevance of scenario to analysis

Physical risks	Time horizon	Transition risks	Time horizon
✓	<b>Short</b> 2025 to 2035	✓	<b>Short</b> 1 to 5 years
✓	<b>Medium</b> 2036 to 2050	✓	<b>Medium</b> 1 to 10 years
✓	<b>Long</b> 2051 to 2080		

#### ● **Hot house:** (SSP5 – RCP8.5) +4.2°C Steady UK transition / delayed global transition scenario

Steady progression of the UK's Net Zero roadmap by 2030 with some relevant financial incentives. Moderate investment in new low carbon and water saving technologies. Moderate environmental ambition outside of the water sector, with more ambitious environmental targets within the water sector. Global efforts are insufficient to halt significant global warming. Critical temperature thresholds are exceeded leading to severe physical risks. Physical climate risks rapidly increase in frequency and/or magnitude, and climate change accelerates over the long-term horizon, with average warming of 4.2°C by the end of the century.

#### Relevance of scenario to analysis

Physical risks	Time horizon
✓	<b>Long</b> 2051 to 2080

### ● Pessimistic: (SSP5 – RCP8.5)

#### +4.2°C Delayed UK & global transition scenario

Delayed and limited policy changes globally by 2030, with little to no financial incentives, result in falling behind on the UK's Net Zero roadmap. Moderate investment into water saving technology but moderate to limited investment elsewhere. Moderate environmental ambition within the water sector with regulation unchanged and relatively low ambition elsewhere. General misalignment in environmental ambition, policy, legislation, and technological development.

A late transition fails to contain physical risks. Physical climate risks rapidly increase in frequency and/or magnitude, and climate change accelerates over the long-term horizon, with average warming of 4.2°C by the end of the century.

#### Relevance of scenario to analysis

Physical risks	Time horizon
✓	<b>Long</b> 2051 to 2080

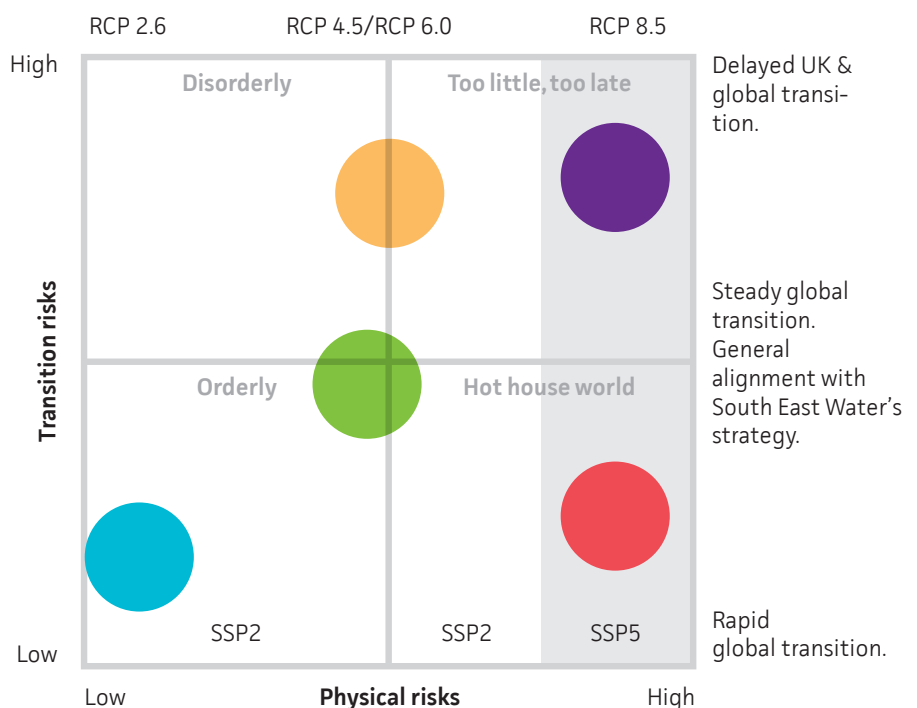
### Scenarios

The diagram below represents the categorisation of our scenarios based on combinations of severity of physical and transition risks building upon the design of the NGFS framework of four policy reference worlds (orderly, disorderly, hot house world, too little too late). The alignment between our strategy and relevant drivers is a key factor determining the level of climate-related risks under each scenario. The position of the scenarios on the grid reflects the combination of transition and physical risk for the relevant scenario.

#### Key

- **Optimistic:** SSP2-RCP2.6, 1.5°C rapid global transition
- **Orderly:** SSP2-RCP4.5/6.0, 2.6°C steady global transition
- **Disorderly:** SSP2-RCP4.5/6.0, 2.6°C delayed UK & global transition
- **Hot House:** SSP5-RCP8.5, 4.2°C steady UK transition/delayed global transition
- **Pessimistic:** SSP5-RCP8.5, 4.2°C delayed UK & global transition

Scenarios on the grey background are based on SSP5 (not used by NGFS); those on the white background are based on SSP2. Orderly, disorderly, hot house and too little too late in this diagram refers to the NGFS policy reference worlds, not to our scenarios which are represented by their colour.



## Climate-related disclosures continued

### Key climate drivers underlying our scenario analysis

We used the UK Climate Projections 2018 (UKCP18) for the purpose of these TCFD disclosures. They are a significant upgrade to the UK climate projection tools, superseding UKCP09 projections. The headline findings are similar to UKCP09, with wetter winters and drier summers, except that sea level rise is projected to be higher and there are some differences at the extremes, particularly for summer temperatures and heavy rainfall. The UKCP18 projections show that several of the expected impacts of climate changes are expected to be relatively more severe in the south east of England compared with other regions of the country.

### Summary of climate assumptions used for the assessment of physical risks under our TCFD scenarios

#### Optimistic: (RCP2.6)

**Low emissions climate scenario with the lowest but some impact from climate change and the following assumptions:**

- Steady temperature increases, plateauing ~2050 (average, maximum and extremes). End of century +1.5°C (+2°C for summer average).
- Steady increase in hot spell lengths, and number of hot days.
- Steady linear decrease in summer precipitation.
- Steady linear increase in winter precipitation.
- Steady increases in heavy rainfall extremes, plateauing ~2050.
- Steady increase in dry spell lengths.
- Consecutive drought years unlikely in the long-term horizon.
- Steady increase in sea level, increases linearly. Steady increase in storm surge frequency.
- Steady increase in wind gust speeds and frequency of storm winds. Consecutive storms unlikely in the long-term horizon.
- General assumption: consecutive/combined events unlikely in the long-term horizon.

**Orderly: (RCP4.5)****Disorderly: (RCP4.5)**

**Central emissions climate scenario** with more significant impact from climate change above Paris Agreement objectives and the following assumptions:

- Moderate temperature increases, increases linearly (average, maximum and extremes). End of century +2.6°C.
- Moderate increase in hot spell lengths, and number of hot days.
- Steady linear decrease in summer precipitation.
- Steady linear increase in winter precipitation.
- Moderate increases in heavy rainfall extremes, increases linearly.
- Steady increase in dry spell lengths, dry spells more likely.
- Consecutive drought years possible by the long-term horizon.
- Moderate increase in sea level, increases linearly. Moderate increase in storm surge frequency.
- Moderate increase in wind gust speeds and frequency of storm winds. Possibility of consecutive storms by the long-term horizon.
- General assumption: consecutive/combined events likely by the long-term horizon.

**Hot House: (RCP8.5)****Pessimistic: (RCP8.5)**

**High emissions climate scenario** with material impact from uncontrolled climate change and the following assumptions:

- Rapid temperature increases, accelerating rate of change over each horizon (average, maximum and extremes). End of century +4.2°C (up to +6°C for extremes).
- Rapid increase in hot spell lengths, and number of hot days. Hot spells triple in length, hot days double by 2080.
- Steady linear decrease in summer precipitation.
- Steady linear increase in winter precipitation, marginally higher than other RCPs by end of long-term horizon.
- Rapid increases in heavy rainfall extremes, accelerating rate of change over each horizon.
- Moderate increase in dry spell lengths. Dry spells highly likely.
- Consecutive drought years likely by the long-term horizon.
- Rapid increase in sea level, accelerating rate of change over each horizon. Rapid increase in storm surge frequency and significant increase in intensity.
- Rapid increase in wind gust speeds and frequency of storm winds. High likelihood of consecutive storms by the long-term horizon.
- General assumption: consecutive/combined events highly likely by the long-term horizon.

## Climate-related disclosures continued

### Resilience of our strategy to climate change

We face material physical and transition climate risks, and significant investment and action will be required to manage these – by us and other stakeholders (for example, the EA, sewerage companies, local authorities, private landowners, customers, energy utilities and our supply chain).

In response to these challenges, our long-term planning and strategies have identified a range of strategic options, including preparation for a number of low-regret solutions that would be used to achieve a baseline level of resilience under the scenarios considered in our analysis. The implementation of these solutions may vary across the different scenarios as a number of external factors (e.g. policies, technological advancement, and environmental ambition) will determine when and how these solutions may be implemented, as well as their efficiency, costs, and effectiveness.

However, there will be increasing long-term challenges under the most severe scenarios that will require the implementation of additional responses (above that baseline level of resilience) under different adaptive pathways and may significantly alter how our business operates.

### Resilience of strategy to transition risks

Our scenario analysis of climate-related transition risks considered technology risks, market risks, policy, regulatory and legal risks and reputational risks. We also considered potential opportunities that may exist under the different scenarios, recognising for example that under the orderly and optimistic scenarios public awareness of climate change mitigation and adaptation and of environmental issues may be expected to be high, which may help with gaining support for our actions and initiatives. We summarise below our assessment of our main transitional risks.

### Technology risks relating to the transition to lower-carbon operations

Achieving operational net zero by 2030 and the progressive reduction of embodied carbon leading to carbon neutrality by 2050, as well as achieving demand and leakage reduction targets to ensure sufficient water resources to meet demand in the future (and respond to the impact of climate change, among other factors, on the supply demand balance) will require the use of new technology. There is uncertainty relating to the new technology required: (i) whether suitable technology will become available within the relevant period, (ii) whether a sufficient supply will be available at viable costs and (iii) whether that technology will perform appropriately and be sufficiently reliable once adopted. There may potentially be a shortage of the skills necessary to implement and/or operate new technology and transitory disruptions to operations linked to the implementation of new technology.

The areas of the business most affected would be operations and asset management especially in relation to:

- Water treatment processes.
- On site power generators or high capacity battery storage to be used in case of loss of grid power supply.
- Heavy duty vehicles, compressors and generators for street works and excavations (e.g. availability of hydrogen powered vehicles and equipment as batteries may not provide sufficient power or autonomy).
- Construction and engineering works.
- Pumps and network equipment.
- Smart network, smart meter for demand and leakage reduction.



**Qualitative assessment of risk across scenarios**

**Orderly:** A comparatively more progressive pace of transition to new technology (including for the replacement of high-emission assets) with more time to trial alternatives and roll out new technologies (helping manage uncertainty in performance and improve the reliability and durability of solutions) and to progressively upskill the workforce and with some but less pressure on or disruptions to operations than under the optimistic scenario. Some risk of write-down / write-off of high-emissions assets but less than under the optimistic scenario.

**Disorderly:** With low policy incentives and requirements, the transition to low carbon technology is slower or delayed, but with a higher risk of missing operational net zero targets (or of relying on carbon offset). Without sufficient incentive to scale, the unit cost of low carbon technology and product would be high and less capacity would be developed in the supply chain. There would be higher transition risks in the longer-term without the benefit of steady investment (beyond 2030).

**Optimistic:** A higher pace of transition and decarbonisation with a rapid roll-out of technology required to meet ambitious transition targets would potentially lead to pressure on operations and maintenance activities and service disruption. There would also be a greater rate of replacement of existing high-emission assets (with potential write-down / write-off) than under an orderly scenario. There would be relatively higher risks of skills shortages and of insufficient supply chain capacity that could slow the progress of emission reductions. In this context rapid technological advancement may lead to high initial cost of adoption of technology that may later be superseded.

**Strategic response**

- Adaptive planning and “system thinking” approach to strategy and planning; working with suppliers and stakeholders to map out in advance the key steps required to upgrade and future-proof assets to limit expenditure or avoid expenditure in technology or equipment that may be later superseded or prove inadequate to meet long-term needs.
- Innovation programme with gated investments: trial alternatives prior to full scale implementation, horizon scanning to identify emerging technologies and risks, and phasing technology roll out to prevent any major disruptions to service.
- Collaboration with other water companies to look at joint procurement and investment into new technologies.
- Review of net zero routemap with potential increase in offsetting to allow for more efficient investment and ensure optimum replacement of existing assets.
- Potential change to depreciation of relevant assets (especially under the optimistic scenario) and/or use of offsetting until natural end of life of assets (especially for large M&E assets with a life of 20-40 years).

## Climate-related disclosures continued

### Market risks relating to the cost of technology, materials and energy

The transition to low-carbon processes and technology will result in additional costs to us, which will depend on the conditions of the relevant product markets (e.g. technology, construction methods and materials, vehicles, renewable energy, chemicals). The pace of the transition will determine the strength of the demand relative to the supply. Initial costs can be expected to be higher until the supply is able to scale up and the pace of transition will be relevant to this. As key transition and decarbonisation deadlines approach (2030 and then 2050), we can expect high demand for relevant products and technologies that may affect supply chains and transport (which will be themselves transitioning to low carbon operations) and the cost of materials and commodities. The cost of renewable energy, of other alternatives to fossil fuel such as green hydrogen and of adapting the electricity grid to deal with intermittent renewable electricity production and to increase storage may all contribute to an increase in renewable and low carbon energy cost (even taking account of the significant and continuous decrease in the cost of renewable energy experienced to date). This pressure, associated with the potential increase of carbon pricing, will also apply to our supply chain and our input costs. Our procurement and contracts with suppliers will need to be adapted to ensure the decarbonisation of our supply chain, which may result in additional costs due to more expensive low-carbon options.

#### Qualitative assessment of risk across scenarios

**Orderly:** Net zero objectives by 2030 would be met. Competing demand for low carbon products and materials (especially for key elements that are crucial to our operations such as chemicals and low carbon treatment process and our investment construction materials and processes) may lead to cost increases but less so than under an optimistic scenario. The UK demand for renewable energy would be expected to be more balanced than under the optimistic scenario, with a relatively lesser impact on the cost of renewable energy.

**Disorderly:** No large roll out at scale of new technologies and low carbon products and processes means that unit costs are expensive, with less availability and choice. There is the potential for delay in our progress to decarbonise operations and

reduce embodied carbon if suitable technologies and products do not become available or unit costs of low-carbon alternatives remain high (e.g. for alternative on site power generation, treatment processes or lower carbon construction). The UK supply of renewable energy would be lower relative to other scenarios and there may be less renewable capacity, leading to a relative increase in cost (but demand could also be lower than under the other scenarios).

**Optimistic:** Net zero objectives by 2030 (and carbon neutrality by 2050) would be met, but the fast pace and widespread transition across sectors would lead to high and competing demand for low carbon products and materials (especially for key elements that are crucial to our operations such as chemicals and low carbon treatment processes and our investment construction materials and processes) and significant cost increases (and higher than under an orderly scenario). The UK demand for renewable energy would be high, and we may face higher costs to obtain renewable energy (through the development of on-site renewables or through PPAs or due to relatively higher than anticipated grid energy costs).

#### Strategic response

- Adaptive planning and “system thinking” approach to strategy and planning; working with suppliers and stakeholders to map out the key steps required to upgrade and future-proof assets to avoid wasted expenditure.
- Procurement strategies to reduce costs (e.g. competitive tendering, joint ventures etc.) and generation of efficiencies through the supply chain.
- Collaboration with other water companies to develop joint procurement and joint investment into new technologies.
- Management actions to control cost and increase efficiencies including through the supply chain.
- Entering into PPA (solar underway and then wind) as well as development of renewable generation on own sites and adjacent land.

## Policy, regulatory and legal risks

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Policy and regulatory factors will determine conditions that may make the transition to lower-carbon operations and investment more or less challenging and effective. There is a risk that Ofwat may not agree with the timing or extent of the expenditure required, resulting in underfunding at price reviews and assumptions on efficiencies and base operating costs that do not fully recognise actual pressure on costs relating to the transition to a lower-carbon economy. This may apply in particular to the cost of delivering operational net zero by 2030 and of reducing embodied carbon, leading to carbon neutrality by 2050. This may also be the case in relation to adaptation expenditure to 2030 and in subsequent periods.

Other contextual policy and regulatory factors that do not relate directly to the transition to a lower-carbon economy (but may be strongly influenced by it) would be highly relevant, and the potential misalignment of different areas of policy is a significant risk that may require trade-offs (e.g. less control on third parties causing raw water deterioration and increasing water quality standards may require energy or chemical intensive treatment; increasing biodiversity and other environmental gains will present challenges with procuring land for new assets or developing renewable generation).

### *Qualitative assessment of risk across scenarios*

**Orderly:** A more progressive rate of change is assumed which leads to a less significant regulatory funding gap in relation to achieving operational net zero by 2030 and embodied carbon reductions leading to carbon neutrality by 2050. There is less risk of unplanned investment to meet increasing mitigation requirements by 2030 than under the optimistic scenario. Moderate targets and more alignment between regulatory drivers relative to the optimistic (and disorderly) scenario would limit policy conflicts (e.g. access to land for new assets or renewables) and the need for trade-offs with a better chance of achieving carbon reductions and environmental objectives.

**Disorderly:** Progress towards operational net zero by 2030 and reduction in embodied carbon leading to carbon neutrality by 2050 would be slower and its phasing may potentially be amended. We may need to rely more heavily on offsetting to meet stakeholders' expectations and there would be a risk of not meeting our stated mitigation objectives fully. A significant regulatory funding gap and significant trade-off between conflicting drivers would be more likely. Targets and outcomes, in particular environmental and those relating to biodiversity and nature based solutions, may not be appropriately supported by the regulatory regime and incorporated into price reviews.

**Optimistic:** Potential need for additional and unplanned investment to pivot and respond to rapidly changing policies surrounding carbon (e.g. construction of low carbon infrastructure to reduce embodied carbon) as well as requirements to meet ambitious environmental targets that may be conflicting. Relevant costs would be expected to be recovered through price reviews.

## Climate-related disclosures continued

### Policy, regulatory and legal risks continued

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#### *Strategic response*

- Proactive identification of costs relating to trade-offs or caused by conflicts/inconsistencies of requirements in investment plans, business plan, and regulatory plans (e.g. WRMP, WINEP) to limit the risks that relevant costs are not taken into account by the regulator in price determinations.
- Use of alternative delivery models (including DPC or alternative funding mechanisms) and funding from other sources (e.g. government grants) to cover funding gaps (especially under the optimistic and orderly scenarios).
- Collaboration through Water UK to address challenges with conflicting industry targets and regulation and engagement with regulators and policy makers to highlight inconsistencies in approaches and suggest alternatives.
- Engagement with stakeholders and customers to gain their support for adapting net zero commitments based on the actual support and phasing recognised by the regulatory regime (under a disorderly scenario).

## Resilience of strategy to physical risks

In the short-term, our planned mitigations would be generally sufficient to manage physical climate risks under both orderly and disorderly scenarios. Across all scenarios, the onset of more frequent and/or prolonged extreme climate events from the medium to long-term horizons could inhibit further resilience and also impact our ability to adapt to climate change.

In the long-term, climate drivers would increase the challenges relating to both supply and demand (which arise from the combination of population growth, sustainability reductions to abstraction and climate change) as longer and hotter summers with more frequent and prolonged heatwaves and/or droughts would increase operational risks under all scenarios with a greater impact under the RCP4.5 scenarios and, significantly greater impact, under the RCP8.5 climate scenarios (hot house and pessimistic).

From the medium-term and increasing in the long-term (especially in higher emission scenarios), our assets (and those of other utilities such as power companies) will be directly affected by extreme acute physical risks (floods, storms, heatwaves, coastal erosion and saline intrusion), which would not only cause disruption to our operations, but also create additional constraints on when and how maintenance and capital investment could be carried out, as planned work would require outages that temporarily reduce network resilience.

Therefore, ensuring long-term resilience should involve appropriate investment in adaptation and mitigation within the short-term and medium-term. Delays in adaptation would be likely to result in excessive exposure in the long-term when operational risks associated with capital works on the water supply system, environmental constraints and the strongest expected chronic and acute physical impacts of climate change would converge. Should climate change accelerate (for example due to insufficient and/or delayed climate policies following current trends and possible tipping points), delays in investment could result in an adaptation gap as lead times may not allow for the delivery of resilience solutions in time.

The resilience of our strategy is also sensitive to drivers that have a significant influence on demand reductions, which could account for over 50 per cent of future water savings (including in the short-term and medium-term). These include advancement and uptake of technology, government interventions for water saving in building regulations, water labelling for appliances and consumer behaviour change. Our own risks relating to raw water quality are also dependent on the impact that third parties will have on the environment and water bodies. The role of regulators in setting standards and enforcing environmental legislation with third parties could determine the nature and extent of the solutions we will have to implement and our own resilience.

Misaligned policies could mean that we need to invest in hard and expensive solutions such as additional treatment or new sources which could be avoided, minimised or postponed through catchment management and better control of the impact of third parties on our catchments. The delayed transition scenarios (disorderly and pessimistic) will represent the greatest risks and financial impacts due to the misalignment of policies and other drivers with our strategy and lower recovery of costs from the regulatory system.

Regulatory policy and how price determinations reflect the financial impact of climate-related risks on our business will determine the extent to which it materialises as an actual financial risk to us. This is discussed in respect of principal risk 8.



Read more on our risks relating to Adverse policies or political & social environment on page 42.



## Climate-related disclosures continued

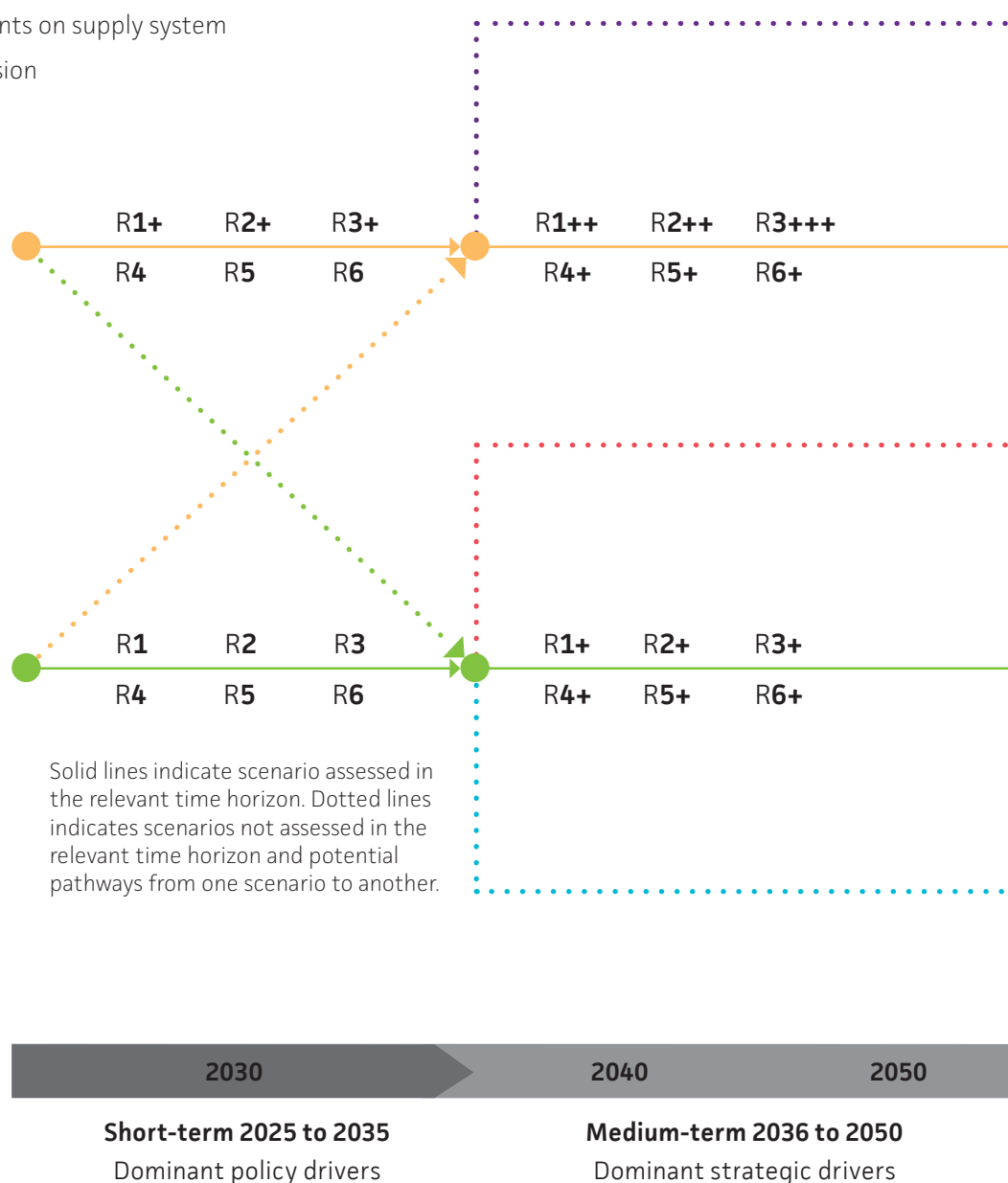
### Our main climate-related physical risks across time horizons and relevant scenarios

- R1** Supply demand balance and impact of droughts
- R2** Heatwave peak demand
- R3** Raw water quality deterioration
- R4** Sinkholes and ground movement
- R5** Impact of acute weather events on supply system
- R6** Sea level rise and coastal erosion

#### Risk grading

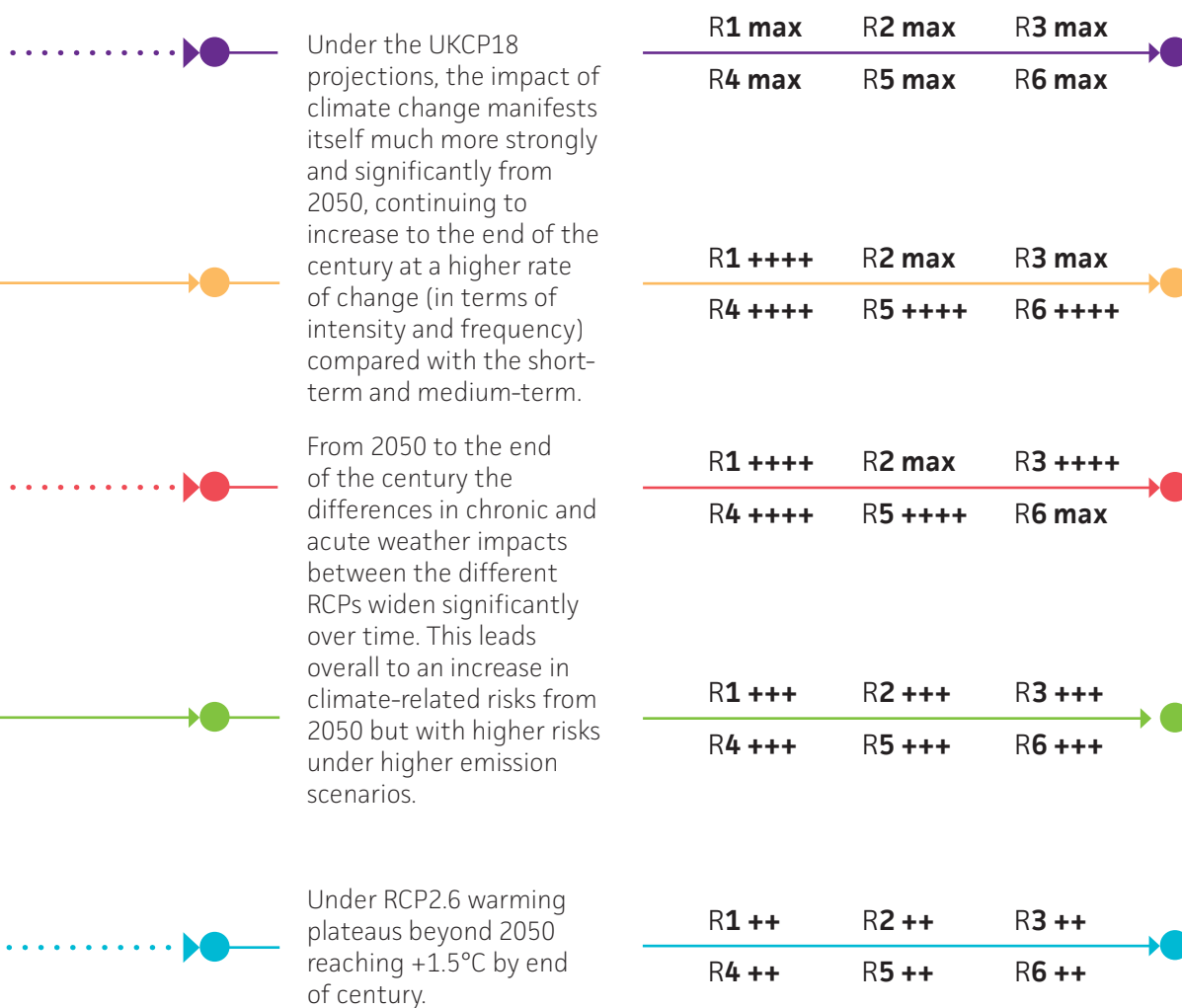
R      R+      R++  
R+++   R++++   R max

This risk grading diagram represents our assessment of the overall level of effort required to adapt and deal with the impact of our main climate-related risks at the different time horizons under our scenarios. This assessment combines our understanding of the expected impact of the relevant risks on our business, the changes to exposure resulting from climate change, our available strategic responses and how other drivers such as policies assumed in our scenarios may affect (favourably or detrimentally) our ability to adapt and recover. R indicates the initial baseline level and max indicates the highest potential level of effort required.



## Key

- Optimistic scenario    ● Orderly scenario    ● Disorderly scenario  
● Hot house scenario    ● Pessimistic scenario



2060

2070

2080

Long-term 2051 to 2080  
Dominant climate drivers

## Climate-related disclosures continued

### Assessment of climate-related physical risks

#### 1. Supply demand balance and impact of droughts

Risk to supply demand balance and impact of droughts leading to stretched/insufficient water resources to meet demand and/or low flow limiting abstraction.

##### Short-term and medium-term

Pressure to the supply demand balance is expected to progressively increase without exceeding planning assumptions, but with a relatively greater risk under a disorderly scenario due to the reliance on demand reduction and the assumed misalignment of policies. Heavy rainfalls and extreme temperatures resulting in ground movement would also increase leakage and pipe bursts.

##### Long-term

Across all scenarios, events representing the dry year scenario in demand forecasts would occur more frequently with less recovery time, with more frequent acute weather events exacerbating greater chronic pressure on the supply-demand balance under the hot house and pessimistic scenarios.

Under an optimistic scenario, the assumed ambitious sustainability reductions in abstractions (partly driven by the impact of climate change) could compound climate-related pressures on the supply-demand balance and require larger water supply offsets, including by bringing forward the development of additional water sources. Under the disorderly and pessimistic scenarios, greater misalignment of drivers (e.g. not supporting demand reduction or sustainable abstraction by third parties) would impact the effectiveness of our strategic response.

##### Strategic responses

- Investment in WRMP options. Development of the Butlers WTW. Potential new reservoir subject to optioneering.
- Planning for a 1 in 500 year drought resilience for 2040.
- Leakage reduction using smart networks and operational changes to the networks as well as demand management.
- Conjunctive use of water sources to efficiently use surface and groundwater sources.
- Long-term adaptive planning using investigations carried out in the short-term and medium-term and improved modelling.
- May bring forward investment in water resources and/or implement water use restrictions if sufficient demand reductions cannot be achieved in the short-term and medium-term.
- Additional water resources options, potentially including: water reuse, bankside storage, new reservoir and potentially desalination in higher emission scenarios.
- Leakage reduction and enhanced demand management using smart networks, new technology, operational changes to the network and smart metering as the technology matures and is scaled up.
- Additional/early mains replacement.

##### Financial impact

###### Expenditure:

- Totex in line with planning assumptions.
- Operating costs associated with conjunctive use of sources.

##### Financial impact

###### Expenditure:

- Totex in line with long-term planning assumptions but with potential acceleration and higher cost options.
- Capital investment in smart networks and meters.
- Operating costs relating to drought management.

###### Revenue:

- Impact of drought restrictions on revenue and associated impact on revenue allowance associated with ODI penalties.

## 2. Heatwave peak demand

Peak demand during heatwaves may exceed network capacity for water distribution, leading to service disruptions and interruptions of supplies.

### Short-term and medium-term

Under the orderly and disorderly scenarios but with a higher risk under the latter, peak demand would not exceed supply, but network constraints (e.g. areas at the end of the network or locations with a single source of supply) may result in hotspots of service disruptions that are more at risk of being affected.

### Strategic responses

- Resilience schemes to address existing network pinch points.

### Financial impact

#### Expenditure:

- Totex in line with planning assumptions.
- Operating costs linked to heatwaves incident management.

#### Revenue:

- Impact on revenue allowance associated with penalties for ODIs (interruptions and C-MeX).

### Long-term

Under all scenarios, but with a higher risk under high emissions scenarios, increased variability in weather patterns (both chronic and acute) may lead to further disruptions that reduce our resilience/ability to cope with peaks in demand during heatwaves. This trend may also be exacerbated by sustainability reductions in abstraction, including under an optimistic scenario due to the assumed high environmental ambition, with a combined effect leading to the need to develop new sources. Under disorderly scenarios, demand management would be less effective, exacerbating the impact of heatwaves.

The long-term impacts of physical risks described in relation to risk 5 below (regarding disruption to service and investment in adaptation), would also apply to this risk.

### Strategic responses

- Resilience schemes and connections between water resource zones.
- Educational and behaviour change campaigns for water use during heatwaves and droughts.
- Water use restrictions to dampen peak demand and new tariffs (in conjunction with enhanced demand management relying on smart networks/meters).
- Mains replacement to reduce leakage if demand management options do not deliver the expected results.

### Financial impact

#### Expenditure:

- Totex in line with long-term planning assumptions but with potential higher cost options (e.g. mains replacement or new sources).
- Operating costs linked to heatwaves incident management.

#### Revenue:

- Impact on revenue allowance associated with penalties for ODIs (interruptions and C-MeX).
- Impact on revenue of potential use restrictions.

## Climate-related disclosures continued

### Assessment of climate-related risks continued

#### 3. Raw water quality deterioration

Risk of raw water quality deterioration and increased algae presence.

##### Short-term and medium-term

Under the orderly and disorderly scenarios, the presence of blue-green algae all year round leads to raw water quality deterioration and deterioration of raw water reservoirs (without availability of treatment/removal technology currently).

Under the orderly and disorderly scenarios, heavy rainfall events may also cause raw water quality deterioration (through the release of sediments, pollutants, increased turbidity and sewerage overflow) and prolonged hot summers may result in higher concentration of pollutants or other biological material in raw water (including nutrient loading favouring algae bloom). Under the disorderly scenario, the impact of the actions of third parties would be more detrimental than under the orderly scenario.

The presence of algae could potentially lead to damage to biodiversity and reputational damage in case of overtopping of algal waters from reservoirs into rivers caused by heavy rainfall events. (This would also apply in the long-term.)

##### Strategic responses

- Increased monitoring and modelling based on new investigations and data to identify main causes and develop action plans.
- Catchment management (including to reverse some algae issues) and development of nature based solutions.
- Proactive engagement with sewerage companies and other entities, the EA and local authorities so that they address causes of raw water deterioration.
- Proactive engagement with the EA, Natural England and local authorities about land management measures to protect raw water quality (e.g. new source protection zones).
- Dredging of reservoirs and changes to operation of reservoirs (e.g. to avoid filling after high flow events).
- Additional treatment and/or alternative sources if other approaches and third party interventions are not sufficient.

##### Financial impact

###### Expenditure:

- Totex in line with planning assumptions (with some risk of acceleration of investment in treatment/sources in the medium-term).
- Operating costs relating to operational changes (e.g. reservoirs and sources management).
- Operating costs relating to additional treatment.

###### Revenue:

- Impact on revenue allowance associated with penalties for water quality ODIs.

###### Assets and liabilities:

- Costs relating to environmental liability associated with the release of algal waters.



### 3. Raw water quality deterioration continued

Risk of raw water quality deterioration and increased algae presence.

#### Long-term

Under all scenarios, issues with algae would increase and be accentuated due to prolonged hot summers. Under the hot house and pessimistic scenarios, the risk of raw water quality deterioration would increase due to greater chronic increase in summer temperatures, higher extreme summer temperature, and sustained hot periods as well as more flooding and storms during the year.

Under the disorderly scenario, the assumed reduced environmental regulation and enforcement to mitigate water quality issues associated with third party land users, sewerage companies discharges combined with climate drivers (prolonged hot sunny conditions and heavy rainfall) would increase the likelihood of loss of water sources and more frequent disruptions as raw water quality temporarily affects treatment. (Similar conditions would also prevail under a pessimistic scenario which assumes a misalignment of policies.)

#### Strategic responses

- Continuation of short-term and medium-term strategic responses.
- Treatment alternatives to mitigate raw water quality deterioration (with increased likelihood).
- Development of alternative sources (with increased likelihood for example for nitrate removal and to enable the conjunctive use of different sources at different times to rest groundwater sources).
- Additional bankside storage to enable changes to how reservoirs are filled and operated.

#### Financial impact

##### Expenditure:

- Totex in line with long-term planning assumptions but with a greater likelihood of acceleration of investment in new treatment options or alternative sources.
- Operating costs relating to operational changes (e.g. reservoirs and sources management).
- Operating costs relating to additional treatment.

##### Revenue:

- Impact on revenue allowance associated with penalties for ODIs (water quality or potentially interruptions).

##### Assets and liabilities:

- Write-off linked to loss of sources.

### 4. Sinkholes and ground movement

Sinkhole affecting key assets and ground movement due to heavy rainfalls and extreme temperatures.

#### Short-term and medium-term

Under all relevant scenarios, heavy rainfalls and extreme temperatures may mobilise sinkholes, damaging key assets (sites, reservoirs, pumping stations and strategic mains systems) with emergency work being required.

#### Strategic responses

- Monitoring and modelling of risks of sinkholes for current and new future assets.

#### Financial impact

##### Expenditure:

- Totex in line with planning assumptions.
- Operating costs linked to sinkhole incident management.

##### Revenue:

- Impact on revenue allowance associated with ODI penalties (interruptions and C-MeX).

##### Assets and liabilities:

- Write-off of assets damaged by sinkholes.

#### Long-term

The risks of sinkholes and ground movement would be relatively higher under higher emission scenarios (hot house and pessimistic) due to the impact of climate change.

#### Strategic responses

- Continuation of short-term and medium-term responses and specific investment where appropriate.

## Climate-related disclosures continued

### Assessment of climate-related risks continued

#### 5. Impact of acute weather events on supply system

Storms, high winds, floods and extreme high temperatures may take assets temporarily out of operation.

##### Short-term and medium-term

Under all relevant scenarios, storms and high winds may cause loss of power and telemetry and affect the transport infrastructure, resulting in disruptions to the water service. Flooding may affect some critical infrastructure sites, causing disruptions / interruptions to the water supply service. Secondary impacts of flooding and storms such as loss of access may lead to site vulnerability, including from secondary failure where delivery of supplies, maintenance or repair is hindered and prevents the continuity of operations. Extreme summer temperature may lead to the overheating of assets and mechanical systems. Acute weather events will also impact our supply chain (e.g. power supplies, water treatment chemicals, fleet, and technology suppliers).

##### Strategic responses

- Flood resilience investigation and flood mitigation schemes (resilience to 1-in-1000 year event by 2040) with investment in redundancy for sites that cannot be fully protected.
- Review temporary alternative power supply strategy in case of storms affecting energy providers, including additional generators (avoiding fossil fuels).
- Investment in asset resilience and in active or passive cooling for critical network equipment.
- Ensure availability of suitable vehicles in all conditions (including with transition to zero emission vehicles).

##### Financial impact

###### Expenditure:

- Totex in line with planning assumptions.
- Capital investment in power supply resilience.
- Operating costs linked to the management of acute weather events and incidents.

###### Revenue:

- Impact on revenue allowance associated with ODI penalties (interruptions and C-MeX).

## 5. Impact of acute weather events on supply system continued

Storms, high winds, floods and extreme high temperatures may take assets temporarily out of operation.

### Long-term

The impact of acute weather events are expected to increase over time and with greater intensity and frequency under high emission scenarios. Under the pessimistic and hot house scenarios, service disruptions related to acute weather events (including storms, floods and extreme temperatures) will be more frequent relative to other scenarios and consecutive acute weather events could inhibit response and recovery, leading to more prolonged service disruption and also putting additional constraints on when maintenance and capital investment can be carried out. Under disorderly scenarios, the misalignment of drivers and strategy could limit the effectiveness of our responses.

Under the optimistic scenario, the assumed enhanced ambition relating to environmental improvements and transition to a low carbon economy could make increasing network resilience to acute climate events through capital investment more challenging, more time pressured, and more expensive to implement, with longer investment returns, but might create more favourable conditions and opportunities for developing options that work effectively with nature and provide a wider range of benefits.

### Strategic responses

- Continuation of short-term and medium-term responses, with increases in level of investment to match additional risks under higher emission scenarios.
- Additional investment in networks and asset resilience, especially for coping with acute events such as remote automated restart of sites to minimise disruption and improve post-event recovery.

### Financial impact

#### Expenditure:

- Totex in line with long-term planning assumptions but with a higher level of investment required.
- Operating costs linked to the management of acute weather events and incidents (with greater frequency).

#### Revenue:

- Impact on revenue allowance associated with ODI penalties (interruptions and C-MeX) with greater frequency.

#### Assets and liabilities:

- Potential write-off or impairment of assets that may not be resilient to flooding or that need accelerated replacement to ensure resilience of the water supply system.

## Climate-related disclosures continued

### 6. Sea level rise and coastal erosion

Sea level rise and coastal erosion affecting access to or causing saline intrusion in groundwater sources.

#### Short-term and medium-term

In the short-term to medium-term, under the orderly and disorderly scenarios, erosion from sea level rise may compromise access to one of our coastal sites.

#### Strategic responses

- Monitoring of beach and cliff with ad-hoc maintenance and material replenishment.
- Re-route access roads to sites vulnerable to erosion.

#### Financial impact

##### Expenditure:

- Totex in line with planning assumptions (including specific schemes for the protection of affected sites).

#### Long-term

In the long-term, under all scenarios, sea level rise may potentially lead to the permanent loss of certain sites and under the hot house and pessimistic scenarios, greater sea level rise would be likely to result in saltwater intrusion in aquifers leading to a permanent loss of water sources or requiring changes to treatment processes (and especially under the pessimistic scenario which assumes a misalignment of policies, third-party land users potentially abstracting unsustainably may exacerbate the risk). Restoring of groundwater sources to mitigate saline intrusion would require developing alternative water sources.

#### Strategic responses

- Continuation of short-term and medium-term response.
- Investment in alternative water sources to replace sources lost due to coastal erosion/saline intrusion.

#### Financial impact

##### Expenditure:

- Totex in line with long-term planning assumptions with higher level of investment required (e.g. to develop new sources or new treatment processes).
- Operating costs relating to additional treatment and changes to the operation of sources (e.g. resting groundwater).

##### Assets and liabilities:

- Write-off of sources/assets permanently affected by coastal erosion or saline intrusion.

## Metrics and targets

### Metrics and targets in 2021/22

Our business plan for 2020 to 2025 includes a target to reduce our operational emissions to 58 kgCO<sub>2</sub>e/Ml by 2025, including all scope 1, 2, and 3 emissions. This represents a reduction of our operational emissions of 80 per cent by 2025 (when compared to 2017/18).

Building on that commitment, we published a net-zero roadmap in July 2021. It outlines our strategy to both secure our 2025 price review period performance commitments and our 2030 target as part of the industry public interest commitment (PIC). Our net zero commitment seeks to achieve an estimated 98 per cent reduction in our operational direct carbon emissions through direct interventions, with the remaining two per cent requiring insetting (e.g. carbon sequestration on company land) and offsetting regionally and in the UK. This reduction is assumed as being measured by reference to a 2018/19 operational emission baseline. Our net zero emission commitment by 2030 does not relate to emissions by our supply chain or embedded carbon, but work is underway to be able to first report on embedded carbon for 2022/23.

We continually review how we can minimise our carbon emissions, which includes assessing potential renewable options, in-depth energy management reviews, extended metering, and our capital maintenance programme of replacing older assets such as pumps with newer more efficient pumps which will reduce our energy consumption and carbon emissions. We are also exploring more advanced analytics surrounding energy, identifying sites that are inefficient based on energy trends and would therefore benefit from a revised process or improved assets.

As part of the implementation of our net zero roadmap our board has approved proposals to enter into power purchase agreements, initially relating to solar and subsequently to wind, in order to be able to demonstrate that we are contributing to the development of new renewable energy capacity and enabling further decarbonisation at a UK level.

We have entered into negotiations for the development of our first solar PPA, to be delivered via the national grid. We expect to conclude negotiations in autumn 2022. Given our objective to secure new projects to aid UK decarbonisation we expect the project to be commissioned in 2025. To support our renewable drive we are also looking to develop opportunities to install solar on our own sites, thus reducing our grid requirement.

For 2021/22, our target has been to reduce carbon emissions to 119.9 kgCO<sub>2</sub>e/Ml. Our market based reporting reflects the fact that the electricity we received from our specific electricity provider comes 100 per cent from renewable sources, which explains why under that method of reporting our reported emissions are 30.4 kgCO<sub>2</sub>e/Ml. We have therefore met our target for the year 2021/22. Reporting under location based reporting guidelines, which reflects the average UK emissions intensity of grids on which energy consumption occurs, our performance would be 184.9 kgCO<sub>2</sub>e/Ml.

Our original objective for the 2020 to 2025 period was to offset our energy grid consumption through renewable energy guarantee of origin (REGO) arrangements. Such an arrangement was an intermediate step before securing direct green PPAs. For the 2021/22 period we had REGOs in place, which is the key driver for our market based reduction in GHG emissions. However the volatile energy market has led to REGO increases of greater than 1000 per cent, and in combination with significant wholesale energy increases we have decided this no longer provides good value for our customers, and to focus instead on securing direct green PPAs. A consequence will therefore be that our market based GHG emissions will now increase in subsequent years until green PPAs come into effect. We do, however, continue to monitor the REGO market and downward change in cost could lead to a reassessment of our short-term intermediate strategy.



## Climate-related disclosures continued

### Emissions reporting

#### Methodology

We measure and report our emissions under scope 1, 2 or 3 using the methodology described below.

We use the UKWIR Carbon Accounting Workbook (CAW) provided for all UK water companies to give a consistent and transparent approach for accounting for greenhouse gas (GHG) emissions from annual operational activities. The CAW provides estimates of the GHGs identified in the Kyoto Protocol, which are produced as a result of the operational activities of water companies, including water treatment and distribution and sludge management. Estimates are made following guidance published by Defra and BEIS, as well as international guidance.

The tool is used by UK water companies to report progress internally and prepare information for reporting performance to regulatory bodies, voluntary reporting schemes and customers. The tool is updated annually as required in line with UK publication of conversion factors used for estimating GHG emissions. The report is therefore a suitable tool for reporting SECR requirements.

The data is compiled from various sources across the business and placed into a carbon accounting information pack before being transcribed into the appropriate areas of the CAW. This allows the CO<sub>2</sub>e figures for the company to be compiled, which are then externally audited. This data is then used to calculate the total associated kWh for purchased energy and transport using recent year emission factors.

External assurance of the processes and data for our GHG emissions has been carried out by Ricardo Energy & Environment (REE).

In undertaking the verification exercise, REE has reviewed our carbon footprint data collection and calculation methodologies against the requirements of ISO 14064-1 (Specification with guidance at the organisation level for quantification and reporting of greenhouse gas emissions and removals) and the GHG Protocol Corporate Standard.

REE has carried out a limited level verification, which included the review of:

- The data held within our Carbon Accounting Workbook v15 (CAW) which is used to manage our carbon management and footprinting.
- The primary data on which the CAW is based (contained within the 'Carbon accounting info pack').
- The process manual which defines the methodology we used for our carbon management and reporting processes.

Based on the process and procedures they carried out, REE concluded that there is no evidence that the 2021/22 GHG assertion (i) is not materially correct and is not a fair representation of GHG data and information and (ii) has not been prepared in accordance with the ISO 14064 1 and the GHG Protocol Corporate Standard.

We provide below mandatory reporting on our emissions as required under Part 7A, Schedule 7 Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, as well as emission reporting according to Ofwat requirements.

## Streamlined energy and carbon reporting (SECR)

Location Based Greenhouse gas (GHG) emissions	2019/20	2020/21	2021/22	Unit
<b>1 Annual quantity of GHG emissions for the purposes of transport</b> No gas is used for the purpose of transport. The consumption of fuel for the purpose of transport falls into several categories: fleet vehicles, company cars.	1,785	1,612	1,576	tCO <sub>2</sub> e
<b>2 Annual quantity of GHG emissions resulting from the purchase of electricity for own use (including for the purpose of transport)</b> The electricity usage is divided into four categories: pumping, treatment, administration and transport.	35,960	33,921	30,530	tCO <sub>2</sub> e
<b>3 Aggregate equivalent kWh for emissions under 1 and 2 above</b>	149,143,179	153,127,128	151,516,643	kWh
<b>4 GHG emission intensity metric</b> Operational GHG emissions per mega litre of treated water based on the emissions set out under 1 and 2 above.	198	180	164	kgCO <sub>2</sub> e /Ml
Market Based Greenhouse gas (GHG) emissions	2019/20	2020/21	2021/22	Unit
<b>1 Annual quantity of GHG emissions for the purposes of transport</b> No gas is used for the purpose of transport. The consumption of fuel for the purpose of transport falls into several categories: fleet vehicles, company cars.	1,785	1,612	1,576	tCO <sub>2</sub> e
<b>2 Annual quantity of GHG emissions resulting from the purchase of electricity for own use (including for the purpose of transport)</b> The electricity usage is divided into four categories: pumping, treatment, administration and transport.	35,960	41,843	0	tCO <sub>2</sub> e
<b>3 Aggregate equivalent kWh for emissions under 1 and 2 above</b>	149,143,179	153,127,128	151,516,643	kWh
<b>4 GHG emission intensity metric</b> Operational GHG emissions per mega litre of treated water based on the emissions set out under 1 and 2 above.	198	219	8	kgCO <sub>2</sub> e /Ml

## Climate-related disclosures continued

Adjustments were made to the 2020/21 figures for location based greenhouse gas (GHG) emissions to reflect the appropriate SECR recommended emissions factors.

Further details on the methodology and assurance process for the data used for our streamlined energy and carbon reporting (SECR) and voluntary reporting on scope 1, 2 and 3 emissions and on the principal measures taken in 2021/22 for increasing our energy efficiency are set out on pages 119 and 120.

### Scope 1, 2 and 3 energy and carbon reporting (Ofwat reporting requirements)

Using the methodology described on page 120 we measure and report on all our scope 1, 2 and 3 emissions annually to Ofwat and a summary is provided below.

**Scope 1 (direct) emissions** are emissions from activities owned or controlled by us that release emissions into the atmosphere.

**Scope 2 (energy indirect) emissions** are emissions associated with our consumption of purchased electricity, heat, steam and cooling.

**Scope 3 (other indirect) emissions** are emissions that are a consequence of our actions and that occur at sources that we do not own or control, and that are not classed as scope 2 emissions (for example, emissions from business travel by means not owned or controlled by us or emissions associated with our supply chain).

**CO<sub>2</sub>e** – Carbon dioxide equivalent or CO<sub>2</sub>e means the number of metric tons of CO<sub>2</sub> emissions with the same global warming potential as one metric ton of another greenhouse gas.

Location Based	2019/20	2020/21	2021/22	Unit
<b>Scope 1</b>				
1 Direct emissions from burning of fossil fuels (including natural gas CHP* generated onsite)	484	508	510	tCO <sub>2</sub> e
2 Process and fugitive emissions**	1,106	1,250	1,393	tCO <sub>2</sub> e
3 Transport: Company owned or leased vehicles	1,785	1,612	1,576	tCO <sub>2</sub> e
<b>Scope 2</b>				
4 Total grid electricity used by company (including CHP* electricity purchased)	36,255	34,200	30,845	tCO <sub>2</sub> e
<b>Scope 3</b>				
5 Business travel on public transport and private vehicles used for company business	41	40	29	tCO <sub>2</sub> e
6 Outsourced activities (if not included in scope 1 or 2) Energy and other	3,935	3,560	3,230	tCO <sub>2</sub> e
7 Total grid electricity used by company (including CHP electricity purchased) – Transmission and Distribution***	3,078	2,940	2,730	tCO <sub>2</sub> e
<b>Gross emissions</b>				
8 Gross operational emissions	46,684	44,108	40,312	tCO <sub>2</sub> e

Location Based	2019/20	2020/21	2021/22	Unit
<b>Intensity metric</b>				
9 Operational GHG emissions per mega litre of treated water	209	192	185	kgCO <sub>2</sub> e /Ml
This metric includes all scope 1, 2 and 3 emissions for energy for pumping and treatment except energy emissions relating to administration. (This metric includes emissions from diesel generators used at sites and from ozonation at sites.)				
Market Based	2019/20	2020/21	2021/22	Unit
<b>Scope 1</b>				
1 Direct emissions from burning of fossil fuels (including natural gas CHP* generated onsite)	484	508	510	tCO <sub>2</sub> e
2 Process and fugitive emissions**	1,106	1,250	1,393	tCO <sub>2</sub> e
3 Transport: Company owned or leased vehicles	1,785	1,612	1,576	tCO <sub>2</sub> e
<b>Scope 2</b>				
4 Total grid electricity used by company (including CHP** electricity purchased)	36,255	41,800	0	tCO <sub>2</sub> e
<b>Scope 3</b>				
5 Business travel on public transport and private vehicles used for company business	41	40	29	tCO <sub>2</sub> e
6 Outsourced activities (if not included in scope 1 or 2) Energy and other	3,935	3,560	3,230	tCO <sub>2</sub> e
7 Total grid electricity used by company (including CHP electricity purchased) – Transmission and Distribution***	3,078	2,940	2,730	tCO <sub>2</sub> e
<b>Gross emissions</b>				
8 Gross operational emissions	46,683	51,800	9,467	tCO <sub>2</sub> e
<b>Intensity metric</b>				
9 Operational GHG emissions per mega litre of treated water	209	230	30	kgCO <sub>2</sub> e /Ml
This metric includes all scope 1, 2 and 3 emissions for energy for pumping and treatment except energy emissions relating to administration. (This metric includes emissions from diesel generators used at sites and from ozonation at sites.)				

\*CHP - Combined Heat and Power – a process that captures and utilises the heat that is a by-product of the electricity generation process.

\*\*Process emissions are a consequence of physical or chemical processes (for example in our water treatment). Fugitive emissions include intentional and unintentional releases (for example refrigerant in air conditioning units).

\*\*\*Electricity which is lost in the transport and distribution system used for delivering purchased electricity.

# Non-financial information statement 2021/22

This statement provides an overview of the information in the annual report on non-financial matters that helps readers understand our development, performance, position and the impact of our activity.

## Description of our business model

Our business model is focused on value creation through responsible business, a long-term focus, engagement with stakeholders and collaboration.

Our business model on page 17  
Our strategy and our 2020 to 2025 business plan on pages 16 and 50  
Our purpose on page 4 - Our vision on page 6

## Non-financial key performance indicators

Our performance commitments set out in our price determination by Ofwat measure the key aspects of our service and of the delivery of our statutory duties.

Health and safety and responsible business metrics are included in our annual incentive plan (AIP) and our senior managers bonus scheme.

Our business performance on page 58  
Our responsible business commitments on page 80  
Our AIP metrics on pages 191 and 192  
Trusted and reliable service on page 26

Our principal risks and factors impacting these areas of risk.

Our risk management on page 30  
Our principal risks on page 34

## Our key policies, strategies and outcomes on:

Our section 172(1) statement on page 78  
How we create value for others on page 22

## The environment

- Protecting and enhancing the environment is part of our purpose which is incorporated into our articles of association and our directors duties.
- Our corporate environmental resilience policy.
- Our 25 year environment plan which sets out how we will limit our impact on the environment and improve its overall health and how we will work to improve environmental resilience to the effects of drought, flooding and increasing demand for tap water.
- We deliver an extensive environmental programme and biodiversity improvements on our SSSIs (WINEP).
- We have specific environmental and emissions reduction performance commitments.
- We manage long-term water resources through our water resources management plan in a way that ensures sustainable abstraction, delivers environmental ambition and takes account of climate change.
- Our drought plan sets out steps to manage drought in a way that minimises our impact on the environment.
- We contribute to the water industry's public interest commitment to achieve net zero carbon emissions by 2030 and to leakage reduction by 2050.
- We have adopted a carbon reduction strategy for 2020 to 2025 and a net zero routemap to achieve net zero by 2030.
- Climate change is an integral part of our strategic planning.

Flourishing environment on page 126  
Our 25 year environment plan on page 53 and online [southeastwater.co.uk/25yp](https://southeastwater.co.uk/25yp)  
Our performance commitments on page 58  
Our water resources management plan on page 52  
Our net zero routemap at [southeastwater.co.uk/routemap](https://southeastwater.co.uk/routemap)  
Our climate change adaptation report at [southeastwater.co.uk/climate](https://southeastwater.co.uk/climate)  
Our climate-related disclosures on page 94



<b>Our employees</b>	<ul style="list-style-type: none"> <li>■ Our comprehensive people plan defines our strategy on all employment and people matters for 2020 to 2025, including diversity and inclusion and development.</li> <li>■ Our apprenticeship scheme that promotes social mobility.</li> <li>■ Our values and behaviours are part of our assessment of employees' performance.</li> <li>■ We are a Living Wage employer.</li> <li>■ We achieved IIP silver certification and our ambition is to achieve gold certification.</li> <li>■ We have a comprehensive Thrive 365! – health, safety and wellbeing strategy including mental health and a Thrive 365! leadership Charter.</li> <li>■ Health, safety and quality policy.</li> <li>■ Our responsible business commitments include a commitment to ensure fair pay, reward and recognition for all our employees and to reduce our gender pay gap.</li> <li>■ Speaking Up (Whistleblowing) policy.</li> </ul>	<p>Thriving people on page 54</p> <p>Our people on page 86</p> <p>Our gender pay gap report at <a href="https://southeastwater.co.uk/paygap">southeastwater.co.uk/paygap</a></p> <p>The health, safety and wellbeing metrics in our AIP, page 192</p>
<b>Social matters</b>	<ul style="list-style-type: none"> <li>■ BS 18477 certification on inclusive service provision.</li> <li>■ Our business plan for 2020 to 2025 includes commitments on priority service and vulnerability.</li> <li>■ Our vulnerability strategy is designed to increase our support to all our vulnerable customers and to help them access our support.</li> <li>■ We have adopted 10 responsible business commitments which will be delivered under the oversight of our responsible business committee.</li> <li>■ Water industry public interests commitments social mobility pledge.</li> </ul>	<p>How we create value for others on page 22</p> <p>Community and society focused on page 72</p> <p>Our customers and community on page 84</p> <p>Our stakeholders and regulators on page 88</p>
<b>The respect for human rights</b>	<ul style="list-style-type: none"> <li>■ Ethical purchasing policy.</li> <li>■ Modern slavery policy and statement.</li> <li>■ We monitor our own compliance and our supply chain compliance with modern slavery legislation.</li> <li>■ Our procurement selection process considers matters related to human rights and modern slavery.</li> <li>■ We require our supply chain to apply similar standards as ours.</li> </ul>	<p>Our modern slavery statement is available online at <a href="https://southeastwater.co.uk/modern-slavery">southeastwater.co.uk/modern-slavery</a></p>
<b>Anti-corruption and anti-bribery</b>	<ul style="list-style-type: none"> <li>■ We provide regular training to our employees on these matters.</li> <li>■ We require our supply chain to apply similar standards as ours.</li> <li>■ Hospitality gratuities and gifts policy.</li> <li>■ Conflict of interests policy.</li> <li>■ Speaking Up (whistleblowing) policy.</li> </ul>	

Every year, we publish a performance, people and planet report with information on our non-financial performance and our corporate social responsibility in a clear and accessible format. Our performance, people and planet report is at [performance.southeastwater.co.uk](https://performance.southeastwater.co.uk)

# Flourishing environment

Operating in an environmentally diverse and water stressed area, we need to make the right choices for our local communities and the environment.

**We are proud guardians of the environment and recognise the privilege and responsibility this brings.**

From 2020 to 2025, we have committed to invest £59.4 million in our National Environment Programme to benefit our natural habitats.

A total of 29 Water Industry National Environment Programme (WINEP) schemes were delivered during 2021/22, the highest number of WINEP projects we have delivered in a single year. Working at this scale was only made possible through partnership links with universities and our newly recruited in-house technical team.

Our partnership with Natural England allowed us to deliver bespoke advice to support land managers in moving towards more sustainable practices, protecting 5,986 hectares of land and exceeding our target of 5,687.

In our Woodgarston groundwater catchment in Hampshire, we worked with many farmers to prevent excess nitrogen from reaching the aquifer beneath the land. Two farms are part of our cover crop trials, which help us to quantify nitrogen retained and lost.

Rather than leaving the fields bare in winter after the cash crop has been harvested, we funded the use of cover crops, grown to hold the soil together and prevent farm chemicals from reaching the aquifer below.







The year culminated with the finalisation of our industry-leading draft 25 year environment plan



Trials of cover crops observed a 30 per cent reduction in average nitrate leaching compared to where no cover crop was established. This equates to an average value of 36.45 kilograms of nitrate per hectare retained for the following cash crop.

In addition to our work with others, we carefully manage our own land holdings.

These include 33 Sites of Special Scientific Interest, a National Nature Reserve, two local nature reserves and numerous Areas of Outstanding Natural Beauty.

By 2025, we have committed to increase the amount of our own land which is managed for biodiversity from 47 per cent to 67 per cent, reaching 64 per cent to date.

Last year, we surveyed 60 of our sites which did not have an existing management plan, using our in-house Biodiversity Metric tool.

We also appointed a Biodiversity Delivery Ranger to carry out habitat management works such as coppicing, hedge laying and invasive non-native species control. Our grass-cutting regimes also changed to improve habitats for wild flowers and pollinators.

As well as looking after our natural world today, we are looking far ahead to increase our resilience and adaptability to major challenges such as climate change.

We have already seen a big reduction in our CO<sub>2</sub> emissions in the last five years. As a key part of our 2015 to 2020 investment programme, our operational carbon in tonnes has reduced by 38 per cent, but we're not stopping there.



Flourishing environment continued







**29 Water Industry National Environment Programme (WINEP) schemes were delivered during 2021/22, the highest number of WINEP projects we have delivered in a single year**



We aim to achieve operational carbon net zero by 2030, by increasing energy efficiency, using renewable sources, avoiding direct emissions, working with customers, investing in nature-based solutions and much more.



Find out more  
[southeastwater.co.uk/netzero](https://southeastwater.co.uk/netzero)

In Seaford, East Sussex, we sponsored three Refill points in support of the national Refill campaign, which aims to reduce single use plastic waste by encouraging the re-use of bottles with tap water.

The year culminated with the creation of our industry-leading draft 25 year environment plan, which sets out how we'll improve the environment within a generation.

Over the course of seven months we worked with more than 250 customers, employees and stakeholders to create our draft plan, before holding a five-week consultation to gain feedback on the plan that we created.

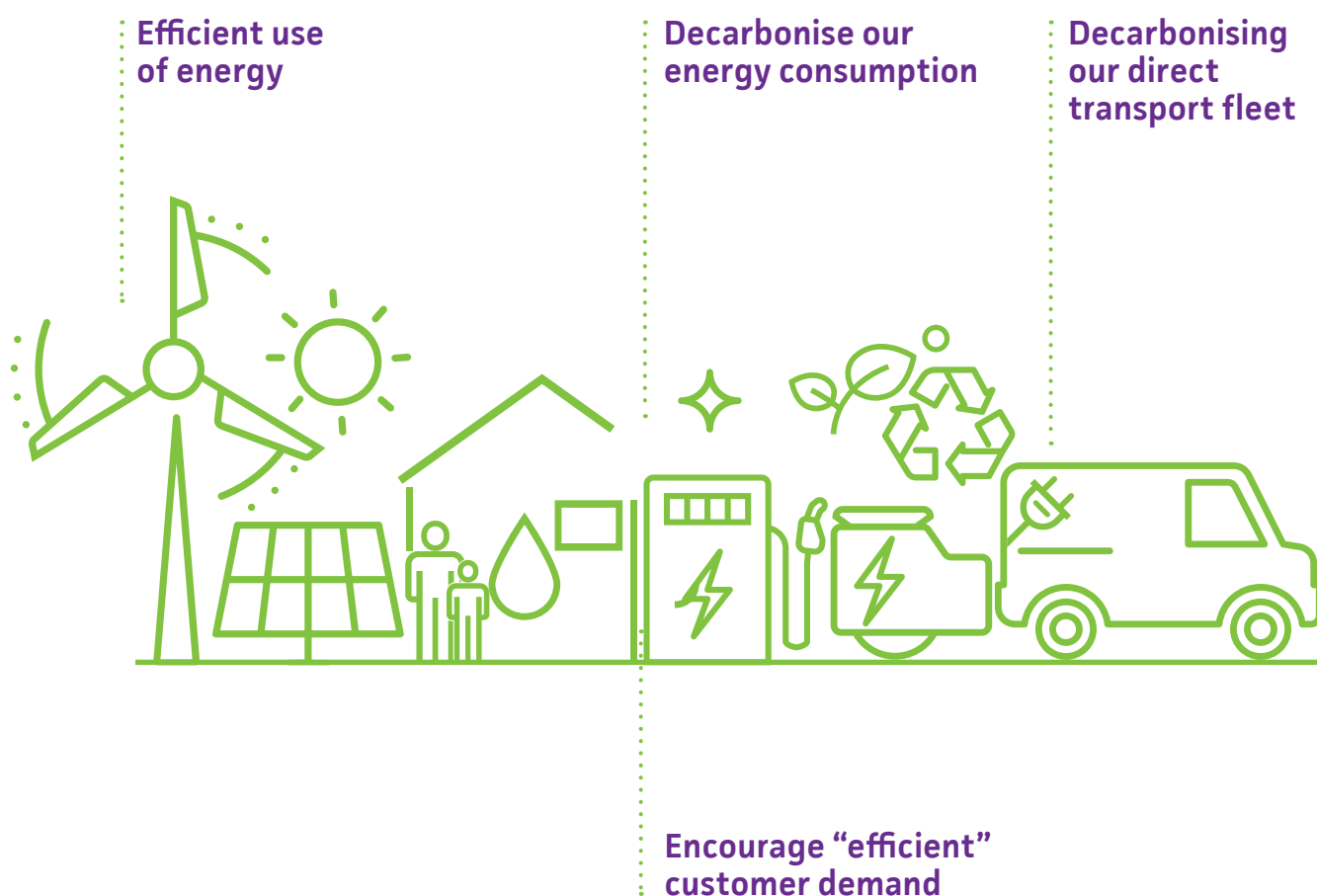
This plan provides a framework to help us manage all aspects of the environment holistically and allow us to make transparent decisions which lead to the best overall outcome for the environment in the long-term.

For us, it's about more than just continuing to supply water – we care deeply about the environment and want to protect and enhance it for future generations.



# Our Environmental Route Map

Protecting the environment that we work in and abstract water from is a value that is embedded into the heart of our day-to-day operations.



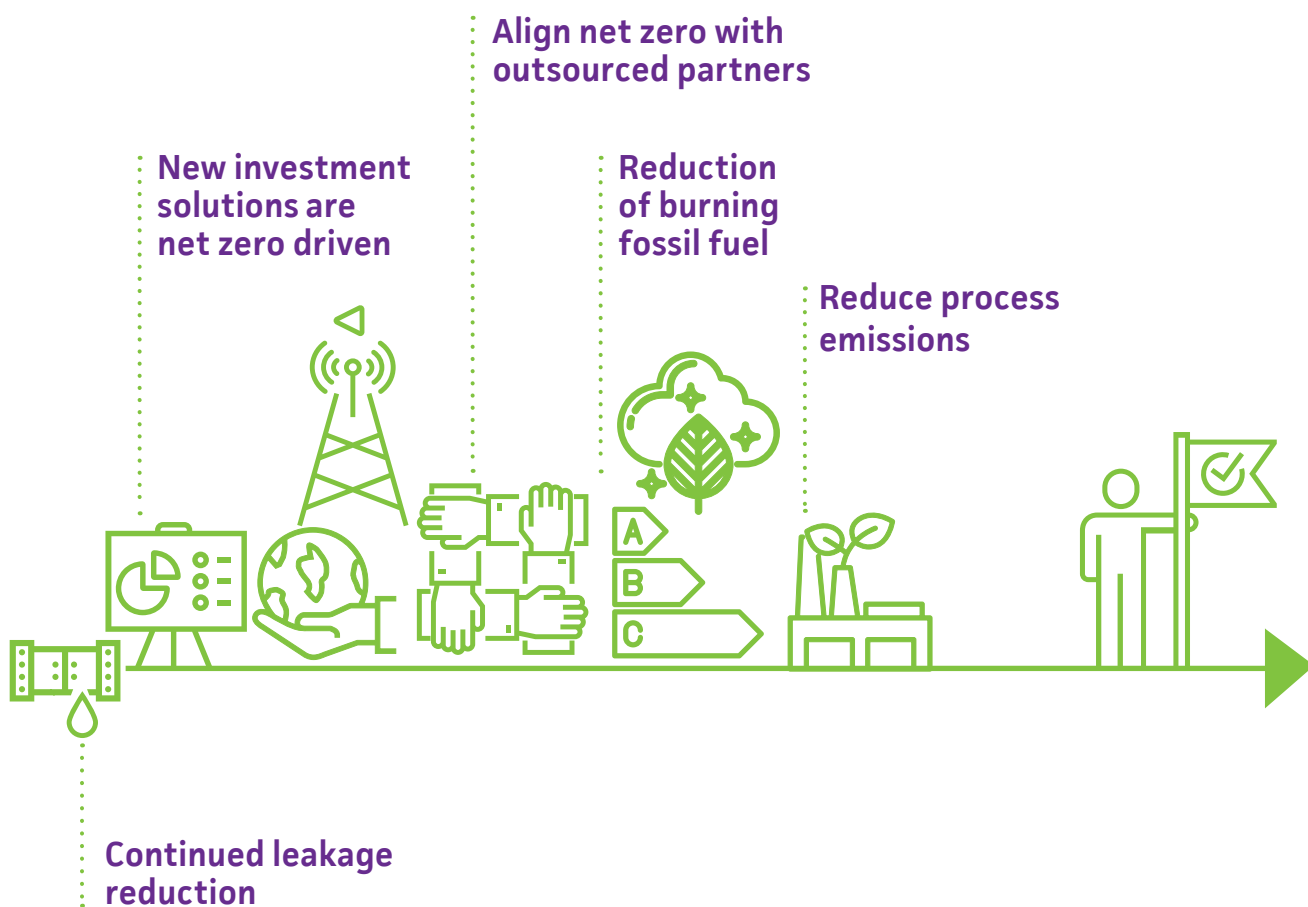
## Our Route to Net Zero

Climate change is one of society's greatest challenges and it's something that we're acutely aware of. Protecting the environment that we work in and abstract water from is a value that is embedded into the heart of our day-to-day operations.

Maintaining the status-quo will only make the future challenges greater for the environment and for our customers. So, at South East Water we are committing to becoming operational net zero carbon by 2030.

“

Climate change is one of society's greatest challenges and it's something that we're acutely aware of



Find out more about Our Route to Net Zero:  
[southeastwater.co.uk/netzero](https://southeastwater.co.uk/netzero)

# Position and prospects

In this statement from our board we provide an overview of the position and prospects of the business at the end of the financial year and a forward look on our challenges and main objectives for 2022/23 for the implementation of our corporate plan for 2020 to 2025.

## How we have performed for those we serve in 2021/22

In the context of the continued impact of the Covid-19 pandemic and increasingly challenging macroeconomic conditions, our overall performance against our core service delivery commitments was good in 2021/22. Our actual performance was better than target for many of them, including leakage reduction, the number of mains repairs, the compliance risk index, unplanned outage, the appearance of water, the taste and odour of water, the number of properties at risk of low pressure and the number of household voids.

As an indicator of our overall performance improvement against our financial ODIs, we have met 13 of them (out of a total of 15 excluding the pcc and non-household voids commitments which will be assessed by Ofwat at the end of the current regulatory period and excluding the C-MeX and D-MeX measures which are based on our relative performance with other companies and is not yet known) and we improved performance year on year in respect of 12 of them.

However, our performance on interruptions is below target for the second consecutive year despite the improvement achieved in 2021/22. Our reported interruption figure for 2021/22 (01:12:33 against a target of 00:06:08) includes the impact of Storm Eunice but we have applied for an exemption to Ofwat with a view to exclude the penalty attributable to Storm Eunice from the assessment of this ODI. This is due to the exceptional nature of this weather event and the fact that the disruption to our service was caused by repeated interruptions to our own electricity supplies.

Overall, we incurred a net penalty of £3.2 million in 2021/22 including an estimate of penalties under C-MeX and D-MeX and the impact of Storm Eunice. This compares to a total net penalty in 2020/21 of £4.4 million (using the final C-MeX and D-MeX figures as assessed by Ofwat). This should be understood in the context of challenging targets which become

more stretching year on year, where penalties may still be incurred despite achieving real improvements in performance.

We have met all our non-financial common performance commitments including those relating to our priority service register. We also met our commitment relating to the DWI event risk index (ERI).

Our aim is to achieve improvements in customer satisfaction but despite our initiatives we have not achieved the improvements that we were targeting under our bespoke non-financial performance commitments. At the end of the year 53,981 customers benefited from our social tariff. We did not achieve our target of 58,000, but we will continue our efforts to increase the number of beneficiaries building on innovative data sharing with local authorities.

## Our performance in detail

We include more information on our performance during the year and our key investment in our strategic report (part of our annual report) for 2021/22:

- In the Chair and CEO joint report on page 8.
- In our business performance section on page 58.
- In the review of our strategic theme: trusted and reliable business on page 26.
- In tables 3A to 3H of our annual performance report at [southeastwater.co.uk/about/resources/publications/financial-reports](https://southeastwater.co.uk/about/resources/publications/financial-reports)

The microsite for our performance, people and planet report provides detailed information on our performance and our corporate social responsibility in a clear, accessible and interactive format. Our microsite is available at:



[performance.southeastwater.co.uk](https://performance.southeastwater.co.uk)

Our performance can be compared with other water companies by visiting [www.discoverwater.co.uk](https://www.discoverwater.co.uk) which has been developed to provide more transparency on performance in the industry. This is an important tool to enable stakeholders to compare our performance to ensure we are striving for continuous improvement and stretching ourselves to provide the best possible service.

## Challenges ahead

Current economic conditions with high inflation and rising interest rates will be challenging for our financial performance and resilience, and the cost of living crisis will affect many of our customers in 2022/23, with a possible impact into 2023/24. This risk has been assessed as major and increasing in our assessment of principal risks, reflecting the current deterioration of macroeconomic conditions. Our assessment of this risk is set out on page 36. We expect the following challenges in 2022/23:

- **Our input costs will continue to increase.**
- **Bad debt and the number of customers needing financial support will increase.**
- **Revenue from our non-regulated activities may be negatively affected by current economic conditions, as well as the level of new connections and contributions from development activities.**
- **Our borrowing cost may also increase.**

Our good leakage performance this year places us in a strong position for next year, but our ambitious leakage reduction target will remain a challenge for the rest of this regulatory period.

As we experienced in the past few years, weather events can significantly affect our operations, those of our suppliers and our service to customers. Storm Eunice was another example this year of the impact that extreme weather events can have on our supply chain and in this case on our power supply.

In 2022/23, we want to reduce our interruptions and for that will continue to work to improve our readiness, the resilience of our network and our ability to respond to incidents. These events are already more frequent, and this emphasises the need to prepare for the future and improve the resilience of our supply system to climate change.

## Our priorities for 2022/23

2022/23 will be a crucial year for our long-term planning to 2050 and beyond, and for the preparation of our business plan to 2030 that will represent the first five years of our long-term delivery strategy.

We will publish our 25 year environment plan later this year and will consult on our draft water resources management plan based on the WRSE regional plan.

Our long-term plans need to take account of greater uncertainty than before and deal with an increasingly complex combination of factors. We will publish a strategic direction statement and will continue to develop our long-term adaptive planning methodology to support the preparation of our next business plan.

We will develop the analysis of our climate-related risks through scenario analysis and introduce quantitative analysis of the financial impact of climate change.

Our “licence to operate” relies on us getting the basics right by delivering our core services well and constantly improving. This means that in 2022/23 we will continue to focus our efforts on the fundamentals of reliable water supply, high quality drinking water, excellent customer service and driving down leakage.

Building on the performance improvements we have made over the last 12 months we will work to:

- **Improve our ranking position across key comparative measures.**
- **Create a company-wide resilience plan that will feed into our business plan for PR24.**
- **Develop a customer service improvement programme and a customer satisfaction improvement programme.**
- **Develop further our successful data share arrangements and partnerships for the delivery of our vulnerability strategy.**
- **Improve PCC reduction through behavioural change.**
- **Implement our cloud strategy and related data strategy.**
- **Procure additional green energy solutions aligned to our sustainability goals and achieving operational net zero by 2030.**
- **Develop further our plans for the implementation of our leakage, smart network and calm network strategies to AMP7 and AMP8.**

# Long-term viability statement

To prepare our long-term viability statement (LTVS), we have conducted our long-term viability assessment, taking into consideration our business model, our current financial position, and principal risks that can affect our business.

The company is a regulated long-term utility business characterised by multi-year investment programmes and stable revenues. The water industry in England and Wales is currently subject to economic regulation rather than market competition and Ofwat, the economic regulator, has a statutory obligation to ensure that water companies are able to finance their appointed activities. Ofwat meets this obligation by setting price controls for five-year Asset Management Periods ('AMPs'). This mechanism reduces the potential for variability in revenues from the regulated business. The current AMP (AMP7) runs until March 2025.

Our assessment of the current financial position is set out on page 66.

Our long-term viability assessment reviewed the company's prospects and considered the principal risks and uncertainties. Downside sensitivities have been developed based on an assessment of the likelihood and financial scale of these principal risks. Stress tests have been performed based on these downside sensitivities (individually and in combination) to assess the potential impacts of these risks and uncertainties. The assessment also considered the mitigating actions that might be taken to reduce the impact of such risks and uncertainties and the likely effectiveness of mitigating actions. Additional detail on the downside sensitivities tested is set out below.

## Impact of Covid-19 and socio-political uncertainty on the company's prospects

During the Covid-19 pandemic the government advised the public to work from home. This resulted in an unprecedented demand for water within our region due to the high population of London commuters. The worst of the pandemic is now behind us and work-from-home guidance is no longer in place. However, many people continue to work from home on a full or part-time basis as companies have embraced agile working on a more permanent basis. This change in working culture continues to drive higher demand for water within our region compared with pre-pandemic levels.

Russia's invasion of Ukraine has triggered wider political uncertainty and contributed towards a surge in power prices. UK inflation is currently at its highest level in over 30 years. The cost-of-living pressures now being experienced by our customers are expected to have some impact on cash collection, notwithstanding our additional support to help make bills affordable for our customers most in need. We have made allowance for the general pressures on household finances via additional bad debt provisions in our medium-term plan. We have also allowed for additional power cost headwinds within our base case assumptions.

## Assessment period

We have considered the appropriate length of time over which to provide the viability assessment. In making an assessment, we have taken account of the balance between the length of the period assessed and robustness of such analysis, alongside guidance from Ofwat. In considering our outlook period we had regard to the long-term nature of our business and the characteristics of our regulatory regime as described above.

On the recommendation of the audit and risk committee, and in line with Ofwat's guidance, we have assessed the prospects of the company over a period of 10 years to March 2032.



Analysis of resilience extending beyond 2025 remains subject to greater uncertainty surrounding the assumptions underpinning financial projections for the AMP8 price control period, with greater variability of potential outcomes.

Uncertainties arising from market competition within this period have been taken into consideration but do not affect the result of our assessment. This is due to the fact that monopoly activities form the main part of the business of the company.

## Regulatory mechanisms

The financial projections considered include the mitigation through the PR19 regulatory mechanisms such as cost sharing and the RPI/CPIH wedge. These result in adjustments to AMP8 revenues and opening RCV where ex post projections are not in line with ex ante allowances.

However, in line with the latest regulatory precedent set by the CMA PR19 FD, penalties associated with the Gearing Outperformance Sharing Mechanism are not included. The inclusion of the associated penalties was tested as a separate sensitivity and this did not result in material deterioration of financial resilience.

## Stress testing

The company reviews and considers the risks to which the business is exposed and potential impacts on viability on an ongoing basis; this includes structured, systems-based risk identification processes and management controls, robust budgeting and forecasting and continuous sensitivity analysis.

Principal risks represent all factors that could prevent the company from delivering its strategic objectives and business plan. As a result, not all principal risks translate directly into a downside sensitivity. The company has considered the principal risks and uncertainties for the company and their potential impact on viability. Where it is assessed that (1) a principal risk is likely to occur and (2) the financial impact could be material, the implications for financial resilience are assessed in the LTVS through defined downside sensitivities.

Based on the principal risks, we have identified below the relevant risk factors that can cause negative impact on the financial position of the company. We then construct downside sensitivities focusing on different combinations of the risk factors.

Our sensitivities combine qualitative and quantitative criteria and cover the following risk factors to assess their impact on liquidity and compliance with financial ratios until March 2032:

### ■ Outturn inflation under forecast

Inflation risk primarily relates to the fact that the price control is in real terms and the allowed revenue moves up by a designated inflation figure (CPIH for PR19) while some of the costs are fixed in nominal terms. This means that when inflation is lower than assumed when the real-term costs were calculated, the company will face the risk of underfunding on these elements.

### ■ Interest rate above forecast

Interest rate risk can result in an increase in borrowing rate for new debt raised, and it can increase the borrowing cost for any floating rate debt.

### ■ ODI penalties

The effect of ODI penalties as a result of unexpected adverse events can materialise within the AMP7 period through a reduction in revenue, which has been considered in our assessment.

### ■ Totex overspend

Totex over-spend is a risk that we have assessed carefully, when considering scenarios of company under-performance as well as unexpected costs due to severe weather-related incidents.

### ■ Retail cost overspend

Retail cost to serve forms a part of the allowed revenue, which the company may underperform against for reasons such as cost escalation and bad debt.

## Long-term viability statement continued

Our downside sensitivities include individual and combination scenarios that we considered to be severe but plausible. These are summarised in the table below:

Sensitivity tested	Specification of sensitivity	Related principal risks
<b>Macroeconomic shock - High inflation and interest/low inflation and interest</b>	The company's revenues are linked to inflation. Low or negative inflation tends to adversely impact profits and cash flows as decreases in revenues exceed decreases in costs. We have assessed the effects of RPI, CPIH and SONIA at the P10 and P90 levels during AMP7.	Economic environment and Financing
<b>Totex under-performance</b>	Significant overspending could result in a deterioration in financial metrics and performance, which could impact on the company's liquidity and credit rating. We have assessed the impact of an additional c.£64 million totex overspend during the remainder of AMP7 and up to a 21 per cent overspend during AMP8. The c.£64 million applied during AMP7 reflects repeated bad weather events and severe but plausible downsides for uncontracted power cost exposure, as well as additional capital expenditures on identified schemes. The 21 per cent stress test overspend for AMP8 reflects the P10 level based on historic performance across the sector.	Operational performance Investment programme delivery Water resources and climate change Delivery of business plan
<b>ODI penalty</b>	Failure to deliver performance at the committed level can lead to significant ODI penalties. We have assessed the impact of penalties equivalent to an additional £13 million during the remainder of AMP7 and £10 million per year during AMP8. The downside performance in AMP7 is a plausible worst case and is primarily attributed to 2024/25, reflecting 2022/23 performance as this is yet to be established. £10 million per year in AMP8 reflects the P10 downside based on historical analysis of the sector.	Operational performance Investment programme delivery Water resources and climate change Delivery of business plan and performance against ODIs
<b>Sustained adverse conditions</b>	<p>The company's risk management process has identified a number of risks including increasing costs of debt. This scenario considers a combination of high inflation and interest costs, cost overspending and operational underperformance. Significant overspending could result in a deterioration in financial metrics and performance, which could impact on the company's liquidity and credit rating.</p> <p>We have assessed £30 million wholesale totex under-performance and additional ODIs equivalent to £13 million for the next three years of AMP7, followed by totex and ODI underperformance based on the P40 levels during AMP8. We consider this level of performance could be compatible with sustained adverse macro conditions at the P90 level over the next three years of AMP7 and reverting to the P50 level during AMP8.</p>	Operational performance Investment programme delivery Water resources and climate change Delivery of business plan and performance against ODIs Economic environment and Financing

Sensitivity tested	Specification of sensitivity	Related principal risks
<b>Pervasive under-performance</b>	<p>The company's risk management process has identified a number of risks, including extreme weather events and failure of key assets that might have a significant impact on the company's operational and financial performance.</p> <p>This sensitivity will focus on shorter-term external shocks potentially caused by the wider economy, weather conditions, or a combination of the two, leading to short-term adverse effect on multiple risk factors.</p> <p>This downside scenario implies mean expected inflation and interest rates and plausible underperformance on both Totex and ODIs at the P50 level. £7 million additional retail opex overspend during the remainder of AMP7, relating to additional bad debts.</p>	<p>Operational performance</p> <p>Investment programme delivery</p> <p>Water resources and climate change</p> <p>Delivery of business plan and performance against ODIs</p>
<b>Severe downside</b>	<p>The company's risk management process has identified a number of risks, including extreme weather events and failure of key assets and that might have a significant impact on the company's operational and financial performance.</p> <p>This scenario represents a situation where several of the severe scenarios above occur simultaneously. This downside scenario implies a recession, defined as low inflation and interest rates, during the next five years. This is considered in parallel to severe underperformance on both Totex and ODIs, and c.£7 million of additional bad debts during the remaining years in AMP7.</p>	<p>Operational performance</p> <p>Investment programme delivery</p> <p>Water resources and climate change</p> <p>Delivery of business plan and performance against ODIs</p>

## Assessment results and mitigation strategy

The results of our assessment revealed that none of the stress-testing scenarios would lead to a default event in servicing the company's debt, nor would they lead to adverse impact on customer service or the company's ability to carry out normal operational activities.

Our securitised financing arrangements include covenants with trigger thresholds which are reported bi-annually. The baseline shows sufficient liquidity and clear headroom for debt covenants, when considering trigger thresholds.

However, in the absence of any mitigating action being taken, the most severe, but plausible, scenarios modelled indicate breaches of the trigger threshold in the adjusted interest cover ratio covenant for the remaining years of AMP7. Under the most extreme scenarios breaches continue throughout AMP8. This is not an event of default threshold. Any such breach

of the trigger threshold would activate initial creditor protections under the terms of the securitised financing arrangements, which are designed to maintain the company's creditworthiness without disrupting its ability to trade, such as restrictions on dividends.

None of the scenarios resulted in an impact on the company's expected financial viability that cannot be reasonably mitigated using the existing safeguards within the company's financing structure.

Our credit rating metrics are forecast to come under pressure during the remainder of AMP7 under the base case projections as well as the stress-test scenarios. This has the potential to result in downgrade action, and the directors will continue to monitor performance in this area closely.

## Long-term viability statement continued

The company has no further debt refinancing programmes scheduled during AMP7. The next scheduled refinancing will be in relation to a £120 million bank loan, due to mature in the year ending March 2026.

The assessment also considers potential mitigating actions that the company could undertake to reduce the impact of the sensitivities considered, which are further detailed in the following sections.

The directors have identified actions, including reducing discretionary outflows of funds and working with providers of finance that would be available to the company to mitigate the impact of adverse outcomes.

As part of the assessment of the resilience of the company and the regulated business, we take into account the impact of the overall HDF group structure (see page 64) and intra-group transactions. The resilience and viability of the group is assessed on a continuous basis, including any implications of the financial projections of the wider group for the regulated business and vice versa. We have not identified any issues from our recent analysis of viability across the group that are likely to impact on the resilience of the company.

The table below considers the potential implications for each downside scenario, prior to mitigating actions.

Sensitivity tested	Potential impacts on viability without mitigating action
<b>Macroeconomic shock - High inflation and interest/low inflation and interest</b>	<p>Financial covenant ratio projections remain above threshold levels in all forecast years.</p> <p>Credit rating metrics under this scenario are similar to the Base Case as higher/lower revenues, due to increased/decreased inflation, are offset by increased/decreased operating costs and higher/lower interest on debt.</p>
<b>Totex under-performance</b>	<p>The additional opex overspend causes a reduction in operating cash flow in all years through to the end of AMP8, resulting in a deterioration in credit metrics and covenant ratios.</p> <p>Covenant ratios which could result in an Event of Default remain above threshold levels under this scenario. However, this scenario does result in persistent breaches of the AICR threshold, causing a Trigger Event and preventing distributions out of the ring-fenced company.</p> <p>Credit metrics are projected to fall below BBB/Baa2 guidance levels through the majority of the 10 year forecast horizon and below Moody's AICR investment grade from 2023 to 2025. This could result in a rating downgrade in the absence of mitigating actions. However, the improving profile over this regulatory period, with a return above the investment grade level in 2027 would imply SEW would be able to maintain the minimum investment grade credit rating under this scenario.</p> <p>Due to the persistence and severity of this scenario it is projected that South East Water would deplete its existing revolving credit facility, requiring further capital injection towards the start of AMP8 in the absence of mitigating actions.</p>
<b>ODI penalty</b>	<p>This sensitivity does not fall below the covenant ratio thresholds that would result in an Event of Default at South East Water. It does however result in a temporary breach of the Adjusted ICR in 2024/25, resulting in distributions lock-up in that year.</p> <p>The increased ODI penalties, which are applied with a 2-year lag to revenues, cause a reduction in FFO, resulting in a deterioration of credit metrics. This would imply a downgrade to Baa3/BBB-, but it is assumed that SEW would maintain investment grade due to the increase in projected metrics in AMP8 to near Baa2/BBB guidance levels.</p> <p>There is sufficient available liquidity under this sensitivity.</p>

Sensitivity tested	Potential impacts on viability without mitigating action
<b>Sustained adverse conditions</b>	<p data-bbox="459 421 1449 539">Financial projections under this sensitivity do not fall below any of South East Water's financial covenant thresholds designated as an Event of Default. It does however result in a temporary breach of the Adjusted ICR in 2025, resulting in a Trigger Event and distributions lock-up in that year.</p> <p data-bbox="459 555 1449 674">Credit metrics are forecast to breach BBB/Baa2 guidance levels over the remainder of AMP7, before returning to above guidance levels from the start of AMP8. There is therefore a possibility that this scenario would lead to downgrade action, although investment grade is expected to be maintained.</p> <p data-bbox="459 689 1299 719">There is sufficient available liquidity at South East Water under this sensitivity.</p>
<b>Pervasive under-performance</b>	<p data-bbox="459 734 1449 853">Financial projections under this sensitivity do not fall below any of South East Water's financial covenant thresholds designated as an Event of Default. It does however result in breaches of the Adjusted ICR, resulting in a Trigger Event and distributions lock-up over the remainder of AMP7 before recovery in AMP8.</p> <p data-bbox="459 869 1449 1043">Moody's AICR is below Baa2 guidance from 2022/23 through to 2028/29 and falls to below investment grade level over the remaining years of AMP7. This implies a possible credit rating downgrade to Baa3 in the absence of mitigating actions. South East Water would likely maintain an investment grade credit rating under this sensitivity given the improved performance implied by projections in AMP8 being only moderately below the Baa2 guidance level.</p> <p data-bbox="459 1059 1449 1149">S&amp;P's FFO/Net debt is below the 5.0 per cent threshold throughout the remainder of AMP7. Under the current S&amp;P methodology this could result in a downgrade from BBB/stable to BBB-, which is above investment grade.</p> <p data-bbox="459 1164 1102 1193">South East Water has sufficient liquidity under this scenario.</p>
<b>Severe downside</b>	<p data-bbox="459 1209 1449 1328">Financial projections under this sensitivity do not fall below any of South East Water's financial covenant thresholds designated as an Event of Default. The Adjusted ICR ratio is persistently breached from 2022/23 to 2029/30 and gearing increases above threshold from 2026/27 to 2031/32. This results in Trigger Events occurring from 2022/23 to 2031/32.</p> <p data-bbox="459 1344 1449 1433">A Trigger Event is designed to act as an early warning event to reinforce creditworthiness and to reduce the likelihood of an Event of Default occurring. As a result, it is not considered to be an event that affects the long-term viability of the company.</p> <p data-bbox="459 1449 1449 1538">Moody's AICR falls below the 1.0x investment grade guidance level from 2022/23 to 2029/30. South East Water's investment grade credit rating therefore could come under pressure under this extreme downside scenario if no mitigating actions are taken.</p> <p data-bbox="459 1554 1449 1644">Similarly S&amp;P's FFO/Net debt and Debt/EBITDA breach the BBB thresholds persistently over the forecast period. This could result in a downgrade from BBB to BBB-, although remaining above investment grade.</p> <p data-bbox="459 1659 1449 1733">Due to the persistence and severity of this scenario, it is projected that South East Water would deplete its existing revolving credit facility towards the start of AMP8, necessitating a capital injection in the absence of mitigating actions.</p>



## Long-term viability statement continued

### Mitigating actions

In the event of more extreme but low likelihood scenarios occurring, there are a number of key mitigations available to the company.

The regulatory framework includes mechanisms to adjust future revenues and RCV to partially offset cost under recovery when compared to the Final Determination. As well as the protections that exist in the regulatory framework, a number of actions are available to mitigate more severe scenarios, which include the raising of new finance; capital programme deferral or reduction of discretionary expenditure; considering efficiency programmes which seek to reduce costs and bring costs in line with regulatory allowances; discussing the impact on debt covenants

with lenders and seeking a temporary waiver if necessary; the temporary restriction or re-phasing of dividend payments; and accessing additional equity.

For each scenario and sensitivity, we have considered and identified appropriate mitigations in the event that a severe scenario or sensitivity used for stress testing were to result in a significant deterioration in projected financial metrics. In selecting which mitigating actions to apply, we would seek to balance the interests of all stakeholders and, in particular, would prioritise mitigating actions that would not lead to a breach of our commitments to customers. The table below illustrates the relevant financial mitigating actions which would be considered in each scenario.

Description	Related scenarios/ downside sensitivities	Potential mitigating actions
<b>Change in inflation or interest rates</b>	<i>Sensitivity 1</i> High inflation and interest rates <i>Sensitivity 2</i> Low inflation and interest rates	Reduce discretionary expenditure. Manage liquidity by temporarily reducing working capital. Consider a temporary reduction in or re-phasing of dividends.
<b>Under-performance on ODIs</b>	<i>Sensitivity 4</i> ODI penalties All combination downside sensitivities	Draw down on available credit facilities. Reduce discretionary expenditure. Discuss the impact of debt covenants with lenders and seek a temporary waiver if required. Consider a temporary reduction in or re-phasing of dividends.
<b>Higher costs than FD</b>	<i>Sensitivity 3</i> Totex under-performance All combination downside sensitivities	Consider efficiency programmes which seek to reduce costs and bring costs in line with regulatory allowances. A reduction in discretionary expenditure. Consider a temporary reduction in or re-phasing of dividends. Draw down on available credit facilities. Discuss the impact of debt covenants with lenders and seek a temporary waiver if required. Discuss the temporary impact of external factors on credit metrics with rating agencies.
<b>Severe event – relating to weather, operational failure, or another exceptional event</b>	All combination downside sensitivities	Consider efficiency programmes which seek to reduce costs and bring costs in line with regulatory allowances. Reduction of discretionary expenditure. Manage liquidity by temporarily reducing working capital. Consider a temporary reduction in or re-phasing of dividends. Draw down on available credit facilities and consider increasing credit facilities. Discuss the temporary impact of external factors on credit metrics with rating agencies. Additional equity investment.

## Impact of climate change

We considered the effect of climate change on viability over the lookout period. We have included assumptions on the potential impact of significant weather events on our costs over that period, recognising however that the attribution of weather events to climate change in the short-term is difficult to ascertain objectively.

Our assessment of transitional and physical climate-related risks is summarised in our climate-related disclosures on page 94. This indicates that the impact of physical risks on our business could become more significant in the medium to long term. This is due to the fact that emission projections show a progressive increase in global temperature with relatively limited differences between projections until 2050. This means that the impact of physical risks is expected to materialise at a greater intensity from 2050 with differences across emission projections.

Our assessment of transitional risks has identified a potential impact on asset values and the need for investment linked in particular to the reduction of our emissions. This could include the potential reduction of existing asset lives when investing in alternative low carbon technology and assets.

However, we have not identified at this stage of our assessment and of our business planning and long-term investment planning any material impact on the value or lives of specific assets that can be directly linked to climate change over the lookout period.

## Viability statement

The board has assessed the viability of the company over a ten-year period to March 2032, taking into account the company's current position, principal risks, and effectiveness of any potential mitigating actions. Based on that assessment, the directors have a reasonable expectation that the company will be able to continue to operate and meet its obligations over the period to March 2032.

## Governance and assurance

The analysis underpinning this assessment has been through a robust internal review process. The board has reviewed and discussed the process undertaken by management, and also reviewed the results of the stress tests performed, including the key credit financial ratios, the company's liquidity, and ongoing ability to meet its financial covenants.

The board also provides robust internal assurance by reviewing and challenging the stress test scenarios selected and risk mitigation strategies. As part of the assurance process, the board has taken into account the principal risks and uncertainties facing the company, and the actions taken to mitigate those risks.

The board reviews and approves the medium-term plan on which this viability statement is based. The board also considers the period over which the assessment of prospects and viability statement should be made.

The audit and risk committee support the board in performing this review. In addition, our external auditor reviews this viability statement and the outputs of our stress testing as part of its normal audit procedures. It considers whether these are consistent with the directors' conclusion with respect to business viability, and if the processes undertaken are sufficient to support the statements made.

Their audit report, including comments on the viability statement, is set out in the annual report.

## Going concern statement

In preparing the financial statements the directors considered the company's ability to meet its debts as they fall due for a period of at least 12 months from the date of this report. This was carried out in conjunction with the consideration of the long-term viability statement above. The directors have, at the time of approving the financial statements, a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. In coming to this decision, they have considered the implications of the current economic uncertainty associated with various factors including the ongoing Covid-19 pandemic, supply chain constraints and pressures on household finances, and the impact these may have on the business. The directors have concluded that it is appropriate to continue to adopt the going concern basis of accounting in preparing the financial statements.

**This strategic report was approved by the board and is signed on its behalf by David Hinton, Chief Executive Officer.**

# Our Objectives

We measure success through 38 performance commitments and 10 responsible business commitments.

Our performance commitments and responsible business commitments reflect the most important aspects of the service we provide.

By achieving these commitments we will be providing a good service to all customers, both current and in the future.

## How we invest in your water



We've delivered a 4 ML/d reduction in leakage across the network

CAPITAL EXPENDITURE

**£105.0** million

12.6% increase year on year



We've invested £5.5 million in a nitrate removal plant to improve water quality at Woodgarston water treatment works



Construction on the Aylesford Reservoir continues with works due to complete in April 2023



“

We have laid approximately 21.5 km of water mains, delivering significant successes during the year across a number of projects



We use tunnelling techniques to minimise environmental impacts

## GOVERNANCE

- 144 Corporate governance statement
  - 144 Our directors
  - 147 Introduction from the Chair
  - 148 Board leadership and company purpose
  - 160 Division of responsibilities and board composition
  - 164 Appointment, succession and evaluation
  - 168 Transparency, audit, risk and internal control
- 172 Remuneration report
  - 172 Report from the remuneration committee
  - 174 Corporate governance principles
  - 176 Remuneration policy
  - 184 Executive remuneration for 2021/22
  - 196 Implementation of remuneration policy in 2022/23

# Corporate governance statement

**Our directors** on 14 July 2022

## Independent Non-Executive Directors\*



**Chris Train** OBE Independent Chair

Chris was appointed as an Independent Non-Executive Director on 24 February 2022 and became Chair on 1 April 2022. Chris has extensive experience in the utilities industry having been Chief Executive Officer of Cadent Gas Limited and Executive and Senior Adviser at CT Energy. Chris is an experienced executive and board director and is currently Non-Executive Chair of Clean Power Hydrogen and a Non-Executive Director of The Nuclear Decommissioning Authority. Chris is a Chartered Engineer and holds a Bachelor's Degree (Hons) in Fuel and Energy Engineering and an MBA.



**John Barnes**

John was appointed as an Independent Non-Executive Director on 28 January 2016. Prior to his more recent involvement with a start-up company developing renewable energy schemes, John had gained over 30 years' experience in the water industry, mainly in the UK, but with spells in the Middle East and New Zealand. John is a former Non-Executive Director of the Mid-Cheshire Hospitals Foundation Trust and was Executive Chair of All Change for Crewe, focused on making the most of inward investment to the town. John is a Chartered Engineer and holds a Bachelor of Engineering in Civil & Structural Engineering.



**Chris Girling**

Chris was appointed as an Independent Non-Executive Director on 30 October 2014. Chris, an experienced finance professional, has a background in a variety of sectors, including construction, support services, pharmaceuticals and aerospace. Chris retired as Group Finance Director of FTSE 250 Carillion plc in 2007 and since then he has chaired three audit committees and one pension fund. He is also a Non-Executive Director of Johnson Service Group. Chris is a Fellow Chartered Accountant and holds an MBA.



**Célia Pronto**

Célia was appointed as an Independent Non-Executive Director on 1 June 2018 and has a wealth of experience and expertise of the service sector in a range of industries. Célia is currently Managing Director at Love Home Swap, a subsidiary of RCI worldwide and a Non-Executive Director of Samworth Brothers (Holdings). She was previously Group Marketing & E-Commerce Director and Board Member of the Ford Retail Group and Chief Customer and Digital Officer of Casual Dining Group Ltd. Célia is also a founding member and Chair of the advisory council of MarketingKind. Célia holds a Bachelor of Commerce undergraduate degree and an MBA.

\* As defined in the UK Corporate Governance Code 2018



## Non-Executive Directors



### Anne-Noëlle Le Gal

Anne-Noëlle was appointed as a Non-Executive Director on 18 June 2021. She is an Investment Director at Vantage Infrastructure focusing on the asset management and transaction execution of European equity infrastructure investments. She holds a Master 1 in Finance from Paris Dauphine University and a Masters in Accounting and Finance from the London School of Economics, and is a Non-Executive Director at gas distribution company, Phoenix Natural Gas. Anne-Noëlle is also Deputy Chair of GRESB's EMEA Infrastructure Benchmark Committee.



### Mark McArdle

Mark was appointed as a Non-Executive Director on 9 February 2022. Mark joined Morrison & Co as an Investment Director in Morrison & Co's ANZ Investment Team, based in the Sydney office before relocating to London as part of the European investment team in November 2021. Prior to joining in 2020, Mark was an investment professional in QIC's Global Infrastructure business, focused on the utilities and renewable sectors, where he was responsible for origination, transaction execution and asset management. Prior to QIC, Mark worked in M&A and financing roles within the utilities and renewable sectors at RBC Capital Markets in both London and Sydney. Mark holds a Master of Chemistry from the University of Oxford.

## Executive Directors



### David Hinton CEO

David has been CEO since 1 August 2020 and was previously Asset and Regulation Director from 1 June 2013. David has more than 25 years' experience at South East Water and its predecessor companies acquired in various roles including Head of Regulation and Strategy and Head of Water Quality. With a strong science background, David has held previous senior roles in scientific consultancies as well as laboratory management for the Public Health Laboratory Services. David holds a BSc (Hons) in Biotechnology and a Master of Business Administration specialising in ethical consumerism.



### Andrew Farmer CFO

Andrew, who joined as CFO on 1 August 2015, has held a number of senior management posts in finance, most recently at MAG plc, the country's largest UK owned airport operator, and Doosan Power Systems, a leading manufacturing, energy technologies and services company. Andrew qualified as a Chartered Accountant with Price Waterhouse. Andrew holds a BSc (Hons) in Engineering and Business Studies from the University of Warwick.

## Corporate governance statement continued

### Our directors on 14 July 2022 continued

#### Resigning directors\*



#### **Marissa Szczepaniak**

**Non-Executive Director** (Resigned on 18 June 2021)

Marissa was Investment Director at Vantage Infrastructure responsible for infrastructure and was appointed to the board in December 2016. Marissa has a Bachelor of Science in finance, accounting and economics.



#### **Rachel Drew**

**Non-Executive Director** (Resigned on 9 February 2022)

Rachel is an Investment Director at HRL Morrison & Co and was appointed to the board in December 2019. Rachel has an MBA from the Judge Institute at University of Cambridge and master's and bachelor's degrees in Engineering from the University of Auckland. As well as experience in the financial investment industry Rachel has been an Operational Executive at NZ Bus, NZ's largest public transport operator and a consultant at The Boston Consulting Group.



#### **Nick Salmon**

**Independent Chair** (Resigned on 31 March 2022)

Nick was appointed Chair of the Board on 1 April 2015 bringing a wealth of experience from a number of senior roles, including as a Senior Independent Non-Executive Director of United Utilities, and an engineering background. Nick holds a BSc. Degree in Mechanical Engineering and is a Fellow of the Royal Academy of Engineering.

\* Director(s) in office during the period from 1 April 2021 to 31 March 2022 who resigned before 14 July 2022.

Please see page 164 for details of the changes on our board.

## Company Details

#### **Nicolas Truillet**

Company Secretary

#### **Registered office**

Rocfort Road, Snodland, Kent ME6 5AH

Registered No. 02679874

Country of domicile and incorporation:  
England and Wales

#### **Company's bankers**

HSBC Bank plc, 60 Queen Victoria Street,  
London EC4N 4TR

#### **Company's independent auditors**

PricewaterhouseCoopers LLP Statutory Auditor  
Watford, United Kingdom

# Introduction from the Chair

**Corporate governance and compliance are an integral part of how our board and our business as a whole operate.**

Our company purpose is “to provide today’s public water service and create tomorrow’s water supply solutions, fairly and responsibly, working with others to help society and the environment to thrive”. It is centred on our core functions as provider of the public water service and also expresses our ambition to contribute to society and the protection of our environment.

Our purpose is enshrined into our articles of association and into our directors’ duties. This marks our commitment to become a purpose-led organisation and promote a culture of public service and inclusiveness to achieve a fair balance between the interests of the company and those of our customers, other stakeholders and the environment. This also helps us demonstrate that South East Water can be trusted as a provider of an essential public service in years to come.

In this statement, we describe how we put governance into practice. We describe our corporate governance framework and how the board has operated within that framework to promote a culture of public service and the long-term success of the business. This statement has been prepared to provide clear information on our governance to our customers, investors, regulators and other stakeholders.

We explain the concrete steps we have taken to meet the objectives, principles and provisions of our corporate governance code in the financial year. We also explain how we meet the objectives of the board leadership, transparency and governance principles published by Ofwat.

The board confirms that it has complied with the principles of the company’s corporate governance code throughout 2021/22 with the following exception or alternative to the relevant provisions of the code:

- The board as a whole considers succession planning of the board rather than this being delegated to the nomination committee. This ensures that issues of balance of skills and diversity and any other aspects of succession are discussed by the whole board. The nomination committee has delegated authority to deal with the process of appointment and to consider and recommend appointments of new directors that may be selected in accordance with the succession planning approach agreed by the board. (Code provision 3.1.4).
- The remuneration committee had regard to the workforce remuneration in defining the remuneration policy and has reviewed relevant aspects of the workforce remuneration in the year. Engagement with our Staff Council took place on 1 July 2022 after we completed the renewal of its membership and the training of its new members to help them fulfil their roles as employee representatives. Célia Pronto attended the meeting to discuss the board engagement with employees and executive remuneration in the context of the wider workforce remuneration.

This statement presents our governance in practice following the main themes in our corporate governance code. I hope you will find it helpful in demonstrating our commitment to excellence in governance.

**Chris Train** OBE

CHAIR  
14 JULY 2022

# Board leadership and company purpose

## Principles of our corporate governance code relevant to this section

- A.** The company has an effective board with full responsibility for all aspects of the company's business as a regulated company for the long-term.
- B.** A successful company is led by an effective and entrepreneurial board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and having a positive impact on wider society and the environment.
- C.** The board should ensure that the necessary resources are in place for the company to meet its objectives and measure performance against them. The board should also establish a framework of prudent and effective controls, which enable risk to be assessed and managed.
- D.** The board establishes the company's purpose, strategy and values, and is satisfied that these and its culture reflect the needs of all those it serves.
- E.** All directors must act with integrity, lead by example and promote the desired culture.
- F.** In order for the company to meet its responsibilities to shareholders and stakeholders, the board should ensure effective engagement with, and encourage participation from, these parties.
- G.** The board should ensure that workforce policies and practices are consistent with the company's values and support its long-term sustainable success. The workforce should be able to raise any matters of concern.

## Our principles of governance and corporate governance code

As a board we promote transparency, accountability, ethical conduct, inclusive engagement with customers and stakeholders, a fair balance between the various interests that we and our staff must consider every day and a commitment to high standards of performance in delivering services to customers and protecting the environment.

We have the support of our investors to improve our governance as they recognise that strong environmental, social and governance performance protects the long-term value and sustainable success of the company and strengthens our licence to operate.

Our corporate governance framework sets out our general philosophy and approach to governance. It marks a move towards a stakeholder model of corporate governance and supports our strategy. It is set out on page 48.

Under our licence, we are required to conduct our regulated business as if it was substantially our sole business and the regulated business was a public limited company separate from any other business we carry out. We also have an obligation to meet the objectives of Ofwat's board leadership, transparency and governance principles (BLTG principles) and to explain in a manner that is effective, accessible and clear how we are meeting these objectives.

Our corporate governance code combines the objectives and provisions of Ofwat's BLTG principles and also principles and provisions of the UK Corporate Governance Code 2018 which are applicable to a private limited company and consistent with Ofwat's principles. We chose to continue to follow the more detailed provisions of the UK Code rather than those of the Wates principles.

Our corporate governance code is available on our website at:



[southeastwater.co.uk/ourgovernance](https://southeastwater.co.uk/ourgovernance)

## Our purpose, values and culture

Our purpose is to “provide today’s public water service and create tomorrow’s water supply solutions, fairly and responsibly, working with others to help society and the environment to thrive”.

### Our purpose:

- Is centred around our core purpose as provider of the public water service (both for now and the future).
- Reflects our wider societal and environmental goals delivered through performing our core service and the “do no harm principle” of not profiting from causing problems for people or the planet.
- Reflects a commitment to an inclusive approach to stakeholder engagement as a means of achieving the company’s purpose and a fair balance between our interests and those of customers, the environment and other stakeholders.

Achieving a durable change in culture to become a purpose-led organisation driven by public service values is a continuous effort. The following contributes to promoting our purpose and value within the business:

- Our corporate governance framework.
- Our articles of association which embed our purpose and revised directors’ duties.
- Our responsible business commitments delivered under the oversight of our responsible business committee which continuously monitors and assesses our environmental, social and governance performance to ensure it remains effective and relevant.
- Executive directors’ pay related to all aspects of performance including responsible business objectives.

- Staff engagement with an independent non-executive director nominated as a designated point of contact with our workforce, engagement with the Staff Council (workforce advisory panel) and wider board engagement programme to increase the interaction of the board with different levels of the business.
- Measuring our ESG practices and achievements against the GRESB benchmark.

The adoption of our new articles of association by our shareholders means that directors must act in the way they consider, in good faith, would be most likely to fulfil the purpose of the company, thereby promoting its success (i) for the benefits of shareholders, and (ii) to have a positive impact on society and the environment through its business and operations.

In doing so the directors must consider (amongst other matters):

- The long-term consequences of their decisions.
- The need to foster the relationships with customers, suppliers and other stakeholders.
- The interests of employees.
- The impact on the community and the environment.
- The need to maintain a reputation for high standards of business conduct.

We also publish every year a performance, people and planet report which highlights in more details our responsible business initiatives and how we deliver value to customers, the environment and our communities in fulfilling our wider environmental and societal purpose.



## Board leadership and company purpose continued

### How we meet the objectives of the Board leadership, transparency and governance principles (BLTG)

Under the terms of its Licence, the company is required to explain in a manner that is effective, accessible and clear how it is meeting the objectives contained in the BLTG principles which are incorporated into the company's corporate governance code.

We explain in the tables below the concrete steps we are taking to meet each of the four objectives of the BLTG principles. The tables below are intended to help readers find easily the explanations in this annual report about each objective and other relevant information on how we meet these objectives.

Objective 1	How we meet the objectives	Read more
<b>The board of the Appointee establishes the company's purpose, strategy and values, and is satisfied that these and its culture reflect the needs of all those it serves.</b>	<ul style="list-style-type: none"> <li>■ We formulated the company's purpose which has been a central part of the development of our strategy and corporate plan for 2020 to 2025.</li> </ul>	On our governance on page 148.
	<ul style="list-style-type: none"> <li>■ We embedded our purpose into our articles of association and revised directors' duties.</li> <li>■ Our articles of association are available at <a href="https://southeastwater.co.uk/about/who-we-are/governance">southeastwater.co.uk/about/who-we-are/governance</a></li> <li>■ We have developed our strategy for 2020 to 2025 to be aligned with our purpose and values and our corporate governance framework.</li> <li>■ We review progress on cultural change in the monthly performance report to the board as well as progress against targets including on customer satisfaction, vulnerability, engagement and responsible business.</li> </ul>	On how our governance helps deliver our strategy on page 48.
Objective 2	How we meet the objectives	Read more
<b>The Appointee has an effective board with full responsibility for all aspects of the Appointee's business for the long-term.</b>	<ul style="list-style-type: none"> <li>■ The board has full responsibility for all aspects of the company's business and sets the company's strategic aims, purpose, values and the overall culture and standards of behaviours. It balances the long-term and short-term interests of the company.</li> <li>■ Decisions for the overall management of the company are made by the board. There are no matters reserved for shareholders or parent companies. There is ongoing dialogue with shareholders' representatives which allows the board to take account of investors' interests as well as all other relevant interests.</li> <li>■ We maintain a compact board that facilitates discussion and independent non-executive directors are the largest group on our board.</li> </ul>	On our board and committees composition and role on page 151.
	<ul style="list-style-type: none"> <li>■ The board has procedures in place to identify and avoid conflicts of interest.</li> <li>■ Our core responsibilities include planning for future water resources and planning for events such as droughts while investing efficiently and protecting the environment. The board as a whole is responsible for developing the strategy and approving the business plan, corporate plan, water resources management plan and drought plan.</li> </ul>	On how we avoid conflicts of interest on page 156.

Objective 3	How we meet the objectives	Read more
<b>The board of the Appointee's leadership and approach to transparency and governance engenders trust in the Appointee and ensures accountability for their actions.</b>	<i>Our general approach to trust, transparency and governance</i>	
	<ul style="list-style-type: none"> <li>■ This annual report explains our purpose and strategy, how we operate to meet the targets we set ourselves to deliver the public water service to our customers, and how we have performed against these.</li> </ul>	
	<i>Transparency on our performance</i>	
	<ul style="list-style-type: none"> <li>■ Every year, we publish a "performance, people and planet" report with information on our performance and our corporate social responsibility in a clear and accessible format.</li> <li>■ Our performance, people and planet report is available at <b>performance.southeastwater.co.uk</b></li> </ul>	
	<ul style="list-style-type: none"> <li>■ With the help of our staff, we have chosen 10 responsible business commitments to deliver benefits to customers, society and the environment that go beyond our core public water services.</li> </ul>	On our responsible business commitments on page 80.
	<ul style="list-style-type: none"> <li>■ Our annual reporting on performance against the performance commitments is prepared following rigorous internal control processes and external assurance with oversight from the audit and risk committee and the board to ensure it is accurate, transparent and reliable. We also publish our company monitoring framework which sets out what we do to ensure that the data and information we publish is reliable, transparent, timely and appropriate to the audience. We publish our strengths, risks and weaknesses statement and the subsequent draft assurance plan we have developed in order to address any risks that have been identified.</li> <li>■ Our company monitoring framework is at <b>southeastwater.co.uk/cmf</b></li> </ul>	On how we ensure the accuracy and reliability of our data and reporting in our data assurance summary in our APR.
	<i>Transparency on ownership, executive pay and dividends</i>	
	<ul style="list-style-type: none"> <li>■ Ownership structure: We explain our group and ownership structure and provide information about our investors.</li> </ul>	On our structure and investors on page 64.
	<ul style="list-style-type: none"> <li>■ Executive pay: The pay of our executive directors includes a variable element which is based on actual performance against our performance commitments.</li> <li>■ Our directors' remuneration report provides increased transparency on executive remuneration in line with most of the requirements applicable to quoted companies.</li> </ul>	Our directors' remuneration report on page 172.

## Board leadership and company purpose continued

Objective 3	How we meet the objectives	Read more
<b>The board of the Appointee's leadership and approach to transparency and governance engenders trust in the Appointee and ensures accountability for their actions.</b>	<ul style="list-style-type: none"> <li>■ Dividend: We pay dividends to our shareholders only in accordance with our dividend policy and the principles that the dividends do not impair our ability to finance our business and that dividends are expected to reward efficiency and the management of economic risk. When paying dividends we consider the overall performance and financial resilience of the company which also depends on its performance against its commitments and the level of reward or penalty under the outcome delivery incentives.</li> <li>■ Our dividend policy for 2020 to 2025 is available on our website at <a href="https://southeastwater.co.uk/ourgovernance">southeastwater.co.uk/ourgovernance</a></li> </ul>	On our dividend and how we have applied our dividend policy on page 70 and in our annual performance statement.
Objective 4	How we meet the objectives	Read more
<b>The board of the Appointee and their committees are competent, well run, and have sufficient independent membership, ensuring they can make high quality decisions that address diverse customer and stakeholder needs.</b>	<p><i>Board and committees effectiveness</i></p> <ul style="list-style-type: none"> <li>■ One of the main ways we ensure the effectiveness of our board and committees is to maintain a strong proportion of independent non-executive directors. This ensures that considerations relevant specifically to investors or the group as a whole do not dominate decision making at the board of South East Water and that independent challenge at the board of the company is effective.</li> <li>■ We keep a compact board which facilitates discussions at board meetings. Our board has four independent non-executive directors which is the largest group, two shareholder nominated directors and two executive directors.</li> </ul> <p><i>Board evaluation</i></p> <ul style="list-style-type: none"> <li>■ We ensure that our board and committees have the appropriate mix of skills and experience, including specific customer and service sector experience.</li> <li>■ We carry out an annual board evaluation to review how effectively the board operates and discuss suggestions for improvement. The board evaluation is usually conducted via a non-attributable questionnaire with the results collated by the Company Secretary and discussed by the board.</li> </ul>	<p>On our board and committees composition and role on page 153.</p> <p>On the experience of our directors on page 144.</p> <p>On our board evaluation on page 166.</p>

## The role of the board and of its committees

### Long-term sustainable success

The board's aim is to ensure that the company meets its responsibilities as a provider of an essential public service and maintains a reputation of high standards of business conduct. It provides leadership within a framework of prudent and effective controls and ensures that the necessary financial, operational and human resources are in place.

In doing so the board considers the long-term consequences of its decisions and the appropriate balance that must be achieved between the expectations of customers, employees and stakeholders, the impact of the company on the environment and communities and the need to act fairly between members of the company.

The board has regard to the duties of directors under section 172 of the Companies Act 2006 as restated in the articles of association and seeks to give due consideration to and find the appropriate balance between the various interests relevant to its decisions. Further details are set out in the section 172 statement on page 78.

The systems of risk management and controls described in the strategic report, the engagement with customers and initiatives on affordability and vulnerability and our responsible business committee overseeing the delivery of our ESG practices are examples of how these principles are concretely applied by the board to meet its overarching objectives.

Short-term decisions are taken in the context of the overall strategy as defined in the corporate plan, the supporting delivery plans and the actual performance against targets or other strategic outcomes at any given time. They are evaluated by reference to their impact on the delivery of the commitments and long-term objectives of the company and any trade-offs that may arise between the delivery of certain outcomes. The board receives regular updates on performance against targets in respect of all the company's commitments and short-term decisions are assessed in the context of that performance taking corrective actions where necessary.

Significant decisions such as those relating to investment and the delivery of the capital programme are taken within internal governance processes which also consider commitments, legal obligations and the delivery of efficiencies.

The board endeavours to reach unanimous decisions taking account of the views of all directors.

### Leadership of the standalone regulated company

All matters pertaining to the business of the company are considered and decided by the board of South East Water and there are no matters reserved for shareholders or parent companies other than those requiring a resolution of members under the Companies Act 2006.

Shareholders typically discuss their respective positions in respect of matters that are a specific concern to them at board meetings of HDF (UK) Holdings, the ultimate UK holding company of South East Water and will also discuss any relevant matters with the Chair of the board and management. The arrangements between shareholders relating to their decision making in relation to South East Water recognise the specific requirements applicable to South East Water as a regulated water company and the need to operate in compliance with them.

The board includes two shareholder representatives who are able to communicate the views of shareholders for consideration by the whole board when making decisions that may be of particular concern for shareholders. Where shareholder representatives have reached different conclusions in respect of a decision being considered by the board, they present their reasons and the board as a whole (with independent non-executive directors being the largest group) decides, with each director having one vote.

Our shareholders recognise that strong environmental, social and governance performance protects the long-term value and sustainable success of the company and strengthens its licence to operate. There is a strong alignment between our shareholders' governance and ours as both are focused on long-term value creation.

## Board leadership and company purpose continued

### How our board, committees and executive team operate

This diagram shows the roles of our board and its committees and of the executive team and the main management steering group.

#### Board

##### Chair: Chris Train OBE

Is responsible for the long-term success of the company. It sets strategy within a framework of effective controls and ensures the company has the necessary financial and human resources. It sets our purpose, values and standards of governance and it monitors compliance with regulatory and statutory obligations. It balances the interests of customers, the environment, shareholders and stakeholders.

**Chief Executive Officer**  
David Hinton

#### Executive Team

##### Chair: David Hinton

The Executive Team under the direction of the CEO comprises the CFO, Regulation and Strategy Director, Customer Services Director and Operations Director. It defines and implements the strategy, manages the operational and financial performance of the company, and matters not reserved to the board.

#### Customer Insight Committee

Monitors the progress and effectiveness of our customer engagement and insight programme across all areas of the business to improve the satisfaction of our customers including vulnerable customers and stakeholders. It monitors how effectively this influences our day-to-day business. One of its members is an independent non-executive director.

#### Competition and Regulatory Strategy

Our Wholesale Markets Steering Group and the Regulatory Strategic Group provide oversight of the implementation of competition and regulatory strategies including compliance with markets requirements and our main regulatory plans. They also review and define management's strategy proposals to the board.

#### Corporate Security

The Corporate Security Steering Group monitors the implementation and effectiveness of security measures and policies covering all aspects of security: information and data protection, cyber risks, physical security and prevention of fraud. It monitors emerging threats and opportunities to improve resilience.

#### Audit and Risk Committee

##### Chair: Chris Girling

Exercises oversight over financial statements and reports to the board on significant aspects of financial reporting. It reviews the scope and results of financial audits, accounting policies and judgements. It assesses the systems of internal control and risk management and the prevention and detection of fraud and reviews whistleblowing arrangements.

#### Remuneration Committee

##### Chair: Célia Pronto

Reviews the remuneration policy for the executive directors and ensures executive pay rewards performance in areas that are important to customers. It determines the remuneration package of executive directors, and other designated senior executives, including the design and application of any performance based remuneration.

#### Nomination Committee

##### Chair: Chris Train OBE

Reviews the structure and composition of the board taking account of the board evaluation, succession planning of the board and senior management. It makes recommendations on proposed board appointments and committee membership.

#### Responsible Business Committee

##### Chair: Anne-Noëlle Le Gal

It assists the board in defining its strategy relating to environmental, social and governance (ESG) matters and in reviewing the practices and initiatives of the company relating to ESG matters, ensuring they remain effective and up to date. It monitors performance against the company's responsible business commitments.

#### Health & Safety

The Health & Safety committee monitors the effectiveness of health and safety practices, policies, procedures, training and communication. It analyses safety audit reports and through sub-committees ensures practices are adapted to the different areas of the business.

#### Investment

The Executive Investment Committee approves and ensures the governance of capital investment and the Programme Management Office controls the delivery of capital expenditure. The Information Systems Steering Group approves and monitors key procurement activities.

#### Outcomes Delivery

The Every One Counts Steering Group and the Responsible Business Steering Group monitor the implementation of our people initiatives and of our responsible business commitments and related corporate plan objectives and business improvement initiatives.

#### Water Quality

The Water Quality Strategy Group monitors water quality performance and the delivery of the water quality strategy and improvement initiatives. It also oversees the development of future investments in water quality.



## Aligning our strategy with our purpose and values

Our overall strategy, as set out in our business plan and corporate plan, was based on engagement with customers and addresses the key elements of our purpose (i) our core purpose as a provider of the public water service, (ii) our wider societal and environmental goals, (iii) a stakeholder inclusive approach.

Our corporate plan is centred on delivery for customers and is intended to cover all the different aspects of our business and as particularly relevant to fulfilling our purpose includes:

- **A comprehensive customer engagement and vulnerability strategy, with a significant increase in customers supported through our social tariff and priority services register.**
- **Stretching core services performance targets requiring significant improvement compared with AMP 6.**
- **Ten new responsible business commitments as part of our wider renewed approach to ESG which is governed by our responsible business committee.**
- **A comprehensive people plan to ensure our people and culture are focused on delivering our public service and that we have a positive culture promoting diversity where our people are motivated and feel supported by the company.**
- **A continued focus on health, safety and wellbeing with an increased focus on mental health.**
- **A focus on environmental excellence, relying on an inclusive approach to delivery through partnerships, as expressed in our 25 year environment plan.**
- **Our carbon reduction strategy and new roadmap to net zero and our adaptation report.**
- **The introduction of natural capital accounting.**
- **A focus on openness and inclusiveness with industry collaboration, stakeholder engagement, innovation through our internal platform and through cooperation with third parties.**

## Information and support

The board receives as a minimum monthly performance reports to ensure that directors are regularly informed of performance. The monthly report covers all aspects of performance, including performance against key regulatory obligations and outcome delivery incentives.

Directors also receive specific updates and reports as appropriate at and outside of scheduled board meetings. This includes detailed reports on specific metrics or updates on significant operational events. Senior executives also regularly present board items and updates on their particular areas to ensure that the board receives the information it needs and is able to ask questions directly and provide challenge or ask for additional information.

Directors raise questions directly with the executive directors when there is no scheduled board meeting or raise questions at the following board meeting. These are routinely addressed through written explanations and/or meetings with members of the executive team or senior managers to discuss specific topics.

The board has also decided to have an engagement programme with a wider range of people in the business beyond executive directors and senior managers to have a better understanding of how the company operates at all levels, get direct feedback and better understand the culture of the business.

There are processes in place to ensure the accuracy of the information relied on to measure performance and report on it. The board also relies on external assurance of the company's reporting and underlying data to assess the reliability of the information provided to it. It also relies on the company monitoring framework which describes the internal processes to ensure the accuracy and reliability of the information published by the company.

## Board leadership and company purpose continued

### Conflicts of interest

The avoidance of conflicts of interest requires constant consideration for all decisions by the board, the approach followed by the company combines standard and regular checks and communications by the relevant directors who will have direct knowledge of changes in circumstances that could create a potential situation of conflict.

The directors' induction pack includes information on directors' duties, including to avoid conflicts of interests. There is a standard item at each board meeting to consider any potential conflicts of interest in relation to the matters to be discussed at the meeting.

Each director is also required to notify any potential conflict of interest and to inform the Company Secretary and other directors of any new appointment or directorship. Relevant provisions are included in the letters of appointment of directors.

Directors' other commitments and directorships are reviewed annually to ensure records are kept up to date and that potential situations of conflict can be more easily kept under review and identified. A questionnaire on related entities and persons that could potentially give rise to conflicts in relation to specific transactions is also distributed in connection with the annual board evaluation.

The articles of association of the company include provisions permitting directors to authorise certain potential conflict situations.

### Board activities in 2021/22

During the period from 1 April 2021 to 31 March 2022 there were eight scheduled board meetings, including one meeting specifically dedicated to strategy in October 2021. The board also received a full performance report every month. There was a teach-in session on shareholder value in April 2021 to improve the understanding by directors of valuation drivers for shareholders.

At the strategy session in October 2021 we discussed the key themes and messages of the Strategic Policy Statement with Davide Minotti, Deputy Director Water Services (Defra). We considered an update on key regulatory developments relevant to PR24 including the CMA determinations on the PR19 final determinations, Ofwat consultation on PR24, the RIIO-2 provisional decisions and their potential impact on the water sector determinations. We discussed relevant driving forces and the key industry challenges set out in Water UK's 2050 Vision with Rob Wesley, Head of Policy (Water UK). We discussed the drivers of the long-term strategy of the company and the main strategic themes that may be developed in that strategy.

### Attendance at board and committee meetings in 2021/22

Director	Board	Audit and risk	Nomination	Remuneration	Responsible business
N Salmon – R: 31/03/2022	8/8		6/6	3/3	
C Train – A: 24/02/2022	1/1			1/1	
J Barnes	8/8	3/3	6/6	3/3	3/3
C Girling	8/8	3/3			
C Pronto	8/8	3/3	6/6	3/3	
M Szczepaniak – R: 18/06/2021	1/1		1/1	1/1	1/1
R Drew – R: 09/02/2022	7/7	3/3	6/6	2/2	3/3
A-N Le Gal – A: 18/06/2021	7/7	3/3	5/5	2/2	2/2
M McArdle – A: 09/02/2022	1/1			1/1	
A Farmer	8/8				
D Hinton	8/8				3/3

R – Resigned A – Appointed

## Summary of our activities in 2021/22

### Service delivery and operational performance

- Considered regular updates on the management of the impact of the Covid-19 pandemic on our operations and on the health and safety of our workforce whilst ensuring continuity and quality of service was not significantly affected.
- Considered the implementation of a progressive return to the office and plans for flexible working arrangements.
- Regularly reviewed performance against our operational commitments and outcome delivery incentives and the initiatives taken to ensure we meet our targeted performance. Reviewed the operational response to high water demand related to the pandemic and the preparation for summer peak demand.
- Considered the annual report on the delivery of our capital programme and capital expenditure in 2020/21, on our capital programme for 2021/22 as well as further updates on the delivery of the programme during the year taking account of the impact of Covid-19. Considered in particular remedial schemes relating to the damage caused by sinkholes at our Aylesford reservoir site and a related summer resilience scheme at the Butler WTW. Considered the resolution of specific claims relating to construction schemes issued by contractors.
- Reviewed organisational changes, recent performance and improvements plans in our Operations Directorate.
- Approved the delivery of the large Fleet to Greywell main laying scheme that will improve supply resilience for 15,000 customers and help address the loss of one of our groundwater sources due to sustainability reductions.

- Considered updates on the impact of Storm Eunice that caused significant disruption to our power supplies and consequently to our operations and water supply in February 2022.
- Reviewed an update of our annual ODI performance for 2021/22, benchmarking of performance and the possible outcome of Ofwat's assessment in its next service delivery report. Considered a review of possible initiatives to improve key ODIs performance and their expected costs.
- Considered an update on customer service performance and initiatives as part of a retail directorate deep dive review.

### Financial, reporting and transactional

- Considered financial forecasts throughout the financial year to monitor the impact of Covid-19 on the financial performance and resilience of the company.
- Reviewed and approved the annual report and financial statements for 2020/21, including the viability statement prepared in line with specific requirements set out by Ofwat. Reviewed and approved the half-year financial reporting for 2021/22.
- Reviewed and approved our annual performance report and other regulatory reporting for 2020/21.
- Approved our new microsite for our performance, people and planet report (impact report) for 2020/21.
- Considered the recommendation of the audit and risk committee following the evaluation of our tender for audit services and approved the appointment of PwC as our new auditors and the audit fees.

## Board leadership and company purpose continued

### Financial, reporting and transactional continued

- Considered the report from the audit and risk committee on the 2021/22 audit plan, the independence of the auditors, the audit fees and on reporting requirements for the 2021/22 annual report.
- Considered and approved dividends for the 2021/22 financial year in accordance with our dividend policy.
- Considered and approved entering into a new revolving credit facility agreement and the related transaction documents. It was noted that the new credit facility utilises SONIA as the base interest rate, replacing LIBOR used in the previous facility.
- Considered and approved the issue of guaranteed secured senior notes by private placement to investors ("USPP Notes") and the related transaction documents.
- Considered the budget assumptions and approved the financial budget for 2022/23 and the update to the corporate plan.

### ESG, risk management and stakeholder engagement

- Reviewed the composition of the board and its committees. On recommendations of the nomination committee, approved the renewal of the appointment of Célia Pronto and John Barnes and the appointments of Anne-Noëlle Le Gal, Mark McArdle and of Chris Train OBE as a new independent Chair.
- Carried out the annual evaluation of the board's effectiveness through an anonymous online questionnaire, discussed the points arising and agreed follow up actions.
- Considered reports and recommendations from the committees of the board throughout the year.
- Carried out the annual review of risks and of the effectiveness of our risk management process.
- Reviewed our routemap to reduce our operational emissions and reach operational net-zero by 2030. Considered and approved proposals to enter into power purchase agreements, first relating to solar and subsequently to wind, in order to be able to demonstrate that the company is contributing to the development of new renewable energy capacity.
- Considered an update on health & safety, human resources, environment and communication performance, including recent and planned activities and future development as part of a directorate update.
- Adopted our modern slavery statement and reviewed the related procedures implemented to ensure compliance with legislation on modern slavery.

## ESG, risk management and stakeholder engagement continued

- Reviewed and approved our pay gap reporting and the actions to take to address gender pay gap and gender balance in different parts of the business.
- Considered an update on performance as well as recent and planned activities, including the management of risks, from our finance, legal, procurement and business information teams as part of a directorate review.
- Considered an update on the insurance market and reviewed our insurance programme and the renewal of the policies and related benchmarking. Considered updates on insurance claims relating to Covid-19 and damages to our Aylesford reservoir caused by sinkholes.
- Discussed the factors that most influence customer satisfaction and the insight of the Institute of Customer Service on customer service and experience with Jo Causon, CEO of the ICS.
- Considered and approved the increase in INED fees in line with the company pay award pursuant to the provisions of our corporate governance code.
- Considered the company's controls relating to cyber risks, insurance cover and policy and resources available to respond to a possible attack on the company.

## Strategy and regulation

- Approved the approach for setting and assuring our wholesale and household end-user charges, taking account of customers' preference for bill stability and seeking to control increases in bills and the impact on customers. Approved our indicative and final wholesale charges, our household end-user charges and our new connection charges and infrastructure charges for 2022/23 and the related board assurance statements. Set detailed conditions for the delegation of authority of the final calculation of the charges following publication of the relevant RPI and finalisation of the charges documents.
- Reviewed and approved the update of the Company Monitoring Framework 2021/22.
- Considered updates on the preparation of the WRSE regional water resources plan and the company's WRMP24. Authorised the release of the WRSE consultation on the WRSE emerging plan.
- Considered an update on performance as well as recent and planned activities, including the management of risks from our asset management, water resources, regulatory, water quality teams and company secretary as part of a directorate review.
- Reviewed the asset management maturity assessment carried out by Ofwat and planned initiatives to improve our asset management maturity and address recommendations made by Ofwat.
- Considered the key issues raised in the CMA's reviews of Ofwat's final determinations. Considered updates on Ofwat's PR24 consultations and the key issues to be raised by the company.



# Division of responsibilities and board composition

## Principles of our corporate governance code relevant to this section

- H.** The Chair leads the board and is responsible for its overall effectiveness in directing the company. They should demonstrate objective judgement throughout their tenure and promote a culture of openness and debate. In addition, the chair facilitates constructive board relations and the effective contribution of all non-executive directors, and ensures that directors receive accurate, timely and clear information.
- I.** The board of the company and their committees are competent, well run, and have sufficient independent membership, ensuring they can make high quality decisions that address diverse customer and stakeholder needs.
- J.** The board should include an appropriate combination of executive and non-executive (and, in particular, independent non-executive) directors, such that no one individual or small group of individuals dominates the board's decision-making. There should be a clear division of responsibilities between the leadership of the board and the executive leadership of the company's business.
- K.** Non-executive directors should have sufficient time to meet their board responsibilities. They should provide constructive challenge, strategic guidance, offer specialist advice and hold management to account.
- L.** The board, supported by the company secretary, should ensure that it has the policies, processes, information, time and resources it needs in order to function effectively and efficiently.

## Chair

The Chair ensures the effectiveness of the decision making process of the board and promotes discussion on key issues based on quality information. The Chair is also responsible for maintaining a direct channel of communication with shareholders and ensures that their concerns and objectives are taken into account and conveyed to the directors.

The Chair and the CEO meet regularly throughout the year to maintain a good communication between the board and the executive directors and to review the board forward programme and the agendas of board meetings.

There is also a formal schedule setting out the division of responsibilities between the Chair and the CEO.

## Board balance and effectiveness

Independent non-executive directors are the majority group on the board and on our audit and risk committee, nomination committee and remuneration committee. These committees are also chaired by an independent non-executive director. Chris Train OBE, Chair of the board, is independent of management and has no link to shareholders that could affect his impartiality as required by our corporate governance code and Ofwat's principles of governance.

This ensures non-executive directors play a significant role in challenging executive directors and management as well as in developing strategy. The wide range of their experience also ensures that a variety of views are considered in the board's deliberations.

The independence of non-executive directors is assessed by the nomination committee and the board following the criteria of the UK corporate governance code. Non-executive directors also meet with the Chair in the absence of the executive directors at least once a year.

There are two shareholder nominated directors which ensures that there is constant communication between independent non-executive directors and shareholders and between executive directors and shareholders.

The CEO and the CFO, as well as senior managers regularly attend board meetings to present agenda items, ensuring that management and operational information is presented to, and that operational issues are discussed by, the whole board.

We believe that our board has a good mix of skills and experience and has reached a good balance between new directors and directors who have had time to acquire a good knowledge of our company and of our environment including the last price determination and our strategy and long-term plans.

The whole board will be directly involved in the preparation of our next business plan and will be well prepared to closely monitor the delivery of performance commitments and wider objectives in the next regulatory period.

Non-executive directors and independent non-executive directors are given direct access to management as requested and review specific areas of the business directly with management, drawing on their particular expertise and to provide oversight and challenge on key regulatory or operational matters or the review of the company's response to significant operational events.



Read more on our directors' biographies on page 144.

## Division of responsibilities and board composition continued

### Board balance and composition on 31 March 2022

Independent Non-Executive Directors	Appointment	Resignation	Term*	Audit and Risk	Remuneration	Nomination	Responsible Business
Nick Salmon (Chair)	01/04/15	31/03/22	7 yrs		☐	Chair	
John Barnes	28/01/16	na	6 yrs 2 m	☐	☐	☐	☐
Chris Girling	30/10/14	na	7 yrs 5 m	Chair			
Célia Pronto	01/06/18	na	3 yrs 10 m	☐	Chair	☐	
Chris Train	24/02/22	na	1 m		☐	☐	
Non-Executive Directors (shareholder nominated)	Appointment	Resignation	Term*	Audit and Risk	Remuneration	Nomination	Responsible Business
Anne-Noëlle Le Gal (Vantage Infrastructure)	18/06/21	na	9.5 m	☐	☐	☐	Chair
Mark McArdle (Morrison & Co)	09/02/22	na	1.5 m	☐	☐	☐	☐
Executive Directors	Appointment	Resignation	Term*	Audit and Risk	Remuneration	Nomination	Responsible Business
Andrew Farmer (CFO)	01/08/15	na	6 yrs 8 m				
David Hinton (CEO)	01/06/13	na	8 yrs 10 m				☐
Resigning Directors	Appointment	Resignation	Term*	Audit and Risk	Remuneration	Nomination	Responsible Business
Marissa Szczepaniak** (Vantage Infrastructure)	08/12/16	18/06/21	4 yrs 6 m				
Rachel Drew (Morrison & Co)	06/12/19	09/02/22	2 yrs 2 m				

\* As at 31 March 2022.

\*\* From first appointment on 08/12/2016. Resigned as a director on 17 August 2018 and was reappointed as a director on 30 January 2019.

## Division of responsibilities

The board has adopted a formal list of reserved matters that it must consider and approve. These matters expressly refer to the relevant corporate governance requirements, our licence and regulatory obligations as well as our statutory obligations. They also reflect the allocation of responsibilities between the board and its committees as set out in the terms of reference of the committees.

The executive team manages matters that are not reserved to the board and its committees under their supervision which is achieved through regular reporting and specific updates. The main decisions delegated to management are taken after consideration by the executive team, which includes the CEO, CFO, Regulation and Strategy Director, Customer Services Director and Operations Director. There are several steering groups which deal with key aspects of the business.

## Board committees

### Nomination, remuneration and audit and risk committees

The audit and risk committee, nomination committee and remuneration committee are chaired by and have a majority of independent non-executive directors as required by our corporate governance code.

Board committees have formal terms of reference. Chris Girling, the Chair of the audit and risk committee, has recent and relevant financial experience. We have approved a formal schedule describing specifically the allocation of responsibilities and interactions between the board and the audit and risk committee.

### Responsible business committee

Our responsible business committee was formally constituted on 7 March 2019 and its terms of reference approved by the board.

The main purpose of the responsible business committee is to assist the board in defining its strategy relating to environmental, social and governance (ESG) matters and in reviewing the practices and initiatives of the company relating to ESG matters ensuring they remain effective and up to date.

The responsible business committee also oversees the execution of our ESG strategy and initiatives and monitors performance against the responsible business commitments in our business plan. The responsible business committee ensures that the board maintains a primary focus on customer engagement, our communities and the environment.

The responsible business committee was chaired by Marissa Szczepaniak until 31 May 2021 and has three other director members: John Barnes, Rachel Drew and David Hinton. Rachel Drew succeeded Marissa Szczepaniak as chair of the committee on 31 May 2021 until 27 January 2022, when Anne-Noëlle Le Gal became chair of the committee. Non-director members of the committee ensure that a wide range of skills and knowledge is represented on the committee and provide a clear line of sight into the business.

Anne-Noëlle Le Gal (Vantage Infrastructure) and Mark McArdle (HRL Morrison & Co), both representatives of shareholders are members of the committee, which reflects the emphasis placed by shareholders on strong ESG performance.

You will find the terms of reference of our responsible business committee and more information on governance on our website.



[southeastwater.co.uk/governance](https://southeastwater.co.uk/governance)

You will find our business plan and the responsible business appendix on our website.

[southeastwater.co.uk/businessplan](https://southeastwater.co.uk/businessplan)

## Relationship with shareholders and investors

Communication with shareholders is facilitated, as South East Water is a private limited company, with shareholder nominated non-executive directors on the board.

It is important that the board appreciates the requirements of shareholders and equally that shareholders understand how the actions of the board and financial performance relate to the achievement of South East Water's long-term goals.

The reporting calendar is dominated by the publication of interim and final results each year, in which the board reports to shareholders on its stewardship of South East Water. At other times during the year, presentations to rating agencies and updates to the stock exchange are made available to all. The Chair ensures that the CEO and CFO provide feedback to the board following presentations to investors and meetings with shareholders.

# Appointment, succession and evaluation

## Report from the Nomination Committee

### Principles of our corporate governance code relevant to this section

- M.** Appointments to the board should be subject to a formal, rigorous and transparent procedure, and an effective succession plan should be maintained for board and senior management. Both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.
- N.** The board and its committees have the appropriate balance of skills, experience, independence and knowledge of the company. Consideration should be given to the length of service of the board as a whole and membership regularly refreshed.
- O.** Annual evaluation of the board should consider its composition, diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each director continues to contribute effectively.

### Gender statistics

The board has not set a specific quota of women members but seeks to improve the board gender balance and diversity when appointing new directors. On publication of this report 38 per cent of the board are women.

	Men	Women
Executive Team	80%	20%
Senior Management Team	76%	24%

### Current committee members

<b>Chris Train</b> OBE (Chair)	Independent Non-Executive Director
<b>John Barnes</b>	Independent Non-Executive Director
<b>Célia Pronto</b>	Independent Non-Executive Director
<b>Anne-Noëlle Le Gal</b>	Non-Executive Director
<b>Mark McArdle</b>	Non-Executive Director

In 2021/22: Marissa Szczepaniak was a member of the committee until her resignation on 18 June 2021; Rachel Drew was a member of the committee until her resignation on 9 February 2022; Anne-Noëlle Le Gal was appointed on 18 June 2021 and Mark McArdle was appointed on 9 February 2022; Chris Train OBE became a member of the committee on 24 February 2022 and chair of the committee on 1 April 2022 succeeding Nick Salmon.

This year was a transition year as the committee initiated the recruitment process for a new Chair which, concluded with my appointment as an independent non-executive director on 24 February 2022, subsequently replacing Nick Salmon as Chair on 1 April 2022. This process ensured that after a handover period, I will have time to settle in before the next price determination process takes place as the publication of Ofwat's methodology is expected this summer.

Over the last 12 months:

- The committee recommended the renewal of the appointment of Célia Pronto as independent non-executive director and member of the nomination committee, audit and risk committee and Chair of the remuneration committee. Her appointment was approved by the board for a period of three years until 31 May 2024.



- The committee recommended the renewal of the appointment of Nick Salmon as Chair of the board and of the nomination committee and as a member of the remuneration committee which was approved by the board for a period of one year until 31 March 2022 to facilitate the recruitment of a new chair and ensure an appropriate handover.
- The committee recommended the renewal of the appointment of John Barnes as independent non-executive director and member of the nomination committee, audit and risk committee and remuneration committee which was approved by the board for a period of three years until 27 January 2025.
- The committee concluded that the non-executive directors whose appointments were renewed continued to satisfy the criteria of independence set out in our corporate governance code.
- In anticipation of the resignation of Marissa Szczepaniak, we recommended the appointment of Anne-Noëlle Le Gal, from Vantage Infrastructure, as a new shareholder nominated non-executive director which was approved by the board and became effective on 18 June 2021. Anne-Noëlle Le Gal became on the date of her appointment a member of the nomination committee, audit and risk committee, remuneration committee and responsible business committee.
- From 31 May 2021 Rachel Drew succeeded to Marissa Szczepaniak as Chair of the responsible business committee and Anne-Noëlle Le Gal became chair of the responsible business committee on 27 January 2022 in anticipation of the resignation of Rachel Drew as a director.
- Rachel Drew had announced that she would be resigning in 2021/22 and the committee recommended the appointment of Mark McArdle, from HRL Morrison & Co, as a new shareholder nominated non-executive director which was approved by the board and became effective on 9 February 2022. Mark McArdle became on the date of his appointment a member of the nomination committee, audit and risk committee, remuneration committee and responsible business committee.
- The whole board reviewed the company's initiatives on diversity and gender pay gap and succession planning in our people plan. There is more information on gender pay gap on page 54.
- The committee reviewed its effectiveness as part of the overall board evaluation process and the members of the committee and directors were satisfied that it is operating effectively in accordance with its terms of reference.

For the recruitment of Chris Train, an external search consultancy, Russell Reynolds Associates, was used which did not have any other connection with the company or individual directors.

The process of progressive renewal of the board will continue this year with the appointment of a new chair of the audit and risk committee, which is expected to take effect by the end of 2022. The aim of the committee and of the board as a whole is to ensure continuity of knowledge and experience on the board and the optimum phasing of new appointments having regard to the regulatory cycle of the company and in particular the preparation of the next price review.

**Chris Train** OBE

CHAIR  
14 JULY 2022

## Appointment, succession and evaluation continued

### Board evaluation

Our board evaluation was carried out by means of a confidential online questionnaire. The results were collated and summarised by the Company Secretary on a non-attributable basis and the Chair led a discussion on the conclusions to draw from the survey results and recommendations for change or improvement. The discussions related more particularly to questions which had received a relatively lower score and comments made by directors highlighting specific issues or suggestions.

The questionnaire covered the performance of the board and its committees, reflecting key aspects of our corporate governance code, including compliance with the board leadership, transparency and governance principles. The questionnaire also incorporated questions from the Sustainability First “Check-list for energy and water board effectiveness” in line with our responsible business commitments and questions from the City Values Forum “Governing culture: an agenda for boards” on the alignment of decision making with the company’s purpose and values, and on culture and the promotion of behaviours the board wishes to encourage.

The questionnaire also included open questions on the working and effectiveness of the board and committees in fulfilling their roles. Each committee also considered its own practices against its terms of reference and the committee chair’s report on their findings in their respective sections.

The Chair met with each non-executive and executive director to provide feedback on their performance and to receive suggestions from them. The evaluation of the Chair was carried out by the non-executive directors and the shareholders nominated directors receiving feedback from the executive directors.

At the 2021 board evaluation directors highlighted the need for a better understanding of succession planning, especially of the succession pipeline from managers to senior managers.

It was acknowledged that issues of diversity were being addressed in the people plan and especially how the diversity of employees reflected the diversity of the catchment. It was agreed that specific work would be done as part of the people plan to improve job opportunities for disabled employees as the employee population was not reflective of the wider population.

The board had discussed the planned succession of the two shareholder representatives and the renewal of the Chair over a relatively short time period and the need to provide high quality induction. In response, a comprehensive induction programme was developed for the induction of Chris Train OBE and Mark McArdle at the beginning of 2022.

At the 2022 board evaluation the directors highlighted the need to focus on the diversity of the board during the ongoing progressive renewal of the board. Diversity across the business and how the company reflected the communities it served was also raised by directors.

Several initiatives had been taken forward during the year to ensure the recruitment process was more inclusive (new ads, different recruitment pools and better data on local communities). The apprentice scheme was used to improve diversity and could also encourage social mobility.

Succession planning was also raised and it was noted that the people plan that had been presented to the board included a work stream on succession planning and that a plan for the succession of the executive team and the senior management team would be presented to the directors in July 2022.

Several suggestions were made to improve the way the board operates. It was suggested to encourage early discussions about developing proposals and options to encourage early input by the board. This could be achieved through intermediate papers or updates that could be provided at board meetings or outside of board meetings as appropriate. Directors recognised that they were provided with high quality but detailed board papers and that the structure of the board papers could be improved by making better use of executive summaries to highlight the key points for discussion and decision.

The directors also highlighted the need to consider the long-term strategy of the business in a wider context and to consider fundamental trends and drivers that were not necessarily related to the regulatory regime or price reviews. This could be addressed at the regular strategy sessions. There was also a desire to have greater visibility and better understand stakeholder engagement plans and outcomes to be better able to take stakeholders' feedback into account, either generally or through in depth review in relation to specific decisions or strategies.

The 2022 board evaluation concluded that the board and its committees were operating effectively.

## Commitment

The expected commitment, including outside scheduled board meetings when required is reviewed as part of the appointment process of the Non-Executive Directors. The terms of appointment of Non-Executive Directors do not include a set expected time commitment, but instead include an undertaking that the director will dedicate sufficient time to discharge his or her responsibilities. None of our Non-Executive Directors has raised concerns over the time required to fulfil their duties and this aspect is also considered in the board evaluation process.

The Chair's and directors' other commitments were disclosed and considered prior to appointment and have not materially changed since their appointment. Details on the Chair's and directors' other commitments can be found on page 144.

## Induction

On joining the board each director receives a detailed, tailored induction programme which is supplemented as needed to ensure that the director's knowledge, familiarity with South East Water and our industry are maintained at the appropriate level. The induction programme includes meetings with senior managers and visits to production sites and other facilities away from the head office. Such visits give directors the opportunity to speak to a wider group of employees and contractors. The feedback provided by Ofwat following their pre-appointment interview is also incorporated into the induction programme.

# Transparency, audit, risk and internal control

## Report from the Audit and Risk Committee

### Principles of our corporate governance code relevant to this section

- P.** The board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions and satisfy itself on the integrity of financial and narrative statements.
- Q.** The board of the company's leadership and approach to transparency and governance engenders trust in the company and ensures accountability for their actions.
- R.** The board should present a fair, balanced and understandable assessment of the company's position and prospects.
- S.** The board should establish procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the company is willing to take in order to achieve its long-term strategic objectives.

### Current committee members

<b>Chris Girling</b> (Chair)	Independent Non-Executive Director
<b>John Barnes</b>	Independent Non-Executive Director
<b>Célia Pronto</b>	Independent Non-Executive Director
<b>Anne-Noëlle Le Gal</b>	Non-Executive Director
<b>Mark McArdle</b>	Non-Executive Director

In 2021/22: Marissa Szczepaniak resigned on 18 June 2021 and Anne-Noëlle Le Gal was appointed on the same date; Rachel Drew resigned on 9 February 2022 and Mark McArdle was appointed on the same date.

I am pleased to report on the work of the audit and risk committee since 1 April 2021 and in relation to this annual report for 2021/22.

- We reviewed the half-year group financial reporting and of this annual report for 2021/22 and recommended their approval by the board.
- We considered the prospects of South East Water for the purpose of both the going concern statement by the directors and the longer-term viability described in the viability statement. We had regard in particular to the impact of both the Covid-19 outbreak and the PR19 final determination on the prospects of the business to 2025 and beyond throughout the whole lookout period. We have considered the impact of macro-economic risks in the next few years. We have also considered the impact of climate change on the financial statements and on the long term viability of the company. We have recommended that the board maintain a lookout period of 10 years for its viability statement. We have also considered and made recommendations to the board on the appropriate nature and extent of stress testing to be used to assess the future prospects of South East Water. Our principal risks and our viability statement are set out in the strategic report.

- We ensured that our reporting on our outcome delivery incentives accurately reflects South East Water's performance in the year and on the quality and quality assurance of the data used for our reporting.
- We considered the report to those charged with governance on the findings of the audit.
- We considered the impact of Covid-19, of the cost of living crisis and of macro-economic risks on our key judgements and estimates in the financial statements, in particular the impact on our debtor book and expected credit loss adjustment.

#### Financial statements and annual performance report

- **Audit plan**  
The committee reviewed the audit plan with the auditors and was satisfied that it covered the key issues. We reviewed the proposed significant audit risks typical of a water company and the areas of audit focus.
- **Fair, balanced and understandable**  
The committee has reviewed this annual report and financial statements and the regulatory reporting in order to assess whether they present a fair, balanced and understandable assessment of South East Water's and the group's position and prospects. We reviewed the relevant specific notes and explanations to the financial statements to ensure they provided clear explanation of accounting policies and technical matters. Following this review, we recommended to the board that, taken as a whole, the group annual report 2021/22 is fair, balanced and understandable.

We also reviewed the report from Atkins, our external assurance partners, on our regulatory reporting and recommended to the board the approval for publication of our regulatory reporting, cost assessment tables and our performance, people and planet report.

- **Significant judgements and sources of estimation uncertainty considered**

#### Revenue recognition

A significant proportion of water supplied to our domestic and our smaller commercial customers remains unbilled at the end of the financial year. As such, judgements and estimates are made in respect of the value of unbilled water revenue. These estimates are based on previous consumption levels and are validated to ensure that the assessments are reasonable taking account of the impact of Covid-19 experienced during the year.

#### Bad debt provisioning

Our trade receivables balance includes a provision for bad debt, which is our assessment of debts that will be unpaid by our customers. The provision is based on the application of expected recovery rates to our aged debt balances using specific data for household and for non-household debt.

We are satisfied that the level of provision reflects the potential impact of the cost of living crisis.

**Classification of costs between operating and capital expenditure:** We have a significant capital programme and therefore it is important that the policies underpinning the capitalisation of expenditure are closely validated and compliant with current accounting standards. The committee ensures that the costs capitalised as fixed assets are directly attributable to capital projects.



## Transparency, audit, risk and internal control continued

### Report from the Audit and Risk Committee continued

Management override and controls: The audit committee keeps the judgements and sources of estimation uncertainty under review and challenges as appropriate, typically as part of the half year reporting, and the board also exercises scrutiny throughout the year as part of the board review of the monthly management accounts in the finance report.

- Other areas of audit and risk committee focus  
Areas of focus reviewed by the committee included the appropriateness of actuarial assumptions for the valuation of the assets and liabilities of the two defined benefit pension schemes to ensure they were within an acceptable range considering the economic environment. The other areas of audit focus were the going concern and long-term viability statement, and the impact of the sinkholes that affected a large distribution reservoir.
- Disclosures on climate-related risks  
We have reviewed new reporting under the recommendations of the task force on climate-related financial disclosures, which includes a qualitative assessment of climate-related risks on the business under several scenarios developed for the purpose of our TCFD reporting.

#### Audit Tender

- We oversaw the tender process for audit services, taking account of the developments of rules relating to the provision of audit services and recommended the appointment of PricewaterhouseCoopers LLP (PwC) following assessment of the tenders.

#### External auditors

- Audit fee  
We reviewed the audit fee proposal from the auditors for the 2021/22 audit and the settlement of the fees for 2020/21 with our previous auditors.
- Effectiveness of the external audit process  
We reviewed the effectiveness of the external audit process, receiving feedback from the auditors, the CFO and the Group Financial Controller on the conduct of the audit and any issues and potential improvements. The Chair of the committee met with the auditors to discuss the audit. We were satisfied with the performance of the auditors and the effectiveness of the overall process.
- Objectivity and independence of auditors  
We reviewed the objectivity and independence of the auditors, considering the proportion of the total fees received by the auditors which is paid by South East Water, the duration of the appointment of the auditors, and the confirmation of independence from the auditors.  
  
We also considered the level of non-audit services relating essentially to regulatory reporting which are best provided by PwC to ensure consistency. The committee concluded that PwC are objective and independent in their role as external auditor.  
  
We applied our revised policy on non-audit services that requires approval of non-audit work by the Chair of the committee or, for any work in excess of £50,000, the full committee.

## Risk management and internal controls

- We considered whether or not an internal audit function was required. We considered the established processes in place for regulatory and performance reporting which include both internal and external assurance, the size and structure of the company and the nature of the core activities. We concluded that an internal audit function was not required at this stage and that the current combination of internal reviews of controls and systems carried out by the finance team and of specific reviews by external consultants, as and when required, was appropriate and allowed access to specialist skills and knowledge that it would not be cost effective to maintain internally.
- We reviewed the effectiveness of the committee as part of the board evaluation and the members of the committee and directors were satisfied that it is operating effectively in accordance with its terms of reference.
- Compared to the previous year, the focus of the board as a whole has continued to be on the management of the risks related to PR19 which took priority over the review of other areas of risk management and internal control in 2021/22.

**Chris Girling**

CHAIR  
14 JULY 2022

## Transparency and reporting

The board and the audit and risk committee ensure that the business, financial and regulatory reporting of South East Water is transparent and informative and accurately reflects material issues and describes our business model, strategy and performance.

Our annual reporting on performance against the performance commitments in our final determination is prepared following rigorous internal control processes and external assurance with oversight from the audit and risk committee and the board. Our processes to ensure the accuracy and reliability of our data and reporting are described in our data assurance summary in our annual performance report.

We also maintain and publish our company monitoring framework, which sets out what we do to ensure that the data and information we publish is reliable, transparent, timely and appropriate to the audience. We publish our strengths, risks and weaknesses statement and the subsequent draft assurance plan we have developed in order to address any risks that have been identified.

## Risk Management and internal controls

The board is responsible for defining the risk management strategy and processes, including the risk register and the identification of the principal risks. It also carries out an annual review of the effectiveness of the risk management and internal control systems (financial, operational and compliance) of the principal risks and of the prospects of our company. Our risk management process is described in the strategic report.

The audit and risk committee plays a key role in the ongoing monitoring of the adequacy and effectiveness of the internal controls and risk management systems established by the board. This involves reviewing the ability to identify and manage new risks types, ensuring effective controls are embedded into management and governance processes, and continuously monitoring risks with relevant items at each meeting. The audit and risk committee also ensures that appropriate audit work is carried out on risk management.

**This corporate governance statement was approved by the board and is signed on its behalf by David Hinton, Chief Executive Officer.**

# Remuneration report

## Report from the Remuneration Committee

### Current committee members

<b>Célia Pronto</b> (Chair)	Independent Non-Executive Director
<b>John Barnes</b>	Independent Non-Executive Director
<b>Chris Train</b> OBE	Independent Non-Executive Director
<b>Anne-Noëlle Le Gal</b>	Non-Executive Director
<b>Mark McArdle</b>	Non-Executive Director

In 2021/22: Marissa Szczepaniak and Rachel Drew were members of the committee until their resignations on 18 June 2021 and 9 February 2022 respectively. Anne-Noëlle Le Gal and Mark McArdle were appointed on 18 June 2021 and 9 February 2022 respectively. Chris Train OBE became a member of the committee on 24 February 2022. John Barnes was chair of the committee until 28 February 2022 and Célia Pronto became chair of the committee on 1 March 2022. Nick Salmon resigned on 31 March 2022.

I am pleased to present the directors' remuneration report for the year ended 31 March 2022.

The aim of the Remuneration Committee is to ensure that executive pay is aligned with strategy and culture and that remuneration reflects the company's performance against clear operational and financial measures as well as individual objectives. We are keen to ensure that we link executive pay to successful business performance which is in turn linked to demonstrable customer benefits. To that end we may exercise discretion where appropriate to reflect the operating environment. We set out in the remuneration report how this has been achieved this year.

To improve transparency and clarity our remuneration reporting is presented having regard to the reporting requirements that apply to quoted companies under schedule 8 of the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 despite these not applying to the company.

I would highlight the following in respect of the activities of the committee in 2021/22:

### Base salary and fees

- We decided that the salaries of the executive directors and other members of the executive team would be increased from 1 April 2022 by 3.1 per cent in line with the company pay award negotiated with the Staff Council. The fee for Chris Train OBE was confirmed as set out in his service agreement for his first year as chair of the board.

### Annual Incentive Plan 2020 to 2025

- We approved the final awards under the 2020/21 AIP on 1 July 2021 and we also approved the performance measures and targets (including threshold and stretch levels) for the 2021/22 AIP.

### Operation of the AIP in 2021/22

- Considering that the final C-MeX and D-MeX performance assessment by Ofwat would only be known after the 15 July reporting date each year, the committee decided that performance against these metrics would be carried out on the basis of a best estimate by the company and that any necessary adjustment would be made to the amount of the AIP award in the following year.
- We approved changes to the AIP to accommodate regulatory changes that affected some of the AIP metrics. We decided to carve out a portion of the AIP award for performance against the PCC and non-household voids – which are ODIs that will only be assessed by Ofwat at the end of the current regulatory period. We decided to use the revised statutory deadlines agreed with the Environment Agency for the relevant WINEP metrics within the AIP.

## Governance

- We considered the impact of Storm Eunice on the AIP and whilst recognising the incredible efforts of the team during an exceptionally challenging event, decided to postpone the exercise of any discretion until after consideration of a full report on the impact of the storm on our power supplies and how it had affected our own supplies to customers, which is due in September 2022. We decided to reflect the allowance for extreme weather event of our corporate plan into the targets for the ODI component of the AIP.
- We reviewed the full year performance of the company in 2021/22 and that of individual executive directors, and approved the awards under the 2021/22 AIP and decided to exercise discretion to take account of the impact of some additional costs due to Covid-19 on financial performance as was done in 2020/21. We considered the remuneration outcome to be appropriate under our policy and in comparison with other companies in the sector including their reporting on CEO pay ratios.
- We approved our revised remuneration reporting and the remuneration policy for 2021 to 2025 that was set out in the annual report for 2020/21.
- We reviewed the pension benefits of the CFO to ensure they were aligned with the rest of the workforce in accordance with the requirements of our corporate governance code.
- We decided that the Staff Council would be the most appropriate forum for engagement with the workforce and that I would take this forward as part of the planned engagement with the Staff Council as both the INED nominated for engagement with workforce and chair of the Committee.
- We reviewed the outturn of the senior managers' bonus scheme for 2020/21 and the targets for 2021/22 under that bonus scheme having regard in particular to its alignment with ODIs, the strategic objectives of the company and its consistency with the executive team bonus scheme. We reviewed the outcome of the senior managers' bonus for 2021/22.

### Operation of the AIP in 2022/23

- We decided to maintain substantially the same performance measures as in 2021/22 and updated the targets in line with our corporate plan targets for 2022/23. The details of the targets for 2022/23 are provided below in this directors' remuneration report.
- We reviewed the pay award negotiated with the Staff Council for the workforce.
- We updated our terms of reference to ensure alignment with our corporate governance code and recommended their approval to the board.
- We reviewed the effectiveness of the committee as part of the overall board evaluation process and the members of the committee and directors were satisfied that it is operating effectively in accordance with its terms of reference.
- We considered several options for new health & safety metrics and decided to replace one of them which was based on the number of RIDDORS, with a new metric that uses a lost time injury frequency rate (LTIFR) of less than five (such target being reviewed and set annually).

**Célia Pronto**

CHAIR  
14 JULY 2022

# Corporate governance principles

We explain below how corporate governance principles have been taken into account to define our remuneration policy.

## Principles of our corporate governance code relevant to remuneration

- T.** Remuneration policies and practices should be designed to support strategy and promote long-term sustainable success. Executive remuneration should be aligned to company purpose and values, and be clearly linked to the successful delivery of the company's long-term strategy.
- U.** Directors should exercise independent judgement and discretion when authorising remuneration outcomes, taking account of company and individual performance, and wider circumstances.
- V.** A formal and transparent procedure for developing policy on executive remuneration and determining director and senior management remuneration should be established. No director should be involved in deciding their own remuneration outcome.

## Remuneration principles

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Remuneration is aligned with the company's purpose, values and vision and promotes the long-term sustainable success of the company.

Remuneration is demonstrably linked to the delivery of the core purpose of the company to provide the public water service, high customer satisfaction and achieving strategic objectives.

Remuneration is competitive with companies of similar size and complexity and fair in the context of the wider workforce remuneration.

The total remuneration includes a variable element that effectively incentivises improvements in performance and balances the short-term and long-term interests of the company.



## How our remuneration policy addresses the factors of clarity, simplicity, risk, predictability, proportionality and alignment to culture that are set out in our corporate governance code

### Clarity

Remuneration arrangements should be transparent and promote effective engagement with shareholders and the workforce.

- Our reporting on remuneration has been extended to provide additional transparency on our policy on all components of remuneration, to explain in detail the operation of the AIP and how awards were determined by the committee.
- We have agreed further engagement with the Staff Council on executive remuneration.

### Simplicity

Remuneration structures should avoid complexity and their rationale and operation should be easy to understand.

- Our remuneration is based on the clear remuneration principles set out above.
- We have adopted a single annual incentive plan with deferral that replaces the executive bonus scheme and long-term incentive plan used in previous years.
- Our performance measures and targets are based on our performance commitments.

### Risk

Remuneration arrangements should ensure reputational and other risks from excessive rewards, and behavioural risks that can arise from target-based incentive plans, are identified and mitigated.

- The level of remuneration is monitored to ensure it is maintained at a median level with comparable companies.
- The AIP includes performance measures that relate to all aspects of our strategy, including both performance commitments and responsible business commitments, to ensure there is no incentive to achieve certain targets to the detriment of others.
- The AIP includes a deferral to limit the focus on short-term performance to the detriment of longer-term objectives.

### Predictability

The range of possible values of rewards to individual directors and any other limits or discretions should be identified and explained at the time of approving the policy.

- A model including all measures and targets is used by the remuneration committee to assess the potential awards under the AIP at different levels of performance. It provides visibility to both the committee and the participants, with the committee retaining entire discretion to decide on individual awards.
- The range of potential awards under the AIP are disclosed in this directors' remuneration report with an illustration of the application of the policy for the next financial year.
- The remuneration policy includes details on the discretion that may be exercised by the committee in respect of the different remuneration components.

### Proportionality

The link between individual awards, the delivery of strategy and the long-term performance of the company should be clear. Outcomes should not reward poor performance.

- Performance related remuneration is predominantly based on our corporate plan commitments, clearly linking remuneration to performance and strategy.
- The remuneration policy sets out the principles followed in determining the targets under the AIP.
- Stretching targets in the AIP are based on delivery of significant performance improvements that were assessed in preparing our business plan.
- The committee retains discretion to avoid inappropriate or mechanistic outcomes and there are also malus and clawback provisions in the AIP rules.

### Alignment to culture

Incentive schemes should drive behaviours consistent with company purpose, values and strategy.

- The majority of the performance measures in the AIP relate to our core purpose of providing the public water service and relate to the key aspects of our activities: operational delivery, high standards of customer service, a safe working environment and the delivery of our capital & environmental programme.
- The responsible business performance measures and personal objectives seek to align the incentives with the company's wider environmental and societal purposes.
- Collective executive objectives and personal objectives also incentivise the promotion of the company culture, integrated thinking and innovation.
- The alignment of the performance measures between the AIP and the senior managers' bonus scheme creates consistent incentives in support of culture and strategy.
- Financial measures incentivise financial resilience and long-term investment as well as the profitability of non-regulated activities to generate shareholder value.

# Remuneration policy

## Executive directors' remuneration policy

The following remuneration policy is the policy adopted by the committee for the duration of AMP7 (2021/22 to 2024/25) in relation to all components of remuneration including the annual incentive plan (AIP).

The rules of the AIP were approved by the remuneration committee on 2 July 2020 and are intended to apply until 2025.

### Base salary

#### Purpose and link to strategy

To provide a fixed remuneration sufficient to attract, motivate and retain individuals with the appropriate experience, skills and competencies to lead the business and to define and implement the company's strategy in line with the board's strategic direction.

#### Operation and performance measures

Base salaries reflect the individual experience and role and are reviewed annually by the remuneration committee, which are effective on 1 April. Increases are typically the same as the company wide pay award negotiated with the Staff Council.

This is a fixed remuneration which is not determined by reference to performance measures (but personal performance is assessed under the annual incentive plan and as part of any salary review).

There are no provisions to withhold or recover any sums paid.

#### Maximum opportunity

A maximum limit for salary has not been set by the remuneration committee and salary increases are typically in line with the workforce.

Periodic reviews may take place to ensure pay remains competitive, targeting remuneration at market median using comparisons with market practices for comparable companies in terms of size, activities and complexity. Remuneration consultants are used where deemed appropriate by the remuneration committee. A similar assessment is made to assess the appropriate base salary on changes of roles and promotions.

#### Implementation 2021/22

**CEO:** £271,620

(increased by 0.6 per cent on 1 April 2021).

**CFO:** £222,504

(from 1 April 2021 in connection with the alignment of pension benefits with the workforce).

#### Implementation 2022/23

**CEO:** £280,040

(increased by 3.1 per cent on 1 April 2022).

**CFO:** £229,401

(increased by 3.1 per cent on 1 April 2022).

## Benefits

### Purpose and link to strategy

A range of benefits sufficient to maintain the competitiveness of the company at recruitment stage and to help retain individuals of the appropriate experience, skills and competencies. Benefits are usually aligned with the benefits offered to senior managers or the wider workforce.

### Operation and performance measures

Executive directors are eligible for benefits which are available to the wider workforce on broadly similar terms. Their benefits may be reviewed in connection with any review of their base salary.

The remuneration committee has discretion to agree specific benefits where appropriate for recruitment or retention.

There are no provisions to withhold or recover any sums paid.

This is a fixed remuneration which is not determined by reference to performance measures.

### Maximum opportunity

There is no set maximum value for benefits, but executive directors' benefits are similar to those of senior managers or the wider workforce.

### Implementation 2021/22

**CEO:** Company car, life assurance, private medical insurance and health cash plan.

**CFO:** Car allowance, life assurance, private medical insurance and health cash plan.

### Implementation 2022/23

The **CEO** and **CFO** benefits for 2022/23 are the same as in 2021/22.

## Pension

### Purpose and link to strategy

To attract and retain individuals with the appropriate experience, skills and competencies by providing competitive pension arrangements.

### Operation and performance measures

Executive directors are offered the choice of a company contribution into a defined contribution pension scheme or a cash allowance in lieu of pension, or a combination of both at their election with no employee contribution required.

This is a fixed remuneration which is not determined by reference to performance measures.

### Maximum opportunity

There is no set maximum but the percentage of contributions or cash allowance for new appointments or changes of roles are aligned with the wider workforce (10 per cent).

### Implementation 2021/22

**CEO:** 10 per cent of salary as pension cash allowance and/or employer pension contribution.

**CFO:** 10 per cent of salary as pension cash allowance and/or employer pension contribution.

### Implementation 2022/23

**CEO:** 10 per cent of salary as pension cash allowance and/or employer pension contribution.

**CFO:** 10 per cent of salary as pension cash allowance and/or employer pension contribution.

## Remuneration policy continued

### Annual incentive plan

#### Purpose and link to strategy

To incentivise the delivery of annual performance commitments and financial as well as responsible business and longer-term strategic objectives, creating a direct link between actual company performance and variable remuneration.

The potential award is determined by the remuneration committee following consideration of the overall fixed and variable remuneration, taking account of market conditions but taking care of avoiding any upward ratcheting effect.

#### Operation and performance measures

**Link to performance:** The performance of executive directors is measured in four categories: Outcome Delivery Incentives (ODIs) (40 per cent), responsible business (20 per cent), financial (30 per cent) and personal objectives (10 per cent) which are predominantly based on performance commitments made in the business plan with a particular focus on delivering for customers.

The metrics, targets (at threshold, target and maximum levels) and potential award for performance at target level and the maximum potential award (at or above outperformance level) are set by the remuneration committee for the CEO and the CFO as a percentage of salary at the beginning of the year to align potential reward to the business strategy. No award is made for performance at or below the threshold level of performance. The remuneration committee seeks to ensure that targets do not encourage undue risk taking by the executives so that the long-term performance of the business is not put at risk by considerations of short-term value.

Personal objectives are set by the remuneration committee and include individual objectives specific to the role of the individual and collective objectives for the entire Executive Team.

**Stretch:** Threshold levels are normally set no lower than prior year actual performance. Target levels are set at stretching performance outcomes and maximum pay-out levels should reflect truly exceptional performance improvements. Year-to-year, the elements comprising the AIP may change, as can the threshold, target and maximum pay-out performance levels to ensure that the AIP remains stretching.

**Discretion/underpin:** The remuneration committee retains full discretion to determine whether any award is paid under the AIP and the amount of the awards. In addition to setting threshold levels of performance, the committee will seek to ensure that the final outcome reflects performance that is genuine and demonstrable and may take account of any material issue of performance. The remuneration committee may determine that the performance metrics or targets are no longer appropriate following the date of grant and adjust them during a performance year.

**Payment and Deferral:** 66 per cent of any award determined by the remuneration committee is paid in cash in the month of July following the end of the financial year, with the remaining 34 per cent being paid in cash after two years provided that the director remains in employment or is determined to be a "good leaver" under the rules of the scheme.

**Withholding/recovery:** The amount of the award can be altered and sums paid may be recovered in certain circumstances such as inaccurate or misleading financial data being used to determine the final payment amount or if a participant to the AIP commits an act that amounts to fraud, dishonesty or gross misconduct. If it is determined that an award should be reduced, the remuneration committee may determine that the amount of any reduction can be set off against a deferred portion of the award. Details relating to payment at end of appointment are set out on page 183.

**Maximum opportunity****CEO:**

Target performance:

75 per cent of salary

(4.5 per cent relating to the PCC and non-household voids carve out explained below and 70.5 per cent for all the other ODIs).

Maximum (outperformance):

95.5 per cent of salary.

**CFO:**

Target performance:

60 per cent of salary

(3.6 per cent relating to the PCC and non-household voids carve out explained below and 56.4 per cent for all the other ODIs).

Maximum (outperformance):

81.4 per cent of salary.

**Implementation 2021/22**

Further details on the operation of the AIP, performance measures and awards are set out on page 184.

**Implementation 2022/23**

The targets for 2022/23 are set out on page 196.

**Notes to the remuneration policy table**

**Note on taxable benefits:** Private medical insurance is available to all senior managers and some longer serving employees. A car allowance or company car is available to managers and senior managers in accordance with the company policy, the amount of the allowance being dependent on the seniority of the role of the employee. The life assurance benefit and health cash plan are available to all employees and are not taxable benefits.

**Note on Pension benefits:** The level of pension benefit for David Hinton was set retrospectively from 1 August 2020 at 10 per cent of salary (from 20 per cent previously) after he became CEO to align his pension benefit to the level of employer contribution received by the workforce. This change has been implemented progressively by applying a reduced percentage of salary in the course of 2021/22 so that the pension benefit actually received by David Hinton between 1 August 2020 and 31 March 2022 will be 10 per cent of salary. A review of the legacy pension arrangement for the CFO was carried out in 2021/22 with a view to align his pension benefits with the level of pension contribution available to the workforce. The remuneration committee decided to bring the pension benefits of the CFO to 10 per cent of salary and to revalue his salary retrospectively with effect from 1 April 2021, with the necessary adjustments being implemented during 2021/22.

Employees of the company are entitled to a maximum company contribution of 10 per cent at a personal contribution rate of 8 per cent. Contributions or cash equivalent to the CEO and CFO are not conditional on a personal contribution of 8 per cent.

**Note on annual incentive plan and other incentives:** The AIP is available only to the CFO and CEO and to the other three members of the Executive Team.

There is a senior manager bonus scheme which uses targets similar to the AIP to achieve a convergence of incentives at senior management level. The senior managers' incentive scheme sets targets against a range of individual ODIs rather than the net ODI position. There is no company-wide bonus scheme. There is a specific bonus scheme to incentivise employees of the customer contact centre, which focuses on achieving high levels of customer satisfaction.



## Remuneration policy continued

### Independent non-executive directors' remuneration policy

Fee		
<b>Purpose and link to strategy</b> To provide a fixed fee sufficient to attract, motivate and retain individuals with the appropriate range and balance of experience, skills and competencies to provide strategic direction to the business and to lead, support and challenge the executive directors and management of the business.	<b>Operation and performance measures</b> The policy of the company is that non-executive directors' fees should be comparable to those of companies of similar size, activities and complexity. The fees for the chair and other independent non-executive directors reflect the individual experience and role and the required time commitment, which may depend on any additional responsibilities as chair of committee or other specific responsibilities. Fees are paid in cash monthly. Fees are reviewed at the discretion of the company and increases take effect on 1 April. This is a fixed remuneration which is not determined by reference to performance measures. There are no provisions to withhold or recover any sums paid.	
<b>Maximum opportunity</b> There is no set maximum fee but increases are typically the same as the company wide pay award negotiated with the Staff Council.	<b>Implementation 2021/22</b> The fees paid to independent non-executive directors in 2021/22 are set out on page 185.	<b>Implementation 2022/23</b> The fees to independent non-executive directors were increased in line with the company pay award (3.1 per cent increase).
Other items		
<b>Purpose and link to strategy</b> To facilitate the performance of non-executive directors duties to the company.	<b>Operation and performance measures</b> Reasonable travel and other expenses incurred by directors when performing their duties are reimbursed. Non-executive directors do not receive any other remuneration or benefits. This component is not determined by reference to performance measures and there are no provisions to withhold or recover any sums paid.	
<b>Maximum opportunity</b> None.	<b>Implementation 2021/22</b> Expenses have been reimbursed in line with the policy.	<b>Implementation 2022/23</b> Expenses will be reimbursed in line with the policy.

Anne-Noëlle Le Gal and Mark McArdle represent the ultimate shareholders of the company and do not have a letter of appointment or service contract and do not receive any remuneration from the company. The same applied to Marissa Szczepaniak and Rachel Drew until their resignations on 18 June 2021 and 9 February 2022 respectively.

## Policy on recruitment remuneration

### Executive directors

The remuneration package on recruitment of a new executive director or promotion of an employee to a position of executive director, should be sufficient to attract, motivate and retain individuals with the appropriate experience, skills and competencies to lead the implementation of the company's strategy, but the company should not pay more than is necessary.

The components of the remuneration of a new executive director are set in accordance with the remuneration policy applicable at the time of the recruitment. The committee will also consider the wider approach to workforce remuneration, as well as any legislative and corporate governance requirements.

The remuneration committee may take account of a candidate's employment or personal circumstances in awarding relocation or payments for forfeited variable pay. Where an employee is promoted to the position of executive director, pre-existing awards and contractual commitments will be honoured in accordance with their terms.

#### Fee

<b>Base salary</b>	The base salary should reflect any market data or market assessment that may be carried out by the remuneration committee to inform its decision. It should take account of the specific experience, skills and competencies of the selected candidate and of the salary of other executive directors. It may be set at a different level than the previous incumbent.
<b>Benefits</b>	The benefits package should be in line with those provided to other executive directors under the remuneration policy.
<b>Pension</b>	The pension contribution rates for executive directors, or payments in lieu, should be aligned with those available to the workforce (currently 10 per cent of base salary).
<b>AIP</b>	The AIP would normally be in accordance with the applicable structure, metrics and targets, and maximum potential awards at the time of the recruitment. The remuneration committee may exercise discretion to agree specific modifications in the first year of the AIP, depending on when the recruitment takes place in the year, and any award should be pro-rated to the actual period of employment in that year.
<b>Relocation</b>	The remuneration committee may agree a cash payment for reasonable relocation and temporary accommodation costs as well as travel and incidental expenses incurred.
<b>Forfeited variable pay</b>	The remuneration committee may agree a cash payment as compensation for the forfeit of any award under variable remuneration arrangements entered into with a previous employer, provided that the nature and value of the forfeited award can be objectively demonstrated by the candidate. Such cash payment should not be more generous in terms of quantum or vesting period than the forfeited awards and should be subject to clawback in the event of an early termination of appointment for any reason.
<b>Sign-on bonus</b>	Our policy is not to provide other sign-on compensation except in exceptional circumstances at the discretion of the remuneration committee.

### Independent non-executive directors

Fees for new independent non-executive directors are aligned with the remuneration policy and current fees for similar non-executive director roles on the board taking account of time commitment and any specific duties.

## Remuneration policy continued

### Directors service agreements and letters of appointment

The CEO and CFO had service contract that were not fixed term contracts with the following notice periods:

	CEO	CFO
<b>Effective date of contract</b>	1 August 2020**	29 June 2015
<b>Notice period by director</b>	12 months	6 months
<b>Notice period by company*</b>	12 months	6 months

\*Other than for breach of contract

\*\*Before becoming CEO, David Hinton had been an executive director since 1 June 2013

Independent non-executive directors' letters of appointment have a fixed term of three years that may be extended for successive periods of three years subject to meeting the criteria of independence set out in the company's corporate governance code. A shorter term and shorter notice period by the company may be agreed in anticipation of the replacement of an independent non-executive director to facilitate succession arrangements. The renewal of the appointment of Nick Salmon for one year from 1 April 2021 was to facilitate the induction of a new chair and handover in advance of the PR24 business planning process and price review.

The letters of appointment of the current non-executive directors have the following remaining terms and notice periods:

	Chris Train	Chris Girling	John Barnes	Célia Pronto
<b>Effective date of contract*</b>	24 February 2022	30 October 2020	28 January 2022	1 June 2021
<b>Expiry date</b>	31 March 2025	29 October 2023	27 January 2025	31 May 2024
<b>Notice period by director</b>	3 months	3 months	3 months	3 months
<b>Notice period by company**</b>	1 month	1 month	1 month	3 months

\*Full terms since appointment are shown in the corporate governance report

\*\*Other than for breach of the terms of appointment

**Note:** Nick Salmon was chair for the entire year 2021/22 and resigned on 31 March 2022. The information relating to his letter of appointment are as follows: Effective date of contract: 1 April 2021; Expiry date: 31 March 2022; Notice period by director: 3 months; Notice period by company: 1 month (other than for breach of the terms of appointment).

Anne-Noëlle Le Gal and Mark McArdle represent the ultimate shareholders of the company and do not have a letter of appointment or service contract and do not receive any remuneration from the company. The same applied to Marissa Szczepaniak and Rachel Drew until their resignations on 18 June 2021 and 9 February 2022 respectively.

### Payment for loss of office (audited)

#### Executive directors

There are no provisions in executive directors' service agreements creating an obligation of the company to pay compensation on termination by the company. Participation in AIP is at the discretion of the remuneration committee and is not a contractual entitlement.

**Base salary, pension & benefits**

Salary, pension and benefits are paid over the notice period. The remuneration committee may at its discretion determine that a payment in lieu of notice should be made.

**AIP**

Under the AIP, an executive director who is a “good leaver” (death, disability, incapacity, retirement, automatic transfer and any other circumstance at the discretion of the remuneration committee) remains entitled to receive a pro-rated amount of the award that is not subject to deferral. The remuneration committee has discretion to determine that this award will not be pro-rated and/or that the director remains entitled to full payment. The payment date will be in July following year-end unless the committee determines that an early payment should be made. A “good leaver” remains entitled to receive any deferred award under the AIP on the same date unless the remuneration committee accelerates the payment.

A “bad leaver” loses the right to receive any payment (or any further payment or any deferred payments) or compensation for loss of any payment (or further payment) in respect of awards under the AIP.

**Independent non-executive directors**

Letters of appointment with independent non-executive directors do not include provisions for compensation for loss of office. They provide for the payment of fees accrued until the end of the appointment.

**Consideration of pay and employment conditions of employees**

The committee did not consult with employees when defining its remuneration policy, but directors receive updates on pay and employment matters and have considered the executive directors’ remuneration policy in context.

The remuneration committee receives updates on the pay award negotiations with the Staff Council and their outcome. This is directly taken into account when reviewing executive directors’ salary increases, which are usually (outside of specific salary reviews) in line with the pay award agreed with the Staff Council.

The remuneration committee also reviewed the structure, metrics and targets of the senior managers’ bonus scheme in conjunction with the approval of the AIP metrics and targets for 2021/22 and for 2022/23 to ensure that executive directors and senior managers’ incentives were closely aligned and focused on the delivery of the company’s strategic objectives.

The committee reviewed the requirements of the company’s Corporate Governance Code as they relate specifically to the review of workforce remuneration and engagement with the workforce on executive remuneration.

It was agreed that further engagement with the Staff Council would take place facilitated by Célia Pronto who is Chair of the committee and the independent non-executive director specifically designated for engagement with the workforce. In the course of the year we refreshed the membership of our Staff Council and provided training to the new members to help them fulfil their roles as employee representative. Following this process, Célia Pronto attended a meeting of our new Staff Council on 1 July 2022 to discuss the board engagement with employees and executive remuneration in the context of the wider workforce remuneration. It was also agreed that the committee would receive updates on the implementation of relevant aspects of the people plan to 2025 which was reviewed and adopted by the board.

**Consideration of shareholder views**

Two non-executive directors representing the ultimate shareholders of the company are members of the remuneration committee (together with three independent non-executive directors). They are able to make recommendations and to participate directly in the work of the committee when defining the remuneration policy, the components of executive remuneration and the structure and operation of the AIP. This helps ensure that the link between performance and pay is strong and managed in a way that recognises shareholders expectations and priorities.

# Executive remuneration for 2021/22

Single remuneration figure (audited)

	David Hinton - CEO		Andrew Farmer - CFO	
	2020/21	2021/22	2020/21	2021/22
<b>Base salary</b>	£251,107	£271,620	£201,069	£222,504
<b>Taxable benefits</b>	£15,649	£8,881	£13,504	£13,457
<b>Annual bonus</b>	£120,181	£236,414	£71,599	£162,290
<b>Long-term incentives</b>	–	–	–	–
<b>Pension</b>	£50,256	£9,162	£40,214	£22,250
<b>Company car trade</b>	£2,052	£1,796	–	–
<b>Total</b>	£439,245	£527,873	£326,386	£420,501
<b>Total fixed remuneration</b>	£319,064	£291,459	£254,787	£258,211
<b>Total variable remuneration</b>	£120,181	£236,414	£71,599	£162,290

**Note on base salary:** The base salary of David Hinton for 2020/21 shown above was the actual figure received, reflecting his salary of £213,320 as Asset Director and CEO Designate from 1 April 2020 to 31 July 2020 and his salary of £270,000 as CEO from 1 August 2020.

**Note on AIP award:** David Hinton's AIP award for 2020/21 was based on his salary as CEO of £270,000, which he started to receive from 1 August 2020 to recognise the fact that he was CEO Designate fulfilling the functions of CEO for the entire financial year.

**Note on deferral of AIP award:** A sum of £40,861, in respect of the award of David Hinton, and of £24,343 in respect of the award of Andrew Farmer corresponding to 34 per cent of the total AIP award for 2020/21 have been deferred. Both deferred sums will be paid in cash in July 2023 (provided relevant conditions under the rules of the AIP are met at the time). The amount corresponding to 66 per cent of the award paid in July 2021 to David Hinton was £79,320 and to Andrew Farmer was £47,256.

A sum of £80,381, in respect of the award of David Hinton, and of £55,179 in respect of the award of Andrew Farmer corresponding to 34 per cent of the total AIP award for 2021/22 have been deferred. Both deferred sums will be paid in cash in July 2024 (provided relevant conditions under the rules of the AIP are met at the time). The amount corresponding to 66 per cent of the award paid in July 2022 to David Hinton was £156,033 and to Andrew Farmer was £107,111.



**Note on pension benefits:** The level of pension benefit for David Hinton was set retrospectively from 1 August 2020 at 10 per cent of salary (from 20 per cent previously) after he became CEO to align his pension benefit to the level of employer contribution received by the workforce. This change has been implemented progressively by applying a reduced percentage of salary in the course of 2021/22 so that the pension benefit actually received by David Hinton between 1 August 2020 and 31 March 2022 will be 10 per cent of salary. The amount of pension benefit for David Hinton set out above for 2020/21 is greater than 10 per cent of salary as the change in rate of contribution occurred during that financial year, but has been progressively adjusted throughout 2021/22. The amount of pension benefit for 2021/22 set out above reflects this adjustment.

A review of the legacy pension arrangement for the CFO was carried out with a view to aligning his pension benefits with the level of pension contribution available to the workforce. The remuneration committee decided to bring the pension benefits of the CFO to 10 per cent of salary and to revalue his salary by 10 per cent retrospectively with effect from 1 April 2021, with the necessary adjustments being implemented during 2021/22. The amount of pension benefit set out above for 2021/22 reflects this adjustment.

### Single remuneration figure for non-executive directors (audited)

Director	Year	Fee	Taxable benefits	Annual bonus	Long-term incentives	Pension	Total	Total fixed remuneration	Total variable remuneration
Nick Salmon	2020/21	£107,371	–	–	–	–	£107,371	£107,371	–
	2021/22	£108,016	–	–	–	–	£108,016	£108,016	–
Chris Train	2020/21	–	–	–	–	–	–	–	–
	2021/22	£3,416	–	–	–	–	£3,416	£3,416	–
Chris Girling	2020/21	£42,948	–	–	–	–	£42,948	£42,948	–
	2021/22	£43,206	£1,036	–	–	–	£44,242	£44,242	–
John Barnes	2020/21	£39,553	£3,441	–	–	–	£42,994	£42,994	–
	2021/22	£39,422	–	–	–	–	£39,422	£39,422	–
Célia Pronto	2020/21	£35,433	–	–	–	–	£35,433	£35,433	–
	2021/22	£35,989	£312	–	–	–	£36,301	£36,301	–
Marissa Szczepaniak	2020/21	–	–	–	–	–	–	–	–
	2021/22	–	–	–	–	–	–	–	–
Rachel Drew	2020/21	–	–	–	–	–	–	–	–
	2021/22	–	–	–	–	–	–	–	–
Anne-Noëlle Le Gal	2020/21	–	–	–	–	–	–	–	–
	2021/22	–	–	–	–	–	–	–	–
Mark McArdle	2020/21	–	–	–	–	–	–	–	–
	2021/22	–	–	–	–	–	–	–	–

## Executive remuneration for 2021/22 continued

### Annual incentive plan outcome for 2021/22

The commitment of our entire workforce to our public purpose continued to be of utmost importance in 2021/22 as the Covid-19 pandemic continued impacting the business and our customers. Maintaining our service throughout the pandemic has been the primary concern of the board and the executive team since the first lockdown in March 2020.

#### Impact of Covid-19

The remuneration committee continued to follow the approach it had first adopted in 2020/21 in respect of the impact of Covid-19, by applying the rules of the AIP subject to the exercise by the committee of appropriate discretion a posteriori. The aim of the committee is to ensure that management's focus remains on delivering the five year corporate plan targets approved by the board following the final determination.

The remuneration committee did recognise that additional and unforeseen operational costs had been incurred as a result of Covid-19, as well as an increase in bad debt. Accordingly the committee exercised discretion to allow for these impacts in respect of the financial metrics within the AIP, following the same approach that had been adopted in 2020/21.

#### Per capita consumption and non-household voids ODIs

During the year, Ofwat determined that it would assess performance relating to the PCC and non-household ODIs at the end of the current regulatory period. Consequently, an assessment of performance for these ODIs that have been directly impacted by Covid-19 would not be available this year. The committee considered how to reflect this change given that the PCC and non-household ODIs were part of the ODI component of the AIP.

The committee evaluated different options and concluded that the most practical approach would be to carve out an element of the potential AIP award to be allocated to the PCC and non-household voids ODIs. The actual award for these metrics would be determined based on Ofwat's assessment, once these are known. It is our expectation that Ofwat will recognise the impact of Covid-19 in its assessment of performance against these ODIs.

This carve out was implemented based on the weighting of the different ODIs within the ODI component of the AIP, taking account of their relative awards, penalties and importance. This ensured that the adjustment was based on an objective assessment of the relative importance of the ODIs and was preferred to the other options considered. The weighting reflected a combination of financial and reputational factors and was also consistent with the selection of ODIs that Ofwat is using in their service delivery report. The resulting percentage of carve out also remained within a reasonable range that would maintain an appropriate incentive for the executive directors in respect of the other ODIs.

The amount of the potential award carved out in respect of 2021/22 (and maximum potential award that may be made in respect of that year for the PCC and the non-household voids ODIs at the end of the current regulatory period) will be £12,223 for the CEO and £8,010 for the CFO. Further amounts will be carved out following the same methodology in years three, four and five until Ofwat carries out the assessment of companies' performance at the end of the current regulatory period.

### Extreme weather provision

The committee decided to align the AIP targets with the Corporate Plan and to apply the annualised weather provision of £1.1 million to the targets for the ODI component in 2021/22 and subsequent years.

The adjustments to the targets for 2021/22 are shown below:

	ODI target excluding weather provision	Weather provision	ODI target including weather provision
Threshold	-£3.8m	-£1.1m	-£4.9m
Target	-£2.5m	-£1.1m	-£3.6m
Maximum	-£1.4m	-£1.1m	-£2.5m

In relation to the assessment of performance against ODIs, the committee exercised discretion in two areas.

### WINEP schemes deadlines

The committee determined to assess performance relating to the delivery of WINEP schemes in accordance with the Environment Agency's decision on revised deadlines for delivery. The original definition of this ODI submitted by the company to Ofwat referred to delivery against agreed scopes and final deadlines, which are determined by the Environment Agency. For the purpose of the AIP, the committee resolved to adopt an approach consistent with that definition and the determination of the Environment Agency as the regulator with primary responsibility for WINEP. The rationale for the decision of the committee was to incentivise management to achieve the environmental outcomes agreed with the Environment Agency.

In respect of 2021/22, an extension was required in respect of six schemes and the Environment Agency have agreed an amendment to the deadlines for all six schemes.

The initial target was to deliver 43 schemes by the end of 2021/22. Nine schemes had been delivered in 2020/21 and out of the 34 schemes remaining to be delivered, 6 had their deadlines amended bringing the total number of schemes to be delivered by the end of 2021/22 to 37. The actual total number of schemes delivered by the end of 2021/22 is 38.

An application has been made to Ofwat to amend the target on WINEP schemes to bring it in line with the new deadlines agreed with the Environment Agency.

For the purpose of assessing the net penalty/reward for the ODI component of the AIP, the committee decided to exclude from the calculation any penalty that may be applied by Ofwat in respect of schemes that had their delivery date amended by the EA.

## Executive remuneration for 2021/22 continued

### Storm Eunice

Widespread and repeated interruptions to the power supplies to our operational sites caused by Storm Eunice had significantly disrupted our operations resulting in interruptions to our service.

The committee recognised the significant efforts of our workforce and management during this challenging event. There had been extensive preparation from 14 February when the Met Office issued the weather warning to the 18 February when the storm hit. This included increasing production outputs across relevant sites, maximising storage at service reservoirs, pausing planned works, checking generators and fuel supplies, hiring additional generators and preparing for alternative supplies delivery. However, the extent of the power interruptions was unprecedented. This affected operations over several days at a number of different locations and at different times, which required restarting multiples sites and disrupted wide areas of the network. The duration of the incident also made its management particularly challenging for our teams.

The amount of penalty attributable to Storm Eunice was estimated at c. £1.45 million. Our reported interruption figure for 2021/22 (of 01:12:33 against a target of 00:6:08) includes the impact of Storm Eunice but we have applied for an exemption to Ofwat due to the exceptional nature of the weather event and the fact that the disruption to our service was caused by repeated interruptions to our own electricity supplies. The potential penalty has been included in the assessment of performance of the ODI component of the AIP subject to a potential subsequent adjustment at the discretion of the committee.

The committee decided to postpone considering the exercise of any discretion in respect of the impact of Storm Eunice on the interruption ODI until after the presentation and discussion by the Board in September 2022 of a full report on the impact of Storm Eunice on the business and on the management of the incident.

If appropriate, the committee will consider exercising discretion, potentially adjusting the award under the 2022/23 AIP as appropriate, while ensuring there is no double counting of the extreme weather provision that is already included in the targets for the ODI component of the AIP. This means that the maximum adjustment that the committee will consider will be to reduce the penalty by £0.35 million (being £1.45 million of penalty attributable to storm Eunice less £1.1 million of extreme weather provision adjustment).

In coming to that decision, the committee had regard to (i) the exceptional nature of this weather event, (ii) of the fact that the causes of the disruption to the water supply service were widespread and impacted by repeated interruptions to power supplies over several days, and (iii) the potential for the exceptional nature of this event to be recognised in the assessment of the ODI by Ofwat.

### C-MeX and D-MeX

Considering that the final C-MeX and D-MeX performance are determined by Ofwat after publication of the companies' annual report on 15 July, to take account of this timing difference, the committee decided that from 2021/22 the award in respect of 2021/22 (year 0) would be calculated based on a best estimate of the C-MeX and D-MeX penalty/reward position. An adjustment would then be made which would be applied to the awards for 2022/23 (year 1) to achieve an equivalent position. This ensures the awards reflect the actual performance and avoid a retrospective adjustment to the previous year's award.

### Overall performance

In the context of the continued impact of the Covid-19 pandemic and increasingly challenging macroeconomic conditions, our overall performance against our core service delivery commitments was good in 2021/22.

Our actual performance was better than target for many of our core service delivery commitments. This is the case for leakage reduction, the number of mains repairs, the compliance risk index, unplanned outage, the appearance of water, the taste and odour of water, the number of properties at risk of low pressure and the number of household voids.

For the purpose of the AIP, the net penalty for 2021/22 is £2.91 million. This figure is the net penalty position including the impact of storm Eunice and excluding any WINEP penalty. This figure also reflects the exclusion of PCC and non-household voids that will be determined by Ofwat at the end of the current regulatory period and have been carved out as explained above.

This should be understood in the context of challenging targets which become more stretching year on year, where penalties may still be incurred despite achieving real improvements in performance. This corresponds to an outcome performance between target and outperformance level.

In respect of financial metrics, the performance against appointed cash receipts & opex was at the outperformance level and the performance against the non-appointed operating profit metric was at target level.

The overall performance across all the responsible business metrics was good as all were achieved except for the segmented satisfaction metric.

Details on the actual performance achieved, scoring and corresponding awards are set out in the summary table on page 190.

#### Actual cash awards for 2021/22 under the AIP (audited)

	Total Award (£)	Total Award (% of salary)	Amount paid in July 2022	Amount payable in July 2024
CEO	£236,414	87.0%	£156,033	£80,381
CFO	£162,290	72.9%	£107,111	£55,179

**Note:** A proportional award is made for performance between threshold and target and between target and outperformance.

#### Operation of the AIP in 2021/22

The AIP awards are based on the score achieved against performance measures in four categories: Outcome Delivery Incentives (ODIs), responsible business, financial and personal objectives.

For each measure, the remuneration committee compares the actual performance (following internal and external assurance of the performance data) with a threshold (minimum), target and outperformance (maximum) level of performance that it has set at the beginning of the financial year to determine the actual score.

The potential awards are set as a percentage of salary for a given performance. For 2021/22 the potential awards for an overall performance at target level and the maximum potential award (at or above outperformance level) were set as set out in the table below following the adjustment relating to the PCC and non-household voids ODIs described above:

Potential Score	Potential Award (% of salary)		Potential Award (£)	
	CEO	CFO	CEO	CFO
@ Target: <b>100</b>	70.5%	56.4%	£191,492	£125,492
@ Maximum: <b>133.3</b>	95.5%	81.4%	£259,397	£181,117

**Note:** A proportional award is made for performance between threshold and target and between target and outperformance.



## Executive remuneration for 2021/22 continued

### AIP measures, targets, scoring and actual performance in 2021/22 (audited)

The following table summarise the structure, performance measures, actual performance achieved and the financial outcome of the AIP for 2021/22.

Category	Measure	Threshold	Target	Maximum	Actual Performance*	Actual Score CEO	Award CEO (% of salary)	Actual Score CEO	Award CFO (% of salary)
ODIs (40%)	Net reward / penalty (£m)	-4.9	-3.6	-2.5	£-2.9m	49.2	35.1%	49.2	29.4%
	<b>ODI Score</b>	<b>0</b>	<b>40</b>	<b>54.8</b>					
Responsible business (20%)	Points achieved	0	2	4	3.67	26.2	18.7%	26.2	15.6%
	<b>RB Score</b>	<b>0</b>	<b>20</b>	<b>27.4</b>					
Financial (30%) Appointed cash receipts & opex (20%)	Net variance from target values (£m)	-4	0	+4	£4.4m	27.4	19.5%	27.4	16.4%
	<b>Finance Score 1</b>	<b>0</b>	<b>20</b>	<b>27.4</b>					
Non-appointed Operating Profit (10%)	Profit target (£m)	3.5	3.9	4.3	£3.9m	10	7.1%	10	6%
	<b>Finance Score 2</b>	<b>0</b>	<b>10</b>	<b>13.7</b>					
Personal objectives (10%)	Points achieved	0	10	10	–	9.3	6.6%	9.3	5.6%
	<b>Personal objectives Score</b>	<b>0</b>	<b>10</b>	<b>10.0</b>					
<b>Total score</b>		<b>0</b>	<b>100</b>	<b>133.3</b>	<b>–</b>	<b>122.1</b>	<b>87%</b>	<b>122.1</b>	<b>73%</b>

\*The actual performance is after adjustments described in the introduction to this section.

#### Notes:

- In respect of the ODIs measure, no penalty was included in respect of WINEP scheme for the purpose of the AIP reflecting the change to delivery deadlines agreed with the Environment Agency.
- In respect of the appointed cash receipt element of the financial target, the following adjustments were made: a standard adjustment of +£1 million to reverse the adjustment of -£1 million made in the prior year to reflect billing cash collection timing, a standard adjustment of -£1 million for additional bad debt provision, an adjustment of -£3.5 million made to actual cash receipts to remove the increase in prepayments i.e. cash received in 2021/22 that relates to billing in 2022/23 (which will reverse in 2022/23).
- In respect of the opex element of the financial target, an adjustment of -£0.5 million was made reflecting: additional bad debt charge +£1 million, wholesale energy price +£0.7 million, unwind of annual leave accrual -£0.5 million and planned leakage savings -£1.7 million.

### Performance measures included in the ODI component

Performance against ODIs is assessed against an overall net reward/penalty target based on the final determination for all financial ODIs (except biodiversity and catchment management which are included in the responsible business category).

The threshold, target and maximum levels were set by the remuneration committee to incentivise the delivery of significant improvements compared with baseline performance for comparable measures in 2019/AMP 6.

It is the main category of the AIP measuring the delivery of core services to customers which includes the following ODIs:

The customer measure of experience (C-MeX)	The developer services measure of experience (D-MeX)
The compliance risk index (CRI)	The number of household void properties
The appearance of tap water	The number of household void properties
Leakage reduction on a 3 year average	The number of void business properties*
Reduction of per capita consumption on 3 year average*	The delivery of the Water Industry National Environment Programme schemes
Unplanned outage	The number of sites protected from the risk of flooding
Supply interruptions	The bespoke Abstraction Incentive Mechanism (AIM)
The number of mains bursts repairs	The number of properties at risk of low pressure
The taste and odour of tap water	The delivery of the Wellwood to Potters Corner strategic main

**Note:** The biodiversity and catchment management ODIs are included in the Responsible Business performance measures except that any variance from the net reward/penalty target for these ODIs in AMP7 is included in the calculation of the net reward/penalty in year 5 of AMP7.

**Note:** \*From 2021/22, an element of the potential award relating to the ODIs on per capita consumption and non-household voids has been excluded and the actual award will be determined at the end of the current regulatory period after Ofwat has published its assessment of performance.

In determining the threshold, target and maximum levels for the ODI metrics, the remuneration committee gave due consideration to the primary purpose of the AIP, which is to incentivise stretching but deliverable improvements in performance compared with the baseline performance achieved in AMP6.

The metrics and targets presented by the company in its business plan submissions reflected a significant level of improvement in performance over AMP7. However, the 2019 price determination set regulatory targets that went beyond what the company considered to be reasonably achievable. The corporate plan approved by the Board following the final determination anticipates net ODI penalties being incurred even if the company achieves significant performance improvements over AMP7. The negative weighting of the ODI targets is particularly relevant for performance commitments that are directly affected by severe weather events. In addition, some conflicts between the targets set in the final determination mean that activities necessary to achieve a target will likely lead to another target being missed. This is the case for example of the relationship between leakage and burst mains, as leakage activities result in a higher number of bursts being detected which could then result in the target for the number of bursts being exceeded.

## Executive remuneration for 2021/22 continued

Having considered this negatively weighted outcome of the final determination on ODIs, the remuneration committee still determined to use the net ODI position that would result from the final determination as the main operational measure in the AIP to ensure it was based on the final determination. The threshold, target and maximum levels of performance for the ODI metrics in the AIP have then been set at levels that require significant improvements in performance in line with our business plan. However, even this level of improvement will still result in penalties under the regulatory framework set by Ofwat at PR19. This explains why an award may still be paid under the ODI metric when the company is in a net penalty position.

### Responsible business measures and points allocation

The Responsible Business performance category relates to (i) ESG, (ii) Health & safety, (iii) achieving Corporate Plan targets on environmental initiatives and (iv) achieving Corporate Plan targets on customer satisfaction.

To assess management's performance, the remuneration committee determines whether several measures under each of the headings above have been achieved. The measures for 2021/22 and associated points are set out in the table below. The maximum score achievable under this measure is 4 and a score of 2 corresponds to the target level of performance.

Health & safety	Points	Customer satisfaction	Points
Health & safety compliance above 75% (as recorded during audits)	0.33	Average satisfaction across all customer segments (Reputational ODI): 4.3 out of 5 for 2021/22	0.33
3 or less RIDDORS (excluding slips/trips).	0.33	Satisfaction of household customers who are experiencing payment difficulties (Reputational ODI): 4.3 out of 5 for 2021/22	0.33
Satisfactory progress in implementing wellbeing and mental health awareness for employees	0.33	Satisfaction of household customers who are receiving non-financial support (which is a reputational ODI): 4.2 out of 5 for 2021/22	0.33
ESG		Environmental	
GRESB benchmark score $\geq 87$	0.5	Target met on protecting wildlife and increasing biodiversity (Financial ODI) – 1,218 hectares (cumulative for year 2 of AMP)	0.5
Progress in implementing the recommendations of the Task Force on Climate-Related Financial Disclosure (TCFD)	0.5	Target met on engaging and working with landowners and land managers to improve catchment resilience related to raw water quality deterioration (Financial ODI) – 5,687 hectares (cumulative for year 2 of AMP)	0.5

**Financial targets**

The appointed cash receipts & opex measures seek to incentivise effective cash collection performance and management of bad debt and efficient operations whilst delivering the strategic priorities of the business.

The non-appointed operating profit target incentivises non-regulated commercial activities, which include in particular billing and customer services to other undertakers, laboratory services, plumbing and technical services.

**Personal objectives**

Personal objectives are set by the remuneration committee and include individual and collective objectives for the Executive Team. Collective objectives have a weighting of 25 per cent and individual objectives a weighting of 75 per cent. The maximum score of 10 may be achieved if all the objectives are achieved.

## Executive remuneration for 2021/22 continued

### Further disclosures on remuneration

#### Pension benefits earned (audited)

Approved contributory final salary pension scheme were as follows:

Accrued benefits	David Hinton
<b>At March 2022</b>	
Annual pension	£30,707
Lump sum	£91,976
<b>At March 2021</b>	
Annual pension	£29,785
Lump sum	£89,211
<b>Increase in accrued benefits excluding inflation</b>	
Annual pension	£922
Lump sum	£2,765

The defined benefit pension was closed to future accrual on 31 March 2015.

#### Approved defined contribution scheme (audited)

In the year to 31 March 2022 two executive directors were members of the defined contribution scheme.

The table below summarises the contributions that were made in the scheme as at 31 March 2022:

	Contributions in 2020/21	Value of contributions as at 31 March 2021	Contributions in 2021/22	Value of contributions as at 31 March 2022
David Hinton	–	£125,335	–	£125,335
Andrew Farmer	£14,000	£110,897	£4,000	£114,897



### CEO pay ratios

The table below sets out a comparison between the CEO's single total figure of remuneration for 2021/22 and an equivalent figure for UK employees at the 25th, 50th and 75th percentile.

Total pay and benefits have been calculated as at 31 March 2022 to allow for the comparison with the single total figure table.

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2021	B	16:1	13:1	11:1
2022	B	22:1	13:1	10:1

**Note:** For 2020/21, the CEO single total figure of remuneration is a combined figure, including the relevant single total remuneration received by both Paul Butler and David Hinton as CEOs during that year. The amount received as CEO by Paul Butler from 1 April 2020 to 31 July 2020 was £111,284. The relevant amount received by David Hinton as CEO from 1 August 2020 to 31 March 2021 was £307,921 and includes the salary actually received in the period, the amount of pension benefit actually received, and the pro-rated amounts of taxable benefits, company car trade and AIP award.

The table below sets out the base salary and total pay and benefits details for the CEO and the employees at the 25th, 50th and 75th percentile received in or in respect of 2021/22. For the purpose of the calculation the reference salary without deduction of any pension salary sacrifice of employees was used for a better comparability of the figures.

CEO Method	£
Base salary	271,620
Total pay and benefit	527,873
<b>Employees</b>	
Base salary 25th percentile	24,000
Base salary 50th percentile	28,362
Base salary 75th percentile	35,914
Total pay and benefits 25th percentile	24,236
Total pay and benefits 50th percentile	42,177
Total pay and benefits 75th percentile	55,153

# Implementation of remuneration policy in 2022/23

The remuneration policy for 2021 to 2025 is as set out in the remuneration policy section. An illustration of the potential total remuneration of the executive directors is set out below.

The structure of the AIP for 2022/23 will be the same as is described above in respect of the AIP for 2021/22. The targets for 2022/23 have been updated by the remuneration committee to ensure they remain stretching and in line with the corporate plan for 2020 to 2025 as approved by the board following the final determination. Details on the new targets are set out in the table below.

## Illustration of potential remuneration in 2022/23

### CEO - Illustration of the possible outcomes of the remuneration policy for 2022/23

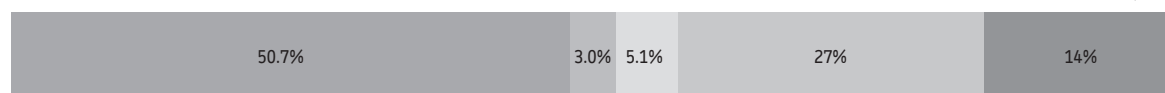


**Note on AIP:** The total potential award under the AIP for the CEO including the amount payable in July 2023 and the amount deferred would be £197,428 at target performance and £267,438 at outperformance level (maximum). This illustration does not include any adjustment that may be applied to the AIP award in 2022/23 relating to (i) discretion being exercised regarding the impact of Storm Eunice or to (ii) the actual D-MeX and C-MeX data for 2021/22 to be published by Ofwat.

**CFO - Illustration of the possible outcomes of the remuneration policy for 2022/23**

Maximum

£452,671



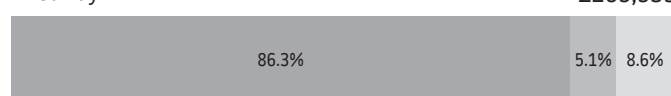
Target

£395,321



Fixed Pay

£265,939



■ Salary ■ Benefits ■ Pension ■ AIP cash payment ■ AIP deferral

**Note on AIP:** The total potential award under the AIP for the CFO including the amount payable in July 2023 and the amount deferred would be £129,382 at target performance and £186,732 at outperformance level (maximum). This illustration does not include any adjustment that may be applied to the AIP award in 2022/23 relating to (i) discretion being exercised regarding the impact of Storm Eunice or to (ii) the actual D-MeX and C-MeX data for 2021/22 to be published by Ofwat.

## Implementation of remuneration policy in 2022/23 continued

### AIP metrics and targets 2022/23

Category	Measure	Threshold	Target	Outperformance
ODIs (40%)	Net reward / penalty (£m)	-5.0	-3.4	-2.0
	<b>ODI Score</b>	<b>0</b>	<b>40</b>	<b>54.8</b>
Responsible business (20%)	Points achieved	0	2	4
	<b>RB Score</b>	<b>0</b>	<b>20</b>	<b>27.4</b>
Financial (30%) Appointed cash receipts & opex (20%)	Net variance from target values (£m)	-4	0	+4
	<b>Finance Score 1</b>	<b>0</b>	<b>20</b>	<b>27.4</b>
Non-appointed operating profit (10%)	Profit target (£m)	3.2	3.6	4.0
	<b>Finance Score 2</b>	<b>0</b>	<b>10</b>	<b>13.7</b>
Personal objectives (10%)	Points achieved	0	10	10
	<b>Personal objectives Score</b>	<b>0</b>	<b>10</b>	<b>10.0</b>
<b>Total score</b>		<b>0</b>	<b>100</b>	<b>133.3</b>

The updated responsible business targets are set out in the table below:

Health & Safety	Points	Customer satisfaction	Points
Health & Safety compliance level above 75 per cent as recorded during audits of H&S systems and policies	0.33	Average satisfaction across all customer segments (Reputational ODI): 4.3 out of 5 for 2022/23	0.33
Lost time injury frequency rate (LTIFR) of less than 5 (Target set annually)	0.33	Satisfaction of household customers who are experiencing payment difficulties (Reputational ODI): 4.4 out of 5 for 2022/23	0.33
Satisfactory progress in implementing wellbeing and mental health awareness for employees by reference to a list of activities	0.33	Satisfaction of household customers who are receiving non-financial support (which is a reputational ODI): 4.3 out of 5 for 2022/23	0.33
ESG		Environmental	
GRESB benchmark score >=87	0.5	Target met on protecting wildlife and increasing biodiversity (Financial ODI) – 1,268 hectares (cumulative for AMP to date)	0.5
Inclusion of statements of adoption of recommendations vs TCFD requirements in annual regulatory reporting each year	0.5	Target met on engaging and working with landowners and land managers to improve catchment resilience related to raw water quality deterioration (Financial ODI) – 8,530 hectares (cumulative for AMP to date)	0.5

For details on the operation of the AIP and the specific performance measures included under the ODI, responsible business, financial metrics please refer to the explanations above on the outcome of the AIP for 2021/22.

### Potential award based on total score for 2022/23

The potential awards are set as a percentage of salary at the beginning of the year for a given performance. For 2022/23 the potential awards for an overall performance at target level and the maximum potential award (at or above outperformance level) have been set as follows:

Potential Score	Potential Award (% of salary)		Potential Award	
	CEO	CFO	CEO	CFO
@ Target: <b>100</b>	70.5%	56.4%	£197,428	£129,382
@ Maximum: <b>133.3</b>	95.5%	81.4%	£267,438	£186,732



# Our Values

Our values and behaviours are an integral part of underpinning how we deliver our strategy.

**Our core values shape our culture and reflect what we're all about.**

Through workshops and interviews with colleagues across the business, together we have defined our own unique set of core values – trust, excellence, agility, passion and creativity.

## Trust

Dependable, safe and sound, as a team always delivering on our commitments. Guardians of the environment

## Excellence

Striving at all times to be the best and deliver the best

## Agility

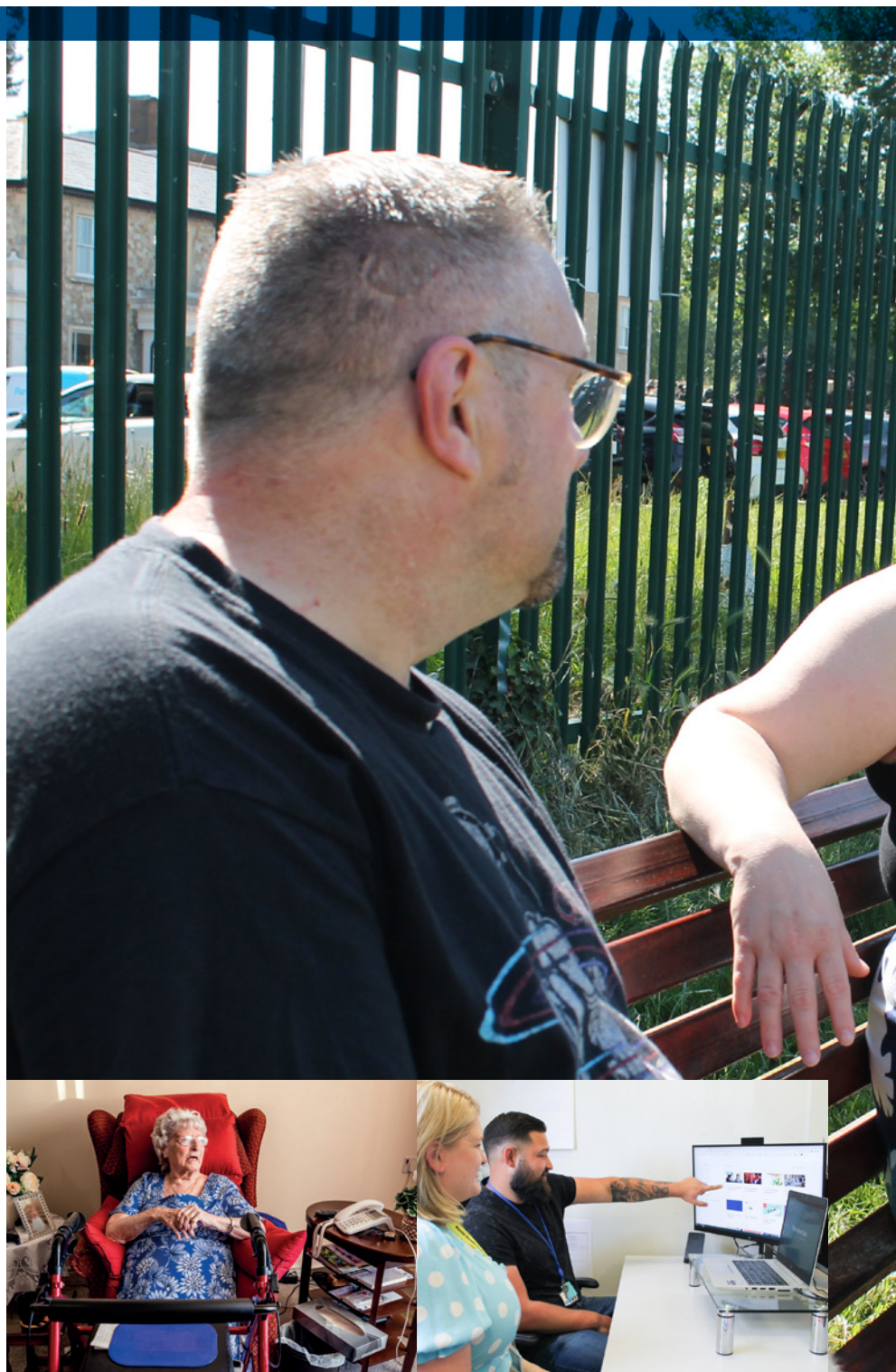
Responsive, flexible and adapting quickly to change

## Passion

Dedicated to delivering a safe, reliable service, always caring for our customers and each other

## Creativity

Fresh thinking, improving, never standing still



We've worked in partnership with two councils in Kent to create a ground breaking data sharing partnership to auto enrol eligible customers onto our social tariff

We have just launched a new performance management system (TAP), which includes over 5,000 piece of training collateral

“

The health and safety of our colleagues is our number one priority. Our campaign “no job is too urgent not to be done safely” reinforces this with all staff



We have 37 Wellbeing champions  
and 42 Mental Health First Aiders  
to support our employees

## FINANCIAL STATEMENTS

202	Directors' report
208	Independent auditor's report
220	Group income statement
220	Group statement of other comprehensive income
221	Company income statement
221	Company statement of other comprehensive income
222	Group statement of financial position
223	Company statement of financial position
224	Group statement of changes in equity
225	Company statement of changes in equity
226	Group statement of cash flows
227	Company statement of cash flows
228	Notes to the financial statements



# Directors' report

for the year ended 31 March 2022

The directors have pleasure in presenting the group directors' report relating to South East Water Limited ("South East Water" or the "company") and its subsidiary South East Water (Finance) Limited (together referred to as the "group") for the year ended 31 March 2022, together with the audited financial statements.

## Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the group 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 group and the company financial statements in accordance with UK-adopted international accounting standards.

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 group and company and of the profit or loss of the group and 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 UK-adopted international accounting standards 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.
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

The directors are responsible for safeguarding the assets of the group and 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 group's and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and 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

Each of the directors, whose names and functions are listed in the directors' report confirm that, to the best of their knowledge:

- The group and company financial statements, which have been prepared in accordance with UK-adopted international accounting standards, give a true and fair view of the assets, liabilities, financial position and loss of the group and loss of the company.
- The strategic report includes a fair review of the development and performance of the business and the position of the group and company, together with a description of the principal risks and uncertainties that it faces.

In the case of each director in office at the date the directors' report is approved:

- So far as the director is aware, there is no relevant audit information of which the group's and company's auditors are unaware.
- 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 group's and company's auditors are aware of that information.

### Principal activities and future developments

The principal activities of the group comprise the supply of water to a population of 2.3 million in an area of 5,700 square kms and the provision of certain ancillary services for customers, developers and other bodies within the constraints of the relevant legislation. The directors consider the performance of the business to be satisfactory and that this is expected to continue in the future. An indication of the likely future developments in the business of the company, including its strategy for the period 2020 to 2025 are set out in the strategic report as well as information on the prospects of the company in the long-term viability statement.

The turnover of the group for the year ended 31 March 2022 was £251.3 million (2021: £248.2 million) and profit from operations was £83.8 million for the year (2021: £77.5 million). Profit before taxation for the year was £17.0 million (2021: £37.7 million). The financial position at 31 March 2022 for the group and for the company is shown on pages 222 and 223 respectively. Further analysis of the performance of the business and future developments is included in the strategic report on page 66.

## Directors' report continued

### Appointment as a water undertaker and the ring-fence

South East Water has been appointed as a water undertaker under the Water Industry Act 1991 and the duties and the obligations of the appointee are set out in that Act, in regulations created under that Act, and in its instrument of appointment. The conditions of the instrument of appointment cover a variety of areas including charges, accounts and requirements to produce information for customers.

The instrument of appointment deals with ring-fencing and requires South East Water to ensure, so far as is reasonably practicable, that it retains at all times sufficient rights and assets (other than financial resources) for a special administrator, if appointed, to be able to manage the affairs of the business, which must be confirmed annually.

Condition P requires South East Water to ensure that it has sufficient financial and managerial resources and adequate systems of planning and internal control to carry out the regulated activities and to certify this annually. Condition P requires South East Water to conduct the appointed business as if it was substantially the company's sole business and it was a separate public limited company. The ultimate controllers of South East Water are bound by a binding undertaking required under Condition P to procure that their subsidiaries, other than South East Water, provide information required by South East Water to comply with its obligations under the Water Industry Act 1991 and the instrument of appointment and to refrain from any action that would cause the appointee to breach any of these obligations.

The effect of the relevant legislation and the terms of the instrument of appointment mean that our directors have an overriding responsibility to ensure the regulatory ring-fence is maintained. The directors remain mindful of these obligations, along with their duties as directors set out in the Companies Act 2006 and the Articles of Association. One of the ways the directors meet the ring-fencing obligations is by ensuring that all board level matters that affect the company are decided at the board of South East Water, rather than at a holding company level.

### Group structure

South East Water is the main operating company in the group of companies headed by HDF. Further details of the structure of the HDF group are provided in the strategic report on page 64. There are no branches (as defined in section 1046(3) of the Companies Act 2006) of the company outside of the United Kingdom.

### Capital structure

Details of the authorised and issued share capital are shown in note 24 of the financial statements. There have been no movements during the year. South East Water has one class of share which carries no right to fixed income. There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the Articles of Association and prevailing legislation.

Details of South East Water's immediate and ultimate controlling parties are provided in note 31 and in the strategic report.

### Accounting framework

The financial information presented in these audited financial statements has been prepared in accordance with the disclosure and transparency rules of the Financial Conduct Authority and UK-adopted international accounting standards. The financial statements are presented in Sterling. The results published in this report describe our performance for the year and incorporate the consolidated performance of South East Water Limited and South East Water (Finance) Limited.



## Use of financial instruments

The group's financial risk management policies are set out in note 21.

## Research and development activities

South East Water is a member of UK Water Industry Research (UKWIR) and participates in their research programmes.

## Dividends

The directors have approved ordinary dividends totalling £9 million (2021: £11 million) for the year, paid in equal instalments of £2.25 million per quarter. In addition, in December 2020 directors approved a special restructuring dividend of £136 million to its parent company South East Water (Holdings) Limited. These funds were used by the parent company to repay its intercompany loan to South East Water Limited on the same day, resulting in a net nil cash impact. In the prior year, South East Water (Holdings) Limited used £2.3 million of the £11 million dividends to pay interest on an inter-company loan back to South East Water prior to the repayment of the loan. No dividends have been proposed and unpaid at the balance sheet date.

The company's dividend policy is discussed on page 70 of the strategic report.

## Capital expenditure

During the year the group's capital expenditure totalled £105.0 million (2021: £93.3 million). Further details are given in notes 12 and 13 of the financial statements.

In the opinion of the directors, the market value of land is significantly more than its book value. However, it would not be practicable because of the number of sites and the costs of valuing such sites to precisely quantify this.

## Taxation

The group's profits are typically sheltered with a combination of tax losses from other HDF Group entities and the application of capital allowances from the extensive investment programme currently being undertaken by South East Water. In practice we prioritise the purchase of group relief in sheltering tax charges and the payment of group relief is made at the statutory rate for corporation tax, so does not impact the effective tax rate. The effective rate after making allowance for the future rate change and prior year adjustments is 16.8 per cent. Additional information on taxation is provided in note 9.

## Directors and their interests

The directors who at any time during the financial year and at the date of this report were directors of South East Water, are set out on pages 144 to 145 and further details regarding their appointments are set out on page 162.

No director held any shares or loan stock in South East Water or other associated companies, which is required to be disclosed under the Companies Act 2006, during the financial year.

## Directors' indemnities

South East Water has granted an indemnity to its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity provisions were in force during the year (having taken effect on the appointment of the directors) and remain in force as at the date of approving this directors' report.

## Principal risks and uncertainties

A description of the principal risks and uncertainties and an explanation of the steps the board takes to mitigate these risks are provided in the strategic report on pages 30 to 47.

## Directors' report continued

### Corporate governance arrangements

Information on South East Water's corporate governance arrangements are set out in the corporate governance statement on page 143.

### Disclosures on greenhouse gas emissions

Information on greenhouse gas emissions, energy consumption and energy efficiency action (including as required under Part 7, Schedule 7 of the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 are set out on page 121 of the strategic report and relate to the period from 1 April 2021 to 31 March 2022.

We also report on our greenhouse gas emissions in our performance, people and planet report, which is published on the company's website. Further details on our responsible business committee are set out in the corporate governance report on page 162.

### Environmental and corporate social responsibility

South East Water's approach to sustainable development of our business includes a strong commitment to the environment and corporate social responsibility. Details of our actions in this respect are given throughout the strategic report and corporate governance report.

### Employment policies on disability and engagement with employees, suppliers, customers and others

South East Water offers equal opportunities to all employees and applicants for employment. Our managers and officers are trained to ensure there is no unlawful discrimination on grounds of race, gender, age, religion, union membership, disability or sexual orientation. Employment policies are intended to confirm South East Water as an employer of choice through provision of a safe work environment, satisfying work, personal development and fair rewards. Further details are given in the strategic report on page 54.

South East Water gives full consideration to applications for employment from disabled persons where the candidate's particular aptitudes and abilities are consistent with meeting the requirements of the job.

Opportunities are available to disabled employees for training, career development and promotion. Where existing employees become disabled it is South East Water's policy to provide continuing employment, wherever practicable, in the same position or in an alternative position and to provide appropriate training to achieve this aim.

South East Water places considerable value on the involvement of our employees and has continued to keep them informed on matters affecting them as employees and on various factors affecting the performance of the company. This is achieved through formal and informal meetings, regular bulletins on the intranet and an employee magazine.

Employee representatives are consulted regularly through the Staff Council on a wide range of matters affecting their current and future interests.

South East Water has developed a comprehensive engagement program to ensure that we capture the differing views of our customers, suppliers and other stakeholders in the wider community. This program has helped us shape our plans for the 2020 to 2025 AMP. There are a number of examples of how South East Water has interacted with stakeholders in forming its policies and decisions.

The strategic report also discusses how the directors have had due regard to the engagement with employees, customers, suppliers and other business relationships on page 78.

### **Appointment of auditors**

Following a tender process during the early part of the financial year, PricewaterhouseCoopers LLP were appointed as statutory auditor in August 2021. The appointment has been made for an intended initial five years starting with this year ended 31 March 2022, with the option to extend for a further three years. This term is within current FRC guidance that the audit should be tendered every 10 years.

### **Post balance sheet events**

There are no post balance sheet events to be reported.

### **Political donations**

No political donations were made by the group in either the current or prior period.

Approved by the board and signed by order of the board by:

**Nicolas Truillet**

COMPANY SECRETARY  
14 JULY 2022

# Independent auditors' report to the members of South East Water Limited

## Report on the audit of the financial statements

### Opinion

In our opinion, South East Water Limited's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 March 2022 and of the group's and company's loss and the group's and company's cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Group Annual Report (the "Annual Report"), which comprise: the group statement of financial position and the company statement of financial position as at 31 March 2022; the group income statement, the group statement of other comprehensive income, the company income statement, the company statement of other comprehensive income, the group statement of changes in equity, the company statement of changes in equity, the group statement of cash flows and the company statement of cash flows for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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

### Basis for opinion

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

### Independence

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

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

Other than those disclosed in note 6 of the financial statements, we have provided no non-audit services to the company or its controlled undertakings in the period under audit.

## Our audit approach

### Context

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).

### Overview

#### Audit scope

- The Group comprises South East Water Limited (the regulated water business) and its only subsidiary company South East Water (Finance) Limited. Both of these companies were subject to a full scope audit by the Group audit engagement team.
- In scoping our audit, with reference to our risk assessment, we identified and included all material financial statement line items within the scope of our audit procedures
- Climate change - As part of our audit planning we have considered the impact that the Group has on the environment and the current and potential future impact of climate change on the Group's business and its financial statements. The Group has set out its Climate Change targets with the goal of achieving net zero by 2030. The key consequences of global warming identified relate to the quantity and quality of water resources and potentially disruption of operations or those of others on whom the group rely, such as energy suppliers.

As part of our audit, we have made enquiries of management to understand the extent of the potential impact of climate change risks affecting the Group's financial statements. Many of the risks identified are of a medium or long term nature and, in the short term, the directors have concluded that other than the risks arising from adverse weather events which are considered in downside scenarios in the Viability Statement and the Going concern assessment, climate change risks have no material impact on the carrying value of assets and liabilities at the balance sheet date.

We have performed our own evaluation on the potential impacts of climate change, including assessing the estimates made regarding the useful economic lives of property, plant and equipment. We determined that no heightened audit risk arose in the year in respect of climate change.

We have read the Group's disclosure of climate related information in the front half of the annual report as set out on pages 94 to 123 and considered consistency with the financial statements and our audit knowledge.



## Independent auditors' report to the members of South East Water Limited continued

### Key audit matters

- Risk of error in household measured income accrual estimate (group and company)
- Risk of error in bad debt provision for household revenue (group and company)
- Risk of incorrect capitalisation of costs in fixed assets (group and company)

### Materiality

- Overall group materiality: £3.6m based on 2.5% of adjusted profit.
- Overall company materiality: £3.4m based on 2.5% of adjusted profit (capped at 95% of group materiality).
- Performance materiality: £2.7m (group) and £2.5m (company).

### 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.

Key audit matter	How our audit addressed the key audit matter
<p><i>Risk of error in household measured income accrual estimate (group and company - note 16)</i></p> <p>The household measured income accrual of £34.3m (31 March 2021: £36.6m) is an estimation of the amount of water supplied which was unbilled at year end.</p> <p>The estimated water consumption for measured customers is primarily based on historical consumption data. The accrual is calculated based on the latest average read date and average daily consumption for properties within the same zones, adjusted for seasonal factors based on forecast driven formula and sense checked against historical data as well as leakage assumptions. The amount is based on historical usage for the months and zones that have not been measured and billed but for which water has been supplied before year end.</p> <p>The household measured income accrual is therefore inherently judgemental, directly impacts reported revenue and profit and is therefore susceptible to error and/or management bias.</p>	<p>We have obtained an understanding of and evaluated the relevant controls around the estimation techniques used with regard to consumption and other key data inputs into the model;</p> <p>In addition we have understood management's calculation for determining the level of accrued income to reflect actual consumption by customers in the year.</p> <p>For the Household income accrual, we have:</p> <ul style="list-style-type: none"> <li>■ Reperformed management's calculation and tested its mathematical accuracy</li> <li>■ Tested management's inputs to the calculation by reviewing and assessing the following to confirm that it is in line with the historical billing data over the previous 6 month period: <ul style="list-style-type: none"> <li>■ agreeing the total properties in the book and confirming the appropriate portion are allocated within their relevant billing zone and monthly billing group</li> <li>■ sensitising the average number of days since last billed by monthly billing group</li> <li>■ recalculating the weighted average daily consumption rate</li> <li>■ testing the applicable tariff against the annual approved tariff listing</li> </ul> </li> <li>■ We have additionally evaluated management's adjustments to consider seasonality and leakage allowances by reviewing the historical usage trends and performing sensitivity analyses, and considered these to be reasonable.</li> </ul> <p>We also evaluated the historical accuracy of the measured income accrual by reviewing management's look back test which compares bills raised in the year to amounts accrued at the end. This assessment concluded that the prior year accrual was understated by £2.8m due to an incorrect explanation of higher than normal levels of leakage rather than higher levels of consumption arising from COVID. Management have also performed an additional look-back test on the income accrued at September 2021 and noted the accrual at September was within 0.5% (£0.2m) of the reported interim figure. We have reviewed this look-back assessment and concur with management's conclusion that the methodology is reasonable and that the prior year variance was due to (non-recurring) exceptional Covid-related factors.</p> <p>We also assessed the extent to which there was other contradictory or corroborative information regarding the estimates made with no issues arising.</p>

## Independent auditors' report to the members of South East Water Limited continued

Key audit matter	How our audit addressed the key audit matter
<p><i>Risk of error in bad debt provision for household revenue (group and company- note 16)</i></p> <p>The total bad debt provision for household revenue as at 31 March 2022 is £31.5m (31 March 2021: £27.5m).</p> <p>The bad debt provision for household customers is calculated by applying a range of percentages - based on historical cash collection rates - to trade receivables based on their respective ageing. A 3 year average cash collection model has continued to be applied in assessing the provision as at March 2022. This was a change in methodology during FY21 (from 4 years) to reflect the more recent impact of Covid on cash collections.</p>	<p>We have performed the following procedures over the bad debt provision to test the provision calculated:-</p> <ul style="list-style-type: none"> <li>■ obtained an understanding of the relevant controls including management review controls and controls relating to the data integrity in the bad debt model;</li> <li>■ verified the accuracy of information within the cash collection model and tested the mechanics of the spreadsheet used to calculate the provision and the methodology applied to calculate provision rates;</li> <li>■ verified that the final provision has been calculated in line with IFRS 9 methodology through the application of management's bad debt methodology, and challenged whether they reflect the lifetime expected credit outcomes for receivables, specifically assessing whether the recoverability assumptions are reflective of current cash collection rates and future credit risk; and</li> <li>■ assessed the appropriateness of the disclosures provided in the financial statements.</li> </ul> <p>We challenged the directors on their assessment of the impact of inflationary pressures on customers ability to pay and any required additional provision in relation to this risk. The directors' assessment is that the impact of cost of living inflationary pressures going forward is materially equivalent to the previous impact of Covid and therefore this is addressed by applying cash collection rates in the last 3 years. We also challenged management's policy of providing 100% of all debt over four years old despite the receipt of cash on balances older than four years. We have concluded that the combination of both these judgements has resulted in a materially reasonable estimate.</p>

Key audit matter	How our audit addressed the key audit matter
<p><i>Risk of incorrect capitalisation of costs in fixed assets (group and company-note 12)</i></p> <p>Capital spend in FY22 was £102.5m (FY21: £90.4m). The amount capitalised excludes £13.1m (FY21: £15.7m) of reactive maintenance expenditure which has been recorded immediately in the income statement as an operating cost, in line with the requirements of IFRS.</p> <p>The allocation of costs between capital and renewals and maintenance spend can be judgemental and has a direct impact on profit.</p> <p>Given the judgemental nature and highly material nature of these amounts, there is a risk that management bias or error leads to inappropriate amounts being capitalised.</p>	<p>We have performed the following procedures over assets capitalised in the period:</p> <ul style="list-style-type: none"> <li>■ obtained an understanding of the relevant controls around the approval of capital expenditure requests and tested a sample of requests with no issues noted</li> <li>■ on a sample basis we have tested a number of additions to assets under construction during the year to supporting evidence to corroborate both the amount capitalised and the fact that the item was capital in nature (in line with the capitalisation criteria detailed within IAS 16);</li> <li>■ evaluated management's assessments of what spend by cost centre should be capitalised, including their differentiation between enhancement and maintenance costs. For a sample of projects open during the financial year we ensured that the classification of expenditure into capital or operating costs is consistent with the nature of the project.</li> <li>■ tested management's controls over closable WIP with no issues noted and tested a sample of assets transferred from assets under construction during the year to ensure that this transfer was appropriate and that depreciation was being charged using an appropriate useful economic life;</li> <li>■ performed a review of aged assets under construction to identify assets that should have been transferred from assets under construction with no material issues identified.</li> </ul> <p>For overheads capitalised in the period we</p> <ul style="list-style-type: none"> <li>■ obtained an understanding of the control processes applied to review the overhead recovery rate and the capitalisation of overheads methodology with no issues noted;</li> <li>■ tested the process of capitalising staff costs by agreeing to timesheets and assessing the percentage of their salary capitalised against total costs to consider reasonableness;</li> <li>■ tested management's process of allocating departmental overheads based on the proportion of time spent on capital programs. We have assessed the proportion of total costs capitalised and how this compares to previous years and deemed this to be reasonable and the methodology applied, consistent.</li> </ul> <p>Our procedures identified no issues to report.</p>

## Independent auditors' report to the members of South East Water Limited continued

### 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 group and the company, the accounting processes and controls, and the industry in which they operate.

Both legal entities in the group were considered financially significant and therefore subject to full scope audits for group purposes. South East Water Limited is the trading entity within the group and therefore generates the vast majority of revenue and operating costs. South East Water (Finance) Limited holds some of the group's external debt. All audit procedures were led by the Group audit team located in the United Kingdom.

### 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:

	Financial statements - group	Financial statements - company
<i>Overall materiality</i>	£3.6m	£3.4m.
<i>How we determined it</i>	Based on approximate 2.5% of adjusted profit. Adjusted profit is profit from operations adjusted for depreciation and amortisation.	Based on approximate 2.5% of adjusted profit (capped at 95% of group materiality) Adjusted profit is profit from operations adjusted for depreciation and amortisation.
<i>Rationale for benchmark applied</i>	Profit from operations adjusted for non-cash items of depreciation and amortisation is considered a key driver of business value and as a result an important measure and focus for readers of the accounts for the group. As such we have determined that this is the most appropriate benchmark for the consolidated accounts of South East Water Limited.	Profit from operations adjusted for non-cash items of depreciation and amortisation is considered a key driver of business value and as a result an important measure and focus for readers of the accounts for the group. As such we have determined that this is the most appropriate benchmark for the company accounts of South East Water Limited.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was £3.4m and £2.9m. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

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% of overall materiality, amounting to £2.7m for the group financial statements and £2.5m 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 in the middle of our normal range was appropriate.



We agreed with the Audit and Risk Committee that we would report to them misstatements identified during our audit above £170,000 (group audit) and £170,000 (company audit) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

### Conclusions relating to going concern

Our evaluation of the directors' assessment of the group's and the company's ability to continue to adopt the going concern basis of accounting included:

- testing the mathematical accuracy of the base case going concern model prepared by management and agreeing this to Board approved budgets;
- assessing the inputs and underlying assumptions of the base case model;
- assessed the accuracy of the cash flow forecast prepared in the prior year so as to obtain assurance of the ability of management to prepare accurate forecasts;
- assessing the severe but plausible downside scenario which has been used to sensitise the base case model, including consideration of the underlying assumptions; and
- reviewing management's analysis of both liquidity and covenant compliance to ensure there is sufficient liquidity and no forecast covenant breaches during the going concern period.
- assessing the disclosure given in the financial statements in respect of going concern and whether it gives a fair and balanced view.

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 group's and 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 group's and 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, which includes reporting based on the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. 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.

## Independent auditors' report to the members of South East Water Limited continued

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 2022 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 group and company and their 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, included within the Corporate Governance Report 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 group's and 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 group's and 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 group 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 group and company and their 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 group's and 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 and Risk Committee.**

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 Directors' report, 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 group's and 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 group or 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.

## Independent auditors' report to the members of South East Water Limited continued

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to industry regulation, including the requirements of The Water Services Regulation Authority ('Ofwat'), the Listing Rules, health and safety regulation (including the requirements of The Health and Safety at Work etc Act 1974), environmental regulation, UK tax legislation and pensions legislation, 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. 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 the posting of inappropriate journal entries and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Discussions with management, including consideration of known or suspected instances of non-compliance with laws, regulation and fraud;
- Evaluation of Management's controls to prevent and detect irregularities;
- Challenging assumptions and judgements made by management in their significant accounting estimates and judgements; in particular in relation to the recoverability of trade debtors, the capitalisation of costs in fixed assets and accuracy of the household 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 with credits to revenue where the debit entry is not to an expected account and credits to the income statement (excluding staff costs) where the debit entry is to property, plant and equipment, journals posted by certain individuals (for example senior management or directors who we wouldn't expect to be posting journals), or journals with certain key unusual words.

There are inherent limitations in the audit procedures described above. 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](http://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 company 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 and Risk Committee, we were appointed by the directors on 17 December 2021 to audit the financial statements for the year ended 31 March 2022 and subsequent financial periods. This is therefore our first year of uninterrupted engagement.

## 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.

### Owen Mackney (Senior Statutory Auditor)

FOR AND ON BEHALF OF PRICEWATERHOUSECOOPERS LLP  
CHARTERED ACCOUNTANTS AND STATUTORY AUDITORS  
WATFORD

14 JULY 2022



## Group income statement

for the year ended 31 March 2022

	Notes	2022 £000	2021 £000
<b>Revenue</b>	4	<b>251,276</b>	248,156
Bad debts	16	<b>(5,010)</b>	(3,788)
Net operating costs	6	<b>(184,364)</b>	(178,285)
Other income	4	<b>21,928</b>	11,439
<b>Profit from operations</b>		<b>83,830</b>	77,522
Finance income	8	<b>705</b>	3,093
Finance expense	8	<b>(67,565)</b>	(42,956)
<b>Profit before taxation</b>		<b>16,970</b>	37,659
Taxation	9	<b>(45,880)</b>	(6,343)
<b>(Loss)/profit for the year</b>		<b>(28,910)</b>	31,316

### (Loss)/earnings per share attributable to the ordinary equity holders of the parent

	Notes	2022 Pence	2021 Pence
Basic and diluted	11	<b>(58.63p)</b>	63.51p

The group activities above are derived from continuing operations.

The notes on pages 228 to 281 form part of these financial statements.

## Group statement of other comprehensive income

for the year ended 31 March 2022

	Notes	2022 £000	2021 £000
<b>(Loss)/profit for the year</b>		<b>(28,910)</b>	31,316
<b>Other comprehensive income/(loss):</b>			
<b>Items that will not be reclassified to the income statement:</b>			
Net actuarial gain/(loss) on pension schemes	23	<b>17,408</b>	(14,967)
Deferred tax (charge)/credit on net actuarial gain/(loss)	9	<b>(4,352)</b>	2,844
Impact of deferred tax rate change in respect of pension schemes	9	<b>1,639</b>	-
<b>Other comprehensive income/(loss) for the year</b>		<b>14,695</b>	(12,123)
<b>Total comprehensive (loss)/income</b>		<b>(14,215)</b>	19,193

The notes on pages 228 to 281 form part of these financial statements.

## Company income statement

for the year ended 31 March 2022

	Notes	2022 £000	2021 £000
<b>Revenue</b>	4	<b>251,276</b>	248,156
Bad debts	16	<b>(5,010)</b>	(3,788)
Net operating costs	6	<b>(184,359)</b>	(178,280)
Other income	4	<b>21,928</b>	11,439
<b>Company profit from operations</b>		<b>83,835</b>	77,527
Finance income	8	<b>705</b>	3,092
Finance expense	8	<b>(67,586)</b>	(42,979)
<b>Profit before taxation</b>		<b>16,954</b>	37,640
Taxation	9	<b>(45,877)</b>	(6,339)
<b>(Loss)/profit for the year</b>		<b>(28,923)</b>	31,301

### (Loss)/earnings per share attributable to the ordinary equity holders of the company

	Notes	2022 Pence	2021 Pence
Basic and diluted	11	<b>(58.65p)</b>	63.47p

The company activities above are derived from continuing operations.

The notes on pages 228 to 281 form part of these financial statements.

## Company statement of other comprehensive income

for the year ended 31 March 2022

	Notes	2022 £000	2021 £000
<b>(Loss)/profit for the year</b>		<b>(28,923)</b>	31,301
<b>Other comprehensive income/(loss):</b>			
<b>Items that will not be reclassified to the income statement:</b>			
Net actuarial gain/(loss) on pension schemes	23	<b>17,408</b>	(14,967)
Deferred tax (charge)/credit on net actuarial gain/(loss)	9	<b>(4,352)</b>	2,844
Impact of deferred tax rate change in respect of pension schemes	9	<b>1,639</b>	-
<b>Other comprehensive income/(loss) for the year</b>		<b>14,695</b>	(12,123)
<b>Total comprehensive (loss)/income</b>		<b>(14,228)</b>	19,178

The notes on pages 228 to 281 form part of these financial statements.

## Group statement of financial position

Registered number: 02679874  
as at 31 March 2022

	Notes	2022 £000	2021 £000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	12	1,678,147	1,631,312
Right of use assets	12	10,980	11,952
Intangible assets	13	8,294	8,787
Defined benefit pension surplus	23	57,346	34,368
		<b>1,754,767</b>	1,686,419
<b>Current assets</b>			
Inventories	15	851	673
Trade and other receivables	16	84,037	86,735
Cash and cash equivalents	17	14,539	41,617
		<b>99,427</b>	129,025
<b>Total assets</b>		<b>1,854,194</b>	1,815,444
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Trade and other payables	20	4,154	4,623
Loans and borrowings	18	1,120,478	1,038,371
Deferred income	22	4,315	3,625
Defined benefit pension liabilities	23	2,869	3,172
Deferred tax liability	9	228,790	167,228
		<b>1,360,606</b>	1,217,019
<b>Current liabilities</b>			
Trade and other payables	20	99,851	88,961
Loans and borrowings	18	339	80,318
Deferred income	22	5,740	5,336
Provisions	19	8,314	7,983
		<b>114,244</b>	182,598
<b>Total liabilities</b>		<b>1,474,850</b>	1,399,617
<b>Net assets</b>		<b>379,344</b>	415,827
<b>Issued capital and reserves attributable to owners of the parent</b>			
Share capital	24	49,312	49,312
Revaluation reserve		217,906	235,774
Retained earnings		112,126	130,741
<b>Total equity</b>		<b>379,344</b>	415,827

The notes on pages 228 to 281 form part of these financial statements.

The financial statements on pages 220 to 281 were approved and authorised for issue by the board of directors on 14 July 2022 and were signed on its behalf by:

**David Hinton**  
CHIEF EXECUTIVE OFFICER  
14 JULY 2022

**Andrew Farmer**  
CHIEF FINANCIAL OFFICER  
14 JULY 2022

## Company statement of financial position

Registered number: 02679874  
as at 31 March 2022

	Notes	2022 £000	2021 £000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	12	1,678,147	1,631,312
Right of use assets	12	10,980	11,952
Intangible assets	13	8,294	8,787
Defined benefit pension surplus	23	57,346	34,368
		<b>1,754,767</b>	1,686,419
<b>Current assets</b>			
Inventories	15	851	673
Trade and other receivables	16	83,611	86,360
Cash and cash equivalents	17	11,411	41,441
		<b>95,873</b>	128,474
<b>Total assets</b>		<b>1,850,640</b>	1,814,893
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Trade and other payables	20	4,154	4,623
Loans and borrowings	18	1,120,478	1,038,371
Deferred income	22	4,315	3,625
Defined benefit pension liabilities	23	2,869	3,172
Deferred tax liability	9	228,790	167,228
		<b>1,360,606</b>	1,217,019
<b>Current liabilities</b>			
Trade and other payables	20	97,805	89,905
Loans and borrowings	18	339	80,318
Deferred income	22	5,740	5,336
Provisions	19	8,314	7,983
		<b>112,198</b>	183,542
<b>Total liabilities</b>		<b>1,472,804</b>	1,400,561
<b>Net assets</b>		<b>377,836</b>	414,332
<b>Issued capital and reserves attributable to owners of the company</b>			
Share capital	24	49,312	49,312
Revaluation reserve		217,906	235,774
Retained earnings		110,618	129,246
<b>Total equity</b>		<b>377,836</b>	414,332

The notes on pages 228 to 281 form part of these financial statements.

The financial statements on pages 220 to 281 were approved and authorised for issue by the board of directors on 14 July 2022 and were signed on its behalf by:

**David Hinton**  
CHIEF EXECUTIVE OFFICER  
14 JULY 2022

**Andrew Farmer**  
CHIEF FINANCIAL OFFICER  
14 JULY 2022

## Group statement of changes in equity

for the year ended 31 March 2022

	Notes	Issued share capital £000	Revaluation reserve £000	Retained earnings £000	Total equity £000
<b>At 1 April 2020</b>		49,312	241,386	252,949	543,647
<b>Comprehensive income for the year</b>					
Profit for the year		-	-	31,316	31,316
Other comprehensive loss	25	-	-	(12,123)	(12,123)
<b>Total comprehensive income for the year</b>		-	-	19,193	19,193
Dividends	10	-	-	(147,013)	(147,013)
Amortisation of revaluation reserve		-	(6,127)	6,127	-
Revaluation of infrastructure assets		-	(783)	783	-
Release revaluation reserve on disposals		-	(15)	15	-
Deferred tax on revaluation and retained earnings transfer <sup>1</sup>		-	1,313	(1,313)	-
		-	(5,612)	(141,401)	(147,013)
<b>At 31 March 2021</b>		<b>49,312</b>	<b>235,774</b>	<b>130,741</b>	<b>415,827</b>
<b>At 1 April 2021</b>		49,312	235,774	130,741	415,827
<b>Comprehensive loss for the year</b>					
Loss for the year		-	-	(28,910)	(28,910)
Other comprehensive income	25	-	-	14,695	14,695
<b>Total comprehensive loss for the year</b>		-	-	(14,215)	(14,215)
Dividends	10	-	-	(9,000)	(9,000)
Amortisation of revaluation reserve		-	(6,112)	6,112	-
Revaluation of infrastructure assets		-	283	-	283
Release revaluation reserve on disposals		-	(21)	21	-
Deferred tax on revaluation and retained earnings transfer <sup>1</sup>		-	1,533	(1,533)	-
Impact of deferred tax rate change		-	(13,551)	-	(13,551)
		-	(17,868)	(4,400)	(22,268)
<b>At 31 March 2022</b>		<b>49,312</b>	<b>217,906</b>	<b>112,126</b>	<b>379,344</b>

The notes on pages 228 to 281 form part of these financial statements.

All transactions relate to the equity holders of the group.

<sup>1</sup> The movement between the revaluation reserve and retained earnings arises from the depreciation and associated deferred tax on the fair value uplift of assets at the time of transition to IFRS.



## Company statement of changes in equity

for the year ended 31 March 2022

	Notes	Issued share capital £000	Revaluation reserve £000	Retained earnings £000	Total equity £000
<b>At 1 April 2020</b>		49,312	241,386	251,469	542,167
<b>Comprehensive income for the year</b>					
Profit for the year		-	-	31,301	31,301
Other comprehensive loss	25	-	-	(12,123)	(12,123)
<b>Total comprehensive income for the year</b>		-	-	19,178	19,178
Dividends	10	-	-	(147,013)	(147,013)
Amortisation of revaluation reserve		-	(6,127)	6,127	-
Revaluation of infrastructure assets		-	(783)	783	-
Release revaluation reserve on disposals		-	(15)	15	-
Deferred tax on revaluation and retained earnings transfer		-	1,313	(1,313)	-
		-	(5,612)	(141,401)	(147,013)
<b>At 31 March 2021</b>		<b>49,312</b>	<b>235,774</b>	<b>129,246</b>	<b>414,332</b>
<b>At 1 April 2021</b>		49,312	235,774	129,246	414,332
<b>Comprehensive loss for the year</b>					
Loss for the year		-	-	(28,923)	(28,923)
Other comprehensive income	25	-	-	14,695	14,695
<b>Total comprehensive loss for the year</b>		-	-	(14,228)	(14,228)
Dividends	10	-	-	(9,000)	(9,000)
Amortisation of revaluation reserve		-	(6,112)	6,112	-
Revaluation of infrastructure assets		-	283	-	283
Release revaluation reserve on disposals		-	(21)	21	-
Deferred tax on revaluation and retained earnings transfer		-	1,533	(1,533)	-
Impact of deferred tax rate change		-	(13,551)	-	(13,551)
		-	(17,868)	(4,400)	(22,268)
<b>At 31 March 2022</b>		<b>49,312</b>	<b>217,906</b>	<b>110,618</b>	<b>377,836</b>

The notes on pages 228 to 281 form part of these financial statements.

All transactions relate to the equity holders of the company.

## Group statement of cash flows

for the year ended 31 March 2022

	Notes	2022 £000	2021 £000
<b>Cash flows from operating activities</b>			
(Loss)/profit for the year		<b>(28,910)</b>	31,316
<b>Adjustments for</b>			
Depreciation and impairment of property, plant and equipment	12	<b>55,666</b>	55,259
Amortisation of intangible assets including impairment	13	<b>3,013</b>	3,497
Finance income	8	<b>(705)</b>	(3,093)
Finance expense	8	<b>67,565</b>	42,956
Loss on disposal of property, plant and equipment		<b>884</b>	723
Insurance proceeds from loss of property, plant and equipment		<b>(6,000)</b>	-
Difference between pension contributions paid and amounts recognised in the income statement	9	<b>(5,181)</b>	(12,605)
Taxation on profit		<b>45,880</b>	6,343
		<b>132,212</b>	124,396
<b>Movements in working capital</b>			
Decrease/(increase) in trade and other receivables		<b>3,286</b>	(2,435)
(Increase)/decrease in inventories		<b>(178)</b>	16
Increase/(decrease) in trade and other payables		<b>533</b>	(2,053)
<b>Cash generated from operations</b>		<b>135,853</b>	119,924
Income taxes paid		<b>(1,100)</b>	(1,623)
Interest element on lease liability payments		<b>(100)</b>	(128)
Interest received		<b>6</b>	2,341
Interest paid		<b>(36,913)</b>	(35,919)
<b>Net cash generated from operating activities</b>		<b>97,746</b>	84,595
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		<b>(89,016)</b>	(92,129)
Proceeds from disposal of property, plant and equipment		<b>314</b>	215
Purchase of intangible assets		<b>(2,520)</b>	(2,716)
Insurance proceeds from loss of property, plant and equipment		<b>6,000</b>	-
<b>Net cash outflow from investing activities</b>		<b>(85,222)</b>	(94,630)
<b>Cash flows from financing activities</b>			
Loan to Parent undertaking repaid		<b>-</b>	136,013
Credit facility (repayment)/drawdown of borrowings	26	<b>(80,000)</b>	50,000
Debenture redemption	26	<b>(5)</b>	-
Loan notes issued	26	<b>50,000</b>	-
Payment of lease liabilities	26	<b>(337)</b>	(329)
Issue costs of debt	26	<b>(260)</b>	-
Dividends paid to shareholders	10	<b>(9,000)</b>	(147,013)
<b>Net (used in)/generated from financing activities</b>		<b>(39,602)</b>	38,671
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(27,078)</b>	28,636
Cash and cash equivalents at the beginning of year		<b>41,617</b>	12,981
<b>Cash and cash equivalents at the end of the year</b>	17	<b>14,539</b>	41,617

The notes on pages 228 to 281 form part of these financial statements.

## Company statement of cash flows

for the year ended 31 March 2022

	Notes	2022 £000	2021 £000
<b>Cash flows from operating activities</b>			
(Loss)/profit for the year		<b>(28,923)</b>	31,301
<b>Adjustments for</b>			
Depreciation and impairment of property, plant and equipment	12	<b>55,666</b>	55,259
Amortisation of intangible assets including impairment	13	<b>3,013</b>	3,497
Finance income	8	<b>(705)</b>	(3,092)
Finance expense	8	<b>67,586</b>	42,979
Loss on disposal of property, plant and equipment		<b>884</b>	723
Insurance proceeds from loss of property, plant and equipment		<b>(6,000)</b>	-
Difference between pension contributions paid and amounts recognised in the income statement	9	<b>(5,181)</b>	(12,605)
Taxation on profit		<b>45,877</b>	6,339
		<b>132,217</b>	124,401
<b>Movements in working capital</b>			
Decrease/(increase) in trade and other receivables		<b>3,286</b>	(2,435)
(Increase)/decrease in inventories		<b>(178)</b>	16
Increase/(decrease) in trade and other payables		<b>533</b>	(2,053)
<b>Cash generated from operations</b>		<b>135,858</b>	119,929
Income taxes paid		<b>(1,096)</b>	(1,616)
Interest element on lease liability payments		<b>(100)</b>	(128)
Interest received		<b>6</b>	2,339
Interest paid		<b>(39,874)</b>	(36,105)
<b>Net cash generated from operating activities</b>		<b>94,794</b>	84,419
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		<b>(89,016)</b>	(92,129)
Proceeds from disposal of property, plant and equipment		<b>314</b>	215
Purchase of intangible assets		<b>(2,520)</b>	(2,716)
Insurance proceeds from loss of property, plant and equipment		<b>6,000</b>	-
<b>Net cash outflow from investing activities</b>		<b>(85,222)</b>	(94,630)
<b>Cash flows from financing activities</b>			
Loan from Parent undertaking repaid		<b>-</b>	136,013
Credit facility (repayment)/drawdown of borrowings	26	<b>(80,000)</b>	50,000
Debenture redemption	26	<b>(5)</b>	-
Loan note issued	26	<b>50,000</b>	-
Payment of lease liabilities	26	<b>(337)</b>	(329)
Issue costs of debt	26	<b>(260)</b>	-
Dividends paid to shareholders	10	<b>(9,000)</b>	(147,013)
<b>Net cash (used in)/generated from financing activities</b>		<b>(39,602)</b>	38,671
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(30,030)</b>	28,460
Cash and cash equivalents at the beginning of year		<b>41,441</b>	12,981
<b>Cash and cash equivalents at the end of the year</b>	17	<b>11,411</b>	41,441

The notes on pages 228 to 281 form part of these financial statements.

## Notes to the group financial statements

for the year ended 31 March 2022

### 1. Basis of preparation and authorisation of financial statements

The financial statements of South East Water and its subsidiary (the “group”) for the year ended 31 March 2022 were authorised for issue by the board of Directors on 14 July 2022 and the Statement of Financial Position was signed on the board’s behalf by David Hinton and Andrew Farmer. South East Water is a private company that has limited liability by shares and is incorporated in the United Kingdom and domiciled in England and Wales.

On 31 December 2020, International Financial Reporting Standards (“IFRS”) as adopted by the European Union at that date was brought into UK law and became UK-adopted International Accounting Standards, with future changes being subject to endorsement by the UK Endorsement Board. The Group transitioned to UK-adopted International Accounting Standards in its consolidated financial statements on 1 April 2021.

These consolidated and Company only financial statements have been prepared under IFRS as adopted by the UK Endorsement Board. This change in basis of preparation is required by UK company law for the purposes of financial reporting as a result of the UK’s exit from the EU on 31 January 2020 and cessation of the transition period on 31 December 2020. This change does not constitute a change in accounting policy but rather a change in framework which is required to ground the use of IFRS in company law. However, there is no impact on recognition, measurement or disclosure in the period reported as a result of the change in framework.

Details of the group’s accounting policies, including changes during the year, are included in note 3.

The group financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£000) except where otherwise indicated.

#### 1.1 Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following items, which are measured on an alternative basis on each reporting date.

Items	Measurement basis
Pension assets	Fair value
Certain assets in property, plant and equipment	Measured at deemed cost by reference to fair value on adoption of IFRS on 1 April 2014

#### 1.2 Changes in accounting policies

##### i) New standards, interpretations and amendments effective from 1 April 2021

The group has adopted all new accounting standards and interpretations with mandatory adoption date on or before 1 April 2021. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

## Notes to the group financial statements

for the year ended 31 March 2022

### 1. Basis of preparation and authorisation of financial statements (continued)

#### IFRIC Agenda Decision for IAS 38 – Software-as-a-Service

The International Financial Reporting Interpretations Committee (IFRIC) released an Agenda Decision in 2021 that clarifies the accounting treatment of Software-as-a-Service “SaaS” arrangements under IAS 38 Intangible Assets. Under this decision IFRIC concluded that, in general, a SaaS arrangement is a service contract and not a lease of the software code or an intangible asset of the software code.

The group has revised its accounting policy in relation to upfront configuration and customisation costs incurred in implementing SaaS arrangements. Costs incurred to configure or customise the application will be recognised as operating expenses when the services are received. The exception is where costs are incurred that modify or enhance existing on-premise systems, and these may be recognised as intangible assets subject to the recognition criteria being satisfied.

Costs incurred in relation to SaaS arrangements in the year ended 31 March 2022 have been expensed where appropriate in line with the IFRIC Agenda Decision and the group’s revised accounting policy. No costs had been capitalised in prior periods relating to SaaS.

#### ii) New standards, interpretations and amendments not yet effective

At the date of these financial statements, the following Standards and Interpretations were in issue but not yet effective (and in some cases had not yet been adopted by the UK) and have not been applied to these Financial Statements:

#### New standard or interpretation

IFRS 9 (amended)	Financial Instruments	1 April 2022
IFRS 17	Insurance contracts (replaces IFRS 4)	1 April 2023
IAS 1 (amended)	Presentation of Financial Statements	1 April 2023
IAS 8 (amended)	Accounting Policies, Changes in Accounting Estimates and Errors	1 April 2023
IAS 12 (amended)	Income taxes	1 April 2023

The directors do not anticipate that the adoption of the Standards and Interpretations listed above will have a material impact on the finances of the group or company, but may have an impact on the presentation in the financial statements of the group or company in future periods.

### 2. Key judgements and sources of estimation uncertainty

#### 2.1 Key judgements

The preparation of financial statements requires the application of judgements and assumptions by management which affects the value of assets and liabilities at the balance sheet date and income and expenditure for the year. Actual results may differ from those arrived at based on management’s judgements and assumptions.

Our key judgements and sources of estimation uncertainty have been considered in light of the ongoing Covid-19 pandemic. Where a judgement or assumption is impacted by Covid-19, this is noted in the relevant section. Where there is no reference to Covid-19, this is because it is not considered that Covid-19 affects a particular judgement or assumption.



## Notes to the group financial statements

for the year ended 31 March 2022

### 2. Key judgements and sources of estimation uncertainty continued

#### 2.1 Key judgements continued

##### The capitalisation of costs including employee and other directly attributable costs

The group incurs significant expenditure on its infrastructure assets and management has to exercise judgement in determining the classification of these costs between capital and operating expenditure. The group capitalises expenditure where the expenditure enhances assets or increases the capacity of the network. Expenditure which maintains the asset's potential to deliver future economic benefits is commonly referred to as "repairs and maintenance" and is recognised in the income statement in the period in which it is incurred. Differentiating between enhancement and maintenance works can be subjective, particularly where projects may include both activities.

The group determines employee costs directly attributable to capital projects based on the time spent on the projects. Other directly attributable costs are then assessed. The costs relating to capital projects are then capitalised into individual projects. During the year £8.7 million of directly attributable employee costs (2021: £8.5 million) and £4.5 million of other attributable costs (2021: £4.1 million) have been capitalised. This represents 6.7 per cent of total operating costs before capitalisation (2021: 6.6 per cent). In addition, the group capitalises borrowing costs incurred for significant projects that meet certain criteria and judgement is required to identify which projects qualify for this. The capitalised borrowing costs for property, plant and equipment for the year ended 31 March 2022 were £2.2 million (2021: £2.7 million).

##### Provisions for other liabilities and charges – recognition of other provisions

A provision is recognised when it is probable that the group has an obligation for which a reliable estimate can be made of the amount of the obligation. The group is subject to commercial and legal claims that are incidental to the day-to-day operation of its business. These could include contractual, regulatory, employment and environmental matters which are managed in the ordinary course of business. Assessing the outcome of uncertain commercial and legal cases requires judgement to be made regarding the extent to which any claim against the group is likely to be successful. On a case-by-case basis, management evaluates the likelihood of adverse outcomes to these matters and makes a judgement about whether or not a provision should be recognised.

Other provisions, which are detailed in note 19, total £3.0 million at 31 March 2022 (2021: £3.5 million).

##### Retirement benefit obligations – recognition of a defined benefit asset

The Trust Deeds for the South East Water Pension Scheme (SEWPS) and the Mid Kent Group Pension Scheme (MKGPS) provide the group with an unconditional right to a refund of surplus assets assuming the full settlement of plan liabilities in the event of a plan winding-up. Furthermore, in the ordinary course of business the Trustee has no rights to unilaterally wind-up the schemes or otherwise augment the benefits due to members of the schemes. Based on these rights, the group considers that under IFRIC 14, it is appropriate to recognise the net surpluses in SEWPS and MKGPS of £26.2 million (2021: £10.7 million) and £31.2 million (2021: £23.7 million) respectively in full.

##### Climate change

We have identified climate change as our leading principal risk. The natural environment in which the group operates is continually changing and the expected impact on the group from climate change is set out within the climate related disclosures in the strategic report on pages 94 to 123. The consequences of global warming could affect the quantity and quality of water resources and potentially disrupt our operations or those of others on whom we rely, such as energy suppliers.

The risks associated with climate change are long term in nature, and will create a need for us to adapt our infrastructure to improve resilience. Our assessment of transitional risks has identified a potential impact on asset values to the extent that investment in new low carbon technology could reduce remaining useful economic lives of existing assets. However, at this stage of our assessment and long term planning we have not identified any material impact on the value or lives of specific assets that can be directly linked to climate change.

## Notes to the group financial statements

for the year ended 31 March 2022

### 2. Key judgements and sources of estimation uncertainty continued

#### 2.2 Key sources of estimation uncertainty

Estimates are required to be made by management when preparing the financial statements. These estimates affect the value of assets and liabilities at the balance sheet date and income and expenditure for the year. The estimates and underlying assumptions are reviewed on an ongoing basis with any revisions to accounting estimates recognised in the period in which the estimate is revised and future periods where the revision affects both current and future periods. The actual results may differ from those arrived at based on management's estimates.

#### Unbilled water income

**Unbilled water income at the year-end (Household customers):** metered customers are billed on a six monthly cycle. This means that at the year-end there is a large volume of water which has been supplied but not billed to customers. The value of unbilled water income at 31 March 2022 is estimated to be £34.3 million (2021: £36.6 million).

The methodology for arriving at the value of unbilled consumption incorporates estimates of water used based on historical consumption data and the relevant tariffs for customers. Previously billed consumption history provides a reliable basis for the estimate that is included in the financial statements. Our historical analysis of consumption indicates that billed revenue has generally been within 2 per cent of our previous estimates of the value of unbilled consumption.

Our analysis for 2020/21 indicated that there was a difference of £2.8 million or 7.7 per cent between the estimate of unbilled consumption at 31 March 2021 and subsequent bills issued to customers. This under estimate was caused by exceptional Covid-driven household demand over the winter of 2020/21 that was originally assumed to relate to higher levels of leakage.

To provide further confidence in the existing methodology for calculating the value of unbilled consumption, we have tested the September 2021 accrual against subsequent billing. The result of this validation has demonstrated that the accrual at September was within 0.5 per cent (£0.2 million) of the reported interim figure, confirming the view that the methodology is sound and the variance was due to exceptional Covid-related factors that existed during the winter of 2020/21.

The sensitivity of the estimate of unbilled consumption is illustrated in the table below where the impact of fluctuations in estimated water consumption in one year of one per cent and two per cent have been set out. These variants have been selected because our annual assessment of unbilled revenue is usually within 2 per cent of actual billed revenue.

	31 March 2022	Sensitivity			
		+1%	+2%	-1%	-2%
Unbilled water income	£34.3 m	+£0.3 m	+£0.7 m	-£0.3 m	-£0.7 m

## Notes to the group financial statements

for the year ended 31 March 2022

### 2. Key judgements and sources of estimation uncertainty continued

**Unbilled water income at the year end (Wholesale customers):** Water revenue chargeable to wholesale customers is governed by the Market Settlement Process and information provided by the Central Market Operating System. System data is used to estimate the amount of unbilled revenue in respect of wholesale customers. As at 31 March 2022, the level of unbilled revenue was estimated to be £6.7 million (2021: £3.3 million).

	31 March 2022	Sensitivity			
		+1%	+2%	-1%	-2%
Unbilled water income	£6.7 m	+£0.07 m	+£0.13 m	-£0.07 m	-£0.13 m

Our calculations are prepared at the year-end but based on consumption patterns over the last six months. The restrictions that have applied to households and businesses over the last two years as a result of the Covid-19 pandemic are therefore factored into the calculation of the estimates of unbilled water income and no further adjustments are necessary.

#### The useful lives of infrastructure and non-infrastructure assets

Management estimates the useful economic lives of infrastructure and non-infrastructure assets employed by the group in meeting its business objectives. Tangible and intangible assets are categorised by type of asset or equipment and an appropriate estimate of how long the assets in each category will remain operational and economically viable is made. This estimate will determine the value of depreciation charged to the income statement each year and the carrying value of fixed assets in the balance sheet.

The estimates are based on management's judgement and experience and are reviewed annually to ensure they are still suitable. Additionally, an impairment review of assets is undertaken each year to identify any assets that may be impaired and to write down the value of those assets to the future economic value.

The sensitivity on the annual depreciation charge due to the estimates of asset lives is illustrated in the tables below using examples of the lives attributed to:

- Wells and boreholes of 60 years
- Light plant and machinery of 20 years
- Computer software of 5 years

Depreciation	31 March 2022	Sensitivity			
		+5 years	+20 years	-5 years	-20 years
Wells and boreholes	£3.2 m	-£0.2 m	-£0.8 m	+£0.3 m	+£1.6 m

	31 March 2022	Sensitivity			
		+5 years	+10 years	-5 years	-10 years
Light plant and machinery	£21.5 m	-£4.3 m	-£7.2 m	+£7.2 m	+£21.5 m

	31 March 2022	Sensitivity			
		+1 year	+3 years	-1 year	-3 years
Computer software	£3.0 m	-£0.5 m	-£1.1 m	+£0.8 m	+£4.5 m

#### Provision for doubtful trade receivables

##### Household Debt

Our Household customer base includes customers who cannot or will not pay their bills and, therefore, we need to make a provision for the level of doubtful debt. The value of the provision for doubtful debts as at 31 March 2022 was £31.5 million (2021: £27.5 million).

## Notes to the group financial statements

for the year ended 31 March 2022

### 2. Key judgements and sources of estimation uncertainty continued

Our methodology establishes the expected credit loss of our household debt at the year-end by identifying customer debt categories and projecting historical cash collections across these customer groups to determine an estimate of irrecoverable debt. The expected credit loss is calculated based on estimated cash collection percentages that take into account historical performance, and also on our expectations of the future impact of external economic factors on the group's collection of household debt. A number of emerging economic factors including higher energy and fuel prices, rising inflation and increases in taxation are already impacting household disposable income and are expected to continue to do so.

Our cash collection history over the past three years has been used to determine future collection rates, in line with the approach for 2020/21. This marks a change in practice from earlier years where cash collection history over the past four years had been used. This change in approach was initially as a result of Covid-19 and the impact that the pandemic has had on household finances, and places a greater weight on cash collection history over the last two years when the economic pressures from Covid-19 have been a factor.

The sensitivity of the bad debt provision is illustrated in the table below where the impact of using a cash collection history over the past four years, as was the case up until 2019/20, and over the last two years as the basis for determining the expected credit loss is shown.

The impact of reducing the cash collection history to three years is equivalent to a reduction in cash collection rates of 1.6 per cent. In addition, in our calculations of the expected credit loss we do not take credit for cash collections expected to be received after more than four years. This is equivalent to reducing cash collection percentages by an additional 2.4 per cent. We consider that these adjustments fairly reflect the potential future impact of wider economic factors on cash collection rates.

	31 March 2022	Cash collection history	
		-2 year	-4 years
Bad debt provision estimate	£31.5 m	+£0.9 m	-£1.0 m

#### Retailer Debt

South East Water provides wholesale supply to Retailers through the Non-household market/(MOSL). Trading terms are governed under the Wholesale Code and as such we secure collateral from Business Retailers in the form of bank guarantee, deposit or other form of security. At the year end, our assessment is that the security provided by Business Retailers obviates the need to make a provision against retailer debt.

Management has reviewed the estimates included in the wholesale provisions and we do not consider there to be any need for further adjustment to reflect the impact of Covid-19 due to the security and guarantees held by the group as is noted above.

#### Pension and other post-employment benefits

There are a range of variables required to be determined to value the company's defined benefit pension schemes and the underlying costs of providing post employment benefit.

The costs of defined benefit pension schemes are determined using actuarial valuations. The actuarial valuations are determined by using certain assumptions for discount rates, mortality rates, expected return on assets and corporate bond performance projections as set out in note 23. Pension increases are based on expected future inflation rates. The net defined benefit pension scheme asset at 31 March 2022 is £57.3 million (2021: asset of £34.4 million) and is recognised in full.

The sensitivity of the estimate of the surpluses in the pension schemes is illustrated in the table below where the impact of fluctuations in prevailing market conditions on key assumptions of discount rate, inflation and life expectancy have been set out.

## Notes to the group financial statements

for the year ended 31 March 2022

### 2. Key judgements and sources of estimation uncertainty continued

Sensitivities	Decrease in schemes' surplus	
0.1% decrease to the discount rate	£3.9 m	1.5%
0.1% increase to inflation	£3.5 m	1.4%
One year increase in life expectancy	£11.1 m	4.4%

The impact of Covid-19 will potentially be seen in the membership of the Scheme at the year end and in the assumption for future improvements in life expectancy.

In 2020 and 2021 mortality rates were significantly higher than the long-term trend as a result of Covid, although 2021 was an improvement on 2020. The latest version of the CMI projections model (CMI\_2021) allows users to choose what weight to place on 2020 and 2021 mortality experience.

The choice of weighting to apply to recent data is a complex area and will require judgements to be made.

The group's current view of an appropriate best estimate position is to adopt a weighting of 10 per cent of mortality experience in 2020 and 2021. This is broadly equivalent to assuming mortality rates in 2022 are worse than the 2019 rates, but subsequently improve back to 2019 rates over several years.

Moving from a weighting of 0 per cent to 10 per cent for 2020 and 2021 data in the CMI\_2021 model results in a reduction in liabilities of around 2 per cent at the 2022 year-end.

As this is a roll-forward calculation, the liabilities are based on the membership as at the last formal valuation at 31 March 2020 and will ignore any excess deaths experienced over the remainder of 2020 and 2021.

### 3. Accounting policies

Our accounting policies have been considered against the background of the Covid-19 outbreak and, where appropriate, relevant factors have been taken into account in preparing our financial statements.

The principal accounting policies adopted by the group are set out below. These policies have been consistently applied in both the current and prior years, except for those changes required due to the mandatory adoption of new reporting standards.

#### 3.1 Going concern

The directors have, at the time of approving the financial statements, a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. In coming to this decision they have considered the implications of the current economic uncertainty associated with various factors including the on-going Covid-19 pandemic, supply chain constraints and pressures on household finances, and the impact these may have on the business. The directors have concluded that it is appropriate to continue to adopt the going concern basis of accounting in preparing the financial statements. Further details are provided in the long-term viability statement on page 134.

#### 3.2 Basis of consolidation

These financial statements incorporate the financial information of South East Water Limited and its subsidiary, South East Water (Finance) Limited (together the "group").

Transactions and balances between the company and its subsidiary have been eliminated fully on consolidation. Subsidiaries are consolidated from the date on which control is transferred to the group and cease to be consolidated from the date on which control is transferred out of the group.

## Notes to the group financial statements

for the year ended 31 March 2022

### 3. Accounting policies continued

#### 3.3 Revenue

Revenue represents the fair value of the consideration receivable in the ordinary course of business for the goods and services provided. All revenue arises within the United Kingdom and is recorded net of VAT. The company only recognises revenue in respect of “named” customers, that is the company will not bill an address without first knowing the name of the person living at the address. Specific recognition criteria must also be met before revenue is recognised as detailed below.

##### Metered and unmetered income

The performance obligation of the company for metered and unmetered income is the supply of potable water to each named customer in the period under review.

Metered water income is recognised when water has been delivered to the customer and the performance obligation has been satisfied for the period. This income includes an estimation of the volume of mains water supplied but unbilled at the year end. This is estimated using a defined methodology as detailed under key sources of estimation uncertainty above.

Unmetered water income was invoiced in full for the financial year 2021/22 on 1 April 2021 and is recognised over the year as water is supplied to the named customer and the performance obligation is satisfied.

Cash received in advance from customers is not treated as current year revenue, being recognised as payments received in advance within creditors.

##### Infrastructure charges

Infrastructure charges represent the fees charged to property developers and others for connecting new properties and water outlets to the group's network. The performance obligation within these contracts is the completed connection of the relevant properties and outlets to the mains supply. These fees are recognised in the income statement upon completion of the performance obligation.

##### Contributions

Contributions are received in respect of both infrastructure and non-infrastructure assets and are usually received in advance of the work being undertaken by the company. The receipts are recognised as deferred income on the balance sheet upon receipt. The performance obligation for this income stream is the completion of the work to which contributions relate. The income is recognised in the income statement upon completion of the specific performance obligations.

##### Rechargeable works

Rechargeable works includes the administration work required to be performed for developers in managing new connections and other mains related projects. Also, included in rechargeable works are the sales of plumbing and related services to third parties.

The performance obligations for rechargeable works are the installation of meters, the connection of new property developments to the mains supply and the completion of specific contracted work. The income for rechargeable works is recognised when the performance obligations are completed.

##### Other income

Other income includes charges for engineering, scientific, laboratory, billing and cash collection services.

The performance obligations for the supply of these services are detailed in the specific contracts with customers and the income is recognised in the income statement when the work to which it relates is complete.

##### Finance income

Finance income is recognised using the effective interest rate method.



## Notes to the group financial statements

for the year ended 31 March 2022

### 3. Accounting policies continued

#### 3.4 Taxation

Current tax, being UK Corporation Tax, is provided at amounts expected to be paid (or recovered) using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Tax relating to items recognised directly in equity is also recognised directly in equity and not in the income statement.

Deferred tax is provided using the balance sheet method on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax liabilities are recognised for all taxable temporary differences except where the deferred tax liability arises from goodwill amortisation or the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets are recognised for all deductible temporary differences and the carry forward of unused tax assets and losses to the extent that it is probable that taxable profits will be available against which the deductible temporary differences and the carry forward of unused tax assets and losses can be utilised.

Deferred tax assets are recognised for the deductible temporary differences arising from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date. In accordance with IAS 12 Income Taxes, deferred taxes are not discounted.

#### 3.5 Dividends

Dividends are recorded in the financial statements in the year in which they are approved by the board.

#### 3.6 Investments in subsidiaries

Investments are recorded at historical cost. Where the directors are of the opinion that there has been a permanent diminution in the value of investments, the carrying amount of such investments is written down to the recoverable amount.

#### 3.7 Intangible assets

##### (i) Intangible assets

Externally acquired and internally generated intangible assets, once in use, are recognised at cost. They have finite useful lives and are amortised over three to five years on a straight-line basis. Residual values and useful lives of all assets are re-assessed annually and, where necessary, changes are accounted for prospectively.

Employee and other costs directly attributable to intangible asset projects are capitalised in the financial statements as part of the cost of the intangible asset to which they relate. Training costs, administration and other general overhead costs including interest are not capitalised.

Intangible assets under development are amortised once brought in to use.

##### (ii) Derecognition of intangible assets

An intangible asset is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset, calculated as the difference between the net disposal proceeds and the carrying amount of the item, is included in the income statement in the year in which the item is derecognised.

## Notes to the group financial statements

for the year ended 31 March 2022

### 3. Accounting policies continued

#### 3.7 Intangible assets continued

##### (iii) Software-as-a-Service “SaaS” arrangements

SaaS arrangements are service contracts that allow the group the right to access the cloud service provider’s software over the contract period. Costs incurred to configure or customise the application, and the ongoing fees to obtain access to the cloud provider’s application software, are recognised as operating expenses when the services are received.

Where costs are incurred relating to the development of software code that enhances or modifies existing on-premise systems, the costs are recognised as intangible software assets, subject to meeting the recognition criteria for an intangible asset. These are amortised over the useful life of the software on a straight line basis. The useful lives of these assets are reviewed at least at the end of each financial year, and any change accounted for prospectively as a change in accounting estimate.

#### 3.8 Property, plant and equipment

##### Infrastructure assets

Infrastructure assets comprise a network of systems relating to water distribution. Infrastructure assets in the course of construction are depreciated from the time they are brought into use. All other infrastructure assets are stated at cost less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight-line basis over the estimated useful life of the assets, being between 20 years and 100 years for all infrastructure assets, except surface reservoirs, which have useful economic lives of 250 years.

##### Non-infrastructure assets

Freehold land is not depreciated. Assets in the course of construction are depreciated from the time they are brought into use. All other non-infrastructure assets are stated at cost less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Freehold buildings: 80 years

Operational structures: 50-80 years

Fixed plant and machinery: 10-35 years

Meters, vehicles, mobile plant, computers, furniture and office equipment: 3-10 years

##### Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year the item is derecognised.

##### Residual values and useful lives

Residual values and useful lives of all assets are re-assessed annually and, where necessary, changes are accounted for prospectively.

##### Capitalisation of employee and other directly attributable costs

Employee and other costs, including borrowing costs, directly attributable to capital projects are capitalised in the financial statements as part of the cost of the property, plant and equipment to which they relate. Training costs, administration and other general overhead costs are not capitalised.

## Notes to the group financial statements

for the year ended 31 March 2022

### 3. Accounting policies continued

#### 3.8 Property, plant and equipment continued

##### Leased assets

Property, plant and equipment held under leases are capitalised as a right-of-use asset at the present value of the minimum lease payments. These assets are depreciated over the shorter of the estimated useful life of the asset and the lease term.

##### Impairment of property, plant and equipment, investments and intangible assets

At each reporting date an assessment is carried out to determine whether there is any indication that property, plant and equipment, investments and software intangible assets may be impaired. If there is an indication of impairment, the recoverable amount of the asset or respective cash-generating unit is compared to the carrying amount. Where the recoverable amount is less than the carrying amount, the asset value is reduced to the recoverable amount with an impairment loss recognised as an operating cost in the income statement in the year in which the respective assessment takes place.

#### 3.9 Borrowing costs

Borrowing costs are incurred on the group's general borrowings. Where appropriate, borrowing costs are attributed to qualifying assets in line with IAS 23 Borrowing Costs. Otherwise borrowing costs are expensed as incurred. See note 8 for further details.

#### 3.10 Inventories

Inventory is valued at the lower of average cost or net realisable value. The stocks of treated water held by the group are valued at £nil. Consumable chemical purchases are recognised as an expense in the income statement at the point they are received on site for use, either from central stores or from suppliers direct.

Work-in-progress for chargeable services is valued at the lower of cost and net realisable value.

#### 3.11 Provisions

A provision is recognised when the group has a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are measured at management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. Where the effect is material, expected future cash flows are discounted using a current pre-tax rate that reflects the risks specific to the liability.

#### 3.12 Short-term trade and other receivables

Short-term trade and other receivables are initially measured at their transaction price in line with the provisions of IFRS 9. The carrying value for trade receivables includes an allowance for the lifetime expected credit loss (doubtful debts) of the outstanding debts. The group applies the simplified approach permitted by IFRS 9 for estimating expected credit losses on trade and other receivables. An estimate for the expected credit loss for trade receivables that are assessed not to be impaired individually is calculated by the group's management in accordance with the defined methodology detailed under key sources of estimation uncertainty above.

#### 3.13 Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

Included within cash and cash equivalents are amounts that are held in designated bank accounts as short-term deposits in order to meet the interest falling due in respect of listed debt and other long-term borrowings.

## Notes to the group financial statements

for the year ended 31 March 2022

### 3. Accounting policies continued

#### 3.14 Cash flow statement

For the purposes of the cash flow statement, cash and cash equivalents include highly liquid investments that are readily convertible to cash and which are subject to an insignificant risk of change in value. Such investments are normally those with less than three months maturity from the date of acquisition and include cash and bank balances and investments in liquid funds.

Interest paid in the cash flow statement includes amounts charged to the income statement and amounts included in the cost of property, plant and equipment.

#### 3.15 Trade payables

Trade payables are measured at fair value and subsequently measured at amortised cost.

#### 3.16 Financial instruments

The group's financial instruments comprise fixed and variable rate borrowings, index linked loans, fixed rate debentures, lease liabilities, cash, short-term and medium-term bank deposits, trade receivables and trade and other payables.

##### Recognition

Financial instruments are recognised on the statement of financial position when the group becomes party to the contractual provisions of the instrument. The group determines the classification of its financial liabilities at initial recognition.

##### Impairment of financial assets other than trade receivables

A provision for twelve month expected credit loss on new financial assets is recognised in the income statement to establish a loss allowance on initial recognition in line with the impairment requirements of IFRS 9.

At each reporting date an assessment is carried out to determine whether there is any indication that the credit risk on financial assets has increased significantly. If this is considered to be the case, full life-time expected credit loss is recognised in the income statement.

Where there is objective evidence that an impairment loss has arisen, the loss is recognised in the income statement in the year in which the respective assessment takes place. Impaired debts are derecognised when they are assessed as irrecoverable.

##### Derecognition

Financial liabilities are removed from the statement of financial position when the related obligation is discharged, cancelled or it expires.

Financial assets are removed from the statement of financial position when the rights to the cash flows from the asset expire, or when the risks and rewards of ownership of the asset are transferred or when control of the asset is transferred.

##### Embedded derivatives

Financial instruments and other host contracts that are not carried at fair value through the income statement are reviewed to determine if they contain embedded derivatives. Embedded derivatives are accounted for separately as derivative financial instruments when the economic characteristics and risks are not closely related to the respective host financial instrument or contract.

## Notes to the group financial statements

for the year ended 31 March 2022

### 3. Accounting policies continued

#### Interest bearing loans and borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

Interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

#### Liabilities arising on leases

The initial values of lease liabilities equate to the present value of future lease payments under the relevant lease contracts. The group has applied the practical expedient of using a single discount rate to leases with reasonably similar characteristics. The discount rates used in calculating the liabilities reflect the interest rates at which the group would currently be able to borrow in order to finance similar assets to those under the lease affected by the transition (the incremental borrowing rate).

#### 3.17 Revaluation reserve

The revaluation reserve was created on the adoption of IFRS when the company took the option to treat the revalued amounts as deemed cost. This reserve is released over the life of the underlying assets to which it relates in line with the depreciation of the revalued assets and transferred to retained earnings. The revaluation uplift remaining on any assets that are disposed of is also transferred to retained earnings at the time of the disposal.

#### 3.18 Research and Development

Research costs are charged to the income statement in the year in which they are incurred.

Development costs are capitalised based on management's judgement that the technological and economic feasibility of a project is confirmed, usually when a project has reached a defined milestone according to an established project management model. In determining the amounts to be capitalised management makes assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits.

#### 3.19 Defined contribution schemes

Contributions to defined contribution pension schemes are charged to the income statement in the year to which they relate.

#### 3.20 Defined benefit schemes

The pension scheme asset or liability in the statement of financial position represents the net present value of the defined benefit obligation and the fair value of scheme assets at the balance sheet date. The present value of the defined benefit obligation is analysed between the funded and unfunded pension plans.

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

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

All actuarial gains and losses and the related deferred taxation are recognised in the statement of comprehensive income.

## Notes to the group financial statements

for the year ended 31 March 2022

### 4. Total Income

The following is an analysis of the group and company's revenue and other income for the year from continuing operations:

Group and Company	2022 £000	2021 £000
<b>Revenue</b>		
Unmetered water income	20,343	19,983
Metered water income	219,244	219,168
Other sales	11,689	9,005
<b>Total revenue</b>	<b>251,276</b>	248,156
<b>Other income</b>		
Rent receivable	1,134	1,174
Other income	20,794	10,265
<b>Total other income</b>	<b>21,928</b>	11,439
	<b>273,204</b>	259,595

All revenue is from customers within the United Kingdom.

Other sales comprise a number of income streams, including those associated with activities typically performed for property developers, which impact the group's infrastructure network assets, including diversions works to relocate water assets, and activities that facilitate the creation of an authorised connection through which properties can obtain water services. Other sales includes new connections income of £5.2 million (2021: £3.9 million), infrastructure income of £2.7 million (2021: £1.8 million) and capital contributions of £2.3 million (2021: £1.8 million).

Other income includes charges for billing and cash collection services amounting to £6.9 million (2021: £8.0 million), interim insurance proceeds in respect of an insurance claim relating to the Aylesford sinkholes of £10.0 million (2021: £nil) and laboratory income of £2.7 million (2021: £2.3 million).

Under the terms of the Group's insurance policies we are able to claim for the additional costs of working, or business interruption, arising from the damage to the service reservoirs at Aylesford in 2020 caused by a series of sinkholes. The cover is for additional costs of working incurred for up to a year from the date of the damage. An interim payment of £4.0 million was received in respect of business interruption cover in March 2022. We also received insurance proceeds of £6.0 million in respect of the damage caused to the service reservoirs.

### 5. Segmental Analysis

Financial and other performance information is reported internally every month to the South East Water Executive Committee. The Executive Committee is responsible for the day to day running of the business, and accordingly the Executive Committee is considered to be the chief operating decision maker of the group for the purposes of segmental reporting under IFRS 8: Operating Segments. The Executive Committee considers that the Group's activities largely fall into one main business segment, namely Regulated Water, with all other activities included in "Other" below. Regulated Water is the supply of potable water on a wholesale and retail basis, both of which are governed by the Water Act 2014.

A segmental analysis of the management results are presented below together with a reconciliation to the statutory revenue and profit before tax.



## Notes to the group financial statements

for the year ended 31 March 2022

### 5. Segmental Analysis continued

	Regulated water £000	Other activities £000	Total £000
<b>Year ended 31 March 2022</b>			
Water revenue	239,587	-	239,587
Other income	10,893	16,724	27,617
Net operating costs	(127,141)	(12,911)	(140,052)
EBITDA	123,339	3,813	127,152
Depreciation, amortisation and impairment	(57,731)	-	(57,731)
<b>Company operating profit</b>	<b>65,608</b>	<b>3,813</b>	<b>69,421</b>

<b>Year ended 31 March 2021</b>			
Water revenue	239,151	-	239,151
Other income	5,018	15,453	20,471
Net operating costs	(127,938)	(12,094)	(140,032)
EBITDA	116,231	3,359	119,590
Depreciation, amortisation and impairment	(56,259)	-	(56,259)
Company operation profit	59,972	3,359	63,331

Water revenue on a management basis above of £239.6 million (2021: £239.2 million) compares with total revenue on a statutory basis of £251.3 million (2021: £248.2 million). The difference is Other sales of £11.7 million (2021: £9.0 million) (see note 4).

The business segments' operating profit is reconciled to the group's statutory operating profit and profit before tax as follows:

	2022 £000	2021 £000
Management operating profit	69,421	63,331
Results of South East Water (Finance) Limited (1)	(5)	(5)
Pension costs adjustment (2)	5,185	12,615
Statutory depreciation and write-off adjustments (3)	(948)	(2,505)
Loss on disposal of property, plant and equipment	(884)	(723)
Insurance proceeds from loss of property, plant and equipment	6,000	-
Capitalisation of new connections (4)	5,094	4,830
Other statutory adjustments	(33)	(21)
Statutory profit from operations	83,830	77,522
Finance income	705	3,093
Finance expense	(67,565)	(42,956)
<b>Statutory profit before taxation</b>	<b>16,970</b>	<b>37,659</b>

1) The losses of South East Water (Finance) Limited are consolidated into these financial statements but not included in the finance reports presented to the Executive Committee.

2) The internal finance reports include pension costs on the basis of contributions paid whereas the financial statements include pension costs on the basis of IAS 19 Employee Benefits.

3) Adjustments are made to depreciation and impairment or write-off of assets between internal finance reports and the financial statements.

4) The internal finance reports record the costs associated with new connections in operating costs but these costs are capitalised as Property, Plant and Equipment in the financial statements.

The group analyses results by segment to profit from operations only, so no segmental statement of financial position or statement of cash flows are presented.

## Notes to the group financial statements

for the year ended 31 March 2022

### 6. Net Operating Costs

Group	Notes	2022 £000	2021 £000
Employee benefits expense	7	32,416	25,416
Asset expense/(income):			
Depreciation - owned assets		54,702	51,922
Depreciation - right-of-use assets		964	985
Amortisation of intangible assets	13	2,994	3,497
Impairment of property, plant and equipment	12	-	2,353
Impairment of intangible assets	13	19	-
Loss on disposal of property, plant and equipment		884	723
		59,563	59,480
Other operating expenses:			
Operating lease rentals:			
Vehicles and office equipment		364	255
Land and buildings		63	16
Fee payable to group's auditors (see below)		410	434
Energy costs		20,858	19,795
Rates		18,470	18,403
Contractors		26,894	28,727
Bulk water supplies and abstraction licences		8,326	9,251
Chemicals		4,037	3,797
Insurance and related costs		2,840	3,350
Other		14,674	13,500
Other operating expenses charged to capital projects		(4,551)	(4,139)
		92,385	93,389
<b>Total operating costs</b>		<b>184,364</b>	<b>178,285</b>

The other operating costs includes admin fees of £5,000 (2021: £5,000) for South East Water Finance.

Asset expense in 2020/21 includes an amount of £2.3 million written off the book value of the service reservoirs at Aylesford following the damage caused by sinkholes (see note 12 for further details).

Group and Company	2022 £000	2021 £000
<b>Fees payable to the group's auditors in respect of:</b>		
Audit of the group and company financial statements	329	325
Audit of subsidiary	1	1
<b>Total audit</b>	<b>330</b>	<b>326</b>
Regulatory accounts	65	84
Other assurance services	15	22
Services relating to iXBRL account coding	-	2
<b>Total non-audit services</b>	<b>80</b>	<b>108</b>
<b>Total fees payable to the group's auditors</b>	<b>410</b>	<b>434</b>

## Notes to the group financial statements

for the year ended 31 March 2022

### 7. Employees and directors

Group and Company	2022 £000	2021 £000
<b>Employee costs (including directors) comprise:</b>		
Wages and salaries	34,549	34,842
National insurance	3,465	3,501
Defined contribution pension cost	2,512	2,481
Defined benefit scheme charge/(credit)	586	(6,895)
Labour costs capitalised	(8,696)	(8,513)
	<b>32,416</b>	25,416

The defined benefit scheme credit for the prior year included a past service credit of £7.8 million due to the change in indexation in pension increases from RPI to CPI.

#### Key management personnel compensation

Emoluments of the directors, who are the group's key management, were:

	2022 £000	2021 £000
Aggregate emoluments including bonuses	1,176	1,092
Defined contribution scheme costs	4	14
	<b>1,180</b>	1,106

Emoluments of the highest paid director including bonuses were: £528,000 (2021: £439,000).

One director (2021: one) has a deferred pension from the defined benefit pension schemes which closed to future accrual in 2015. There are currently two directors (2021: two) under a defined contribution scheme. Further disclosures in respect of directors' emoluments are set out in the remuneration report on page 172.

The monthly average number of persons, including the directors, employed by the group during the year was as follows:

	2022 No.	2021 No.
Operations	429	416
Management and Administration	572	570
	<b>1,001</b>	986

## Notes to the group financial statements

for the year ended 31 March 2022

### 8. Finance income and expense

Group	2022 £000	2021 £000
<b>Finance income</b>		
Interest receivable on bank balances and short-term deposits	13	59
Interest receivable from group companies	-	2,273
Net interest income on defined benefit asset	692	761
<b>Total finance income</b>	<b>705</b>	3,093
<b>Finance expense</b>		
Debenture interest	42	30
Effective interest on listed debt	13,997	13,755
Interest on lease liabilities	100	128
Financing guarantee fees	1,291	949
Bank interest and other finance charges	8,419	8,350
Amortisation of loan issue costs	624	616
Indexation on index linked bonds	13,563	2,383
Interest payable on index linked loans	13,114	12,745
Indexation on index linked loans	18,601	6,694
Interest capitalised	(2,186)	(2,694)
<b>Total finance expense</b>	<b>67,565</b>	42,956

Interest is capitalised at the weighted average rate of interest on the group senior long-term debt of 3.7 per cent (2021: 3.7 per cent).

Indexation on index linked bonds and loans are higher due to the increased inflation and higher RPI compared to prior year.

Company	2022 £000	2021 £000
<b>Finance income</b>		
Interest receivable on bank balances and short-term deposits	13	58
Interest receivable from group companies	-	2,273
Net interest income on defined benefit asset	692	761
<b>Total finance income</b>	<b>705</b>	3,092
<b>Finance expense</b>		
Debenture interest	42	30
Interest payable to subsidiary	17,047	16,693
Indexation payable to subsidiary	21,399	4,600
Interest on lease liabilities	100	128
Financing guarantee fees	1,291	949
Bank interest and other finance charges	8,417	8,330
Amortisation of loan issue costs	624	636
Interest payable on index linked loans	10,087	9,830
Indexation on index linked loans	10,765	4,477
Interest capitalised	(2,186)	(2,694)
<b>Total finance expense</b>	<b>67,586</b>	42,979

Interest is capitalised at the weighted average rate of interest on the group senior long-term debt of 3.7 per cent (2021: 3.7 per cent).

Indexation on index linked bonds and loans are higher due to the increased inflation and higher RPI compared to prior year.

## Notes to the group financial statements

for the year ended 31 March 2022

### 9. Taxation expense

#### 9.1 Income tax recognised in profit or loss

Group	2022 £000	2021 £000
<b>Current tax</b>		
Current tax on profits for the year	1,476	2,855
Adjustments in respect of prior years	(894)	(232)
<b>Total current tax</b>	<b>582</b>	2,623
<b>Deferred tax expense</b>		
Origination and reversal of timing differences	1,383	4,495
Adjustments in respect of prior years	3,091	(775)
Impact of rate change	40,824	-
<b>Total deferred tax</b>	<b>45,298</b>	3,720
<b>Total tax expense</b>	<b>45,880</b>	6,343

Total tax expenses above consists of £45,877,000 (2021: £6,339,000) for South East Water Limited and £3,000 (2021: £4,000) for South East Water (Finance) Limited.

The reasons for the difference between the actual tax charge for the year and the standard rate of corporation tax in the United Kingdom applied to profits for the year are as follows:

Group	2022 £000	2021 £000
<b>Profit before income taxes</b>	<b>16,970</b>	37,659
Tax using the company's domestic tax rate of 19% (2021:19%)	3,224	7,155
Expenses not deductible for tax purposes, other than goodwill, amortisation and impairment	607	130
Adjustments to current tax charge in respect of prior periods	(894)	(232)
Adjustments to deferred tax charge in respect of prior years	3,091	(775)
Tax effect of income not taxable in determining taxable profit	(972)	137
Other — research and development depreciation allowed	-	(72)
Impact of rate change	40,824	-
<b>Total tax expense</b>	<b>45,880</b>	6,343

As enacted by the Finance Act 2021, the main rate of UK corporation tax increases from 19 per cent to 25 per cent, effective 1 April 2023. The impact of the change in corporation tax has been included in the deferred tax liability. The total impact amounts to £52.7 million, of which £40.8 million is charged to the income statement; a liability of £13.5 million relating to revaluation reserves is charged directly to equity and an asset of £1.6 million relating to pension is recognised in other comprehensive income.

## Notes to the group financial statements

for the year ended 31 March 2022

### 9. Taxation expense continued

#### 9.1 Income tax recognised in profit or loss continued

The deferred tax on temporary differences as at 31 March 2022 have been calculated using 25 per cent, the enacted future rate for the periods during which the temporary differences are expected to unwind.

The adjustments to current and deferred tax charge in respect of previous years represent the changes between the prior year financial statements and the prior year tax computations submitted. The expenses not deductible for tax purposes are primarily driven by the movement on general provisions, non-deductible entertainment expenditure, and depreciation on non-qualifying capital expenditure.

#### Changes in tax rates and factors affecting the future tax charges

The UK Government's Budget announcement to grant 130 per cent super-deduction capital allowance for qualifying plant and machinery (and 50 per cent allowance for special rate assets) expenditures from 1 April 2021 provides greater incentive to boost capital allowance availability to mitigate future tax charges.

#### 9.2 Income tax recognised directly in equity

Group and Company	2022 £000	2021 £000
<b>Deferred tax</b>		
Impact on deferred tax rate change on revaluation reserve	(13,551)	-

The impact of the rate change in respect of revaluation reserves amounts to £13.5 million, which is recognised directly in equity.

#### 9.3 Income tax recognised in other comprehensive income

Group and Company	2022 £000	2021 £000
<b>Deferred tax</b>		
Deferred tax on defined benefit pension schemes	(4,352)	(2,844)
Impact of deferred tax rate change in respect of pension schemes	1,639	-
	(2,713)	(2,844)

The net liability recognised in other comprehensive income at 31 March 2022 of £2.7 million (2021: £2.8 million net asset) consists of a liability of £4.3 million relating to pension valuation and an asset of £1.6 million relating to the impact of rate change on pension that goes to equity.



## Notes to the group financial statements

for the year ended 31 March 2022

### 9. Taxation expense continued

#### 9.4 Deferred tax balances

The following is the analysis of deferred tax (assets)/liabilities presented in the consolidated statement of financial position:

Group and Company	2022 £000	2021 £000
Deferred tax liabilities	228,790	167,228

Group and Company	Opening balance £000	Recognised in profit or loss £000	Recognised in other comprehensive income £000	Recognised directly in equity £000	Closing balance £000
<b>2022 Deferred tax liabilities/(assets) in relation to:</b>					
Property, plant and equipment	161,330	2,976	-	-	164,306
Impact of rate change on property, plant and equipment	-	37,314	-	13,551	50,865
General provisions — NI & Incentive plan	(29)	29	-	-	-
Remeasurement of defined benefit obligation	5,927	1,469	4,352	-	11,748
Impact of deferred tax rate change in respect of pension scheme	-	3,510	(1,639)	-	1,871
	167,228	45,298	2,713	(13,551)	228,790

Group and Company	Opening balance £000	Recognised in profit or loss £000	Recognised in other comprehensive income £000	Closing balance £000
<b>2021 Deferred tax liabilities/(assets) in relation to:</b>				
Property, plant and equipment	160,319	1,011	-	161,330
General provisions — NI & Incentive plan	(198)	169	-	(29)
Remeasurement of defined benefit obligation	6,231	2,540	(2,844)	5,927
	166,352	3,720	(2,844)	167,228

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net. All of the deferred tax assets were available for offset against deferred tax liabilities and hence the net deferred tax liability at 31 March 2022 was £228.8 million (2021: £167.2 million).

#### Temporary timing differences

All temporary timing differences are recognised in the deferred tax calculation.

The total amount of Tangible Fixed Assets (TFA) for R&D claims recognised in deferred tax asset for the year ended 31 March 2022 is £169,000 (2021: £236,000).

## Notes to the group financial statements

for the year ended 31 March 2022

### 10. Dividends

	2022 £000	2021 £000
Interim dividend of 4.56 pence (2021: 5.58 pence) per Ordinary share paid during the year	2,250	2,750
Interim dividend of 4.56 pence (2021: 5.58 pence) per Ordinary share paid during the year	2,250	2,750
Interim dividend of 4.56 pence (2021: 5.58 pence) per Ordinary share paid during the year	2,250	2,750
Special restructuring dividend of 275.8 pence per Ordinary share paid during 2020/2021	-	136,013
Final dividend of 4.56 pence (2021: 5.58 pence) per Ordinary share paid during the year	2,250	2,750
	<b>9,000</b>	147,013

There were no dividends proposed for approval as at 31 March 2022 and 31 March 2021.

The company issued a special restructuring dividend of £136 million in December 2020 to its parent company South East Water Holdings. These funds were used by the parent company to repay its intercompany loan to South East Water Limited on the same day resulting in a net nil cash impact.

### 11. Earnings per share

Group	2022 £000	2021 £000
(Loss)/profit for the year from continuing operations	<b>(28,910)</b>	31,316
	2022 Number	2021 Number
Basic and diluted weighted average number of shares	<b>49,312,354</b>	49,312,354
	2022 Pence	2021 Pence
Basic and diluted earnings per share from continuing operations	<b>(58.63p)</b>	63.51p
Company	2022 £000	2021 £000
(Loss)/profit for the year from continuing operations	<b>(28,923)</b>	31,301
	2022 Number	2021 Number
Basic and diluted weighted average number of shares	<b>49,312,354</b>	49,312,354
	2022 Pence	2021 Pence
Basic and diluted earnings per share from continuing operations	<b>(58.65p)</b>	63.47p

## Notes to the group financial statements

for the year ended 31 March 2022

### 12. Property, plant and equipment

Group and Company	Notes	Land, wells, reservoirs and buildings £000	Plant, equipment and vehicles £000	Mains £000	Assets under construction £000	Total £000
<b>Cost or valuation</b>						
At 1 April 2020		249,274	421,850	1,144,337	59,669	1,875,130
Additions		-	-	-	90,434	90,434
Disposals		(48)	(2,039)	(104)	-	(2,191)
Reclassifications to/from intangible assets	13	(181)	190	97	-	106
Transfers between classes		12,030	13,971	42,871	(68,872)	-
<b>At 31 March 2021</b>		<b>261,075</b>	<b>433,972</b>	<b>1,187,201</b>	<b>81,231</b>	<b>1,963,479</b>
Additions		-	-	-	102,465	102,465
Disposals		(3,606)	(3,427)	(178)	-	(7,211)
Reclassifications to/from intangible assets	13	-	(42)	-	-	(42)
Transfers between classes		7,698	40,846	29,859	(78,403)	-
Revaluations		-	283	-	-	283
<b>At 31 March 2022</b>		<b>265,167</b>	<b>471,632</b>	<b>1,216,882</b>	<b>105,293</b>	<b>2,058,974</b>
<b>Accumulated depreciation and impairment</b>						
At 1 April 2020		25,179	134,211	106,895	-	266,285
Charge for the year		5,135	28,050	19,722	-	52,907
Disposals		(8)	(1,272)	(50)	-	(1,330)
Impairment charge		2,288	65	-	-	2,353
<b>At 31 March 2021</b>		<b>32,594</b>	<b>161,054</b>	<b>126,567</b>	<b>-</b>	<b>320,215</b>
Charge for the year		5,183	29,973	20,510	-	55,666
Disposals		(2,487)	(3,411)	(115)	-	(6,013)
Reclassifications to/from intangible assets	13	-	(21)	-	-	(21)
Transfers between classes		(181)	181	-	-	-
<b>At 31 March 2022</b>		<b>35,109</b>	<b>187,776</b>	<b>146,962</b>	<b>-</b>	<b>369,847</b>
<b>Net book value</b>						
At 1 April 2020		224,095	287,639	1,037,442	59,669	1,608,845
At 31 March 2021		228,481	272,918	1,060,634	81,231	1,643,264
<b>At 31 March 2022</b>		<b>230,058</b>	<b>283,856</b>	<b>1,069,920</b>	<b>105,293</b>	<b>1,689,127</b>

During 2020/21, a series of significant sinkholes opened up underneath the service reservoirs at our site in Aylesford. These reservoirs held a maximum storage capacity of 20 ML of treated water and were severely damaged and put out of action. The site needed extensive ground stabilisation before work could commence on restoring the reservoirs to operational use. At 31 March 2021 only 25 per cent of the original storage capacity had been returned to use. In 2021/22 work at the site has continued. One of the reservoirs with a capacity of 5 ML was demolished as it was not possible to bring it back into service and it was deemed unsafe. Work has progressed on the remaining reservoir with a capacity of 10 ML, and it is anticipated that this work will be completed during 2022/23.

## Notes to the group financial statements

for the year ended 31 March 2022

### 12. Property, plant and equipment continued

In 2020/21 the book value of the severely damaged reservoirs was written down to nil, leaving only the book value of the element that was returned to use in that year on the balance sheet. The loss recorded in 2020/21 amounted to £2.3 million.

An insurance claim was made in respect of the damage caused by sinkholes at the site. During the year an interim payment was received in respect of the damage amounting to £6.0 million.

A disposal has been recorded during the year, removing the cost and accumulated depreciation of the severely damaged reservoirs from the books. The insurance payment received is included in Other income (see note 4).

#### 12.1 Assets held under leases

The net book value of owned and leased assets included as "Property, plant and equipment" in the group statement of financial position is as follows:

	31 March 2022 £000	31 March 2021 £000
<b>Group and Company</b>		
Property, plant and equipment owned	<b>1,678,147</b>	1,631,312
Right-of-use assets, excluding investment property	<b>10,980</b>	11,952
	<b>1,689,127</b>	1,643,264

Information about right-of-use assets is summarised below:

	31 March 2022 £000	31 March 2021 £000
<b>Net book value</b>		
Property	<b>7,200</b>	7,753
Plant and machinery	<b>3,780</b>	4,199
	<b>10,980</b>	11,952

There are no substantial additions to the leases during the financial year.

#### 12.2 Assets under construction relate to the following categories

	31 March 2022 £000	31 March 2021 £000
Land, wells, reservoirs and buildings	<b>13,582</b>	7,900
Mains	<b>26,298</b>	12,020
Plant, equipment and vehicles	<b>65,413</b>	61,311
	<b>105,293</b>	81,231

## Notes to the group financial statements

for the year ended 31 March 2022

### 13. Intangible assets

Group and Company	Notes	Computer software £000	Assets in course of construction £000	Total £000
<b>Cost</b>				
At 1 April 2020		27,245	206	27,451
Additions		-	2,822	2,822
Transfers		1,771	(1,771)	-
Disposals		(1,231)	-	(1,231)
Reclassifications to/from Property, plant and equipment	12	(106)	-	(106)
<b>At 31 March 2021</b>		<b>27,679</b>	<b>1,257</b>	<b>28,936</b>
Additions		-	2,499	2,499
Transfers between classes		1,365	(1,365)	-
Disposals		(82)	-	(82)
Reclassifications to/from Property, plant and equipment	12	42	-	42
<b>At 31 March 2022</b>		<b>29,004</b>	<b>2,391</b>	<b>31,395</b>
<b>Accumulated amortisation and impairment</b>				
At 1 April 2020		17,883	-	17,883
Charge for the year – owned	6	3,497	-	3,497
Disposals		(1,231)	-	(1,231)
<b>At 31 March 2021</b>		<b>20,149</b>	<b>-</b>	<b>20,149</b>
Charge for the year – owned	6	2,994	-	2,994
Disposals		(82)	-	(82)
Reclassifications to/from Property, plant and equipment	12	21	-	21
Impairment charge		19	-	19
<b>At 31 March 2022</b>		<b>23,101</b>	<b>-</b>	<b>23,101</b>
<b>Net book value</b>				
At 1 April 2020		9,362	206	9,568
At 31 March 2021		7,530	1,257	8,787
<b>At 31 March 2022</b>		<b>5,903</b>	<b>2,391</b>	<b>8,294</b>

## Notes to the group financial statements

for the year ended 31 March 2022

### 14. Subsidiaries

Details of the group's material subsidiaries at the end of the reporting period are as follows:

Name of subsidiary	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held by the Group (%)	
			2022	2021
South East Water (Finance) Limited	Finance company	Cayman Islands	100	100

#### South East Water (Finance) Limited

South East Water (Finance) Limited's principal purpose is to raise debt on behalf of South East Water and any proceeds from such issues are lent on to South East Water. South East Water (Finance) Limited is a company registered in the Cayman Islands but the company does not gain any tax benefit from this as the company is resident for tax purposes in the UK.

South East Water (Finance) Limited is wholly-owned by South East Water Limited, which owns 100 per cent of the voting rights. Its registered address is P O Box 309GT, Ugland House, South Church Street, Georgetown, Grand Cayman, Cayman Islands.

### 15. Inventories

Group and Company	2022	2021
	£000	£000
Consumables	677	636
Work in progress	174	37
	851	673



## Notes to the group financial statements

for the year ended 31 March 2022

### 16. Trade and other receivables

Group	2022 £000	2021 £000
Financial asset receivables		
Trade receivables	35,547	39,524
Accrued income	41,953	40,835
Sundry debtors	2,077	2,246
Amounts due from parent and fellow subsidiary undertakings due within one year	-	75
	<b>79,577</b>	82,680
Non-financial asset receivables		
Prepayments and accrued income	4,460	4,055
	<b>4,460</b>	4,055
<b>Total trade and other receivables</b>	<b>84,037</b>	86,735

Company	2022 £000	2021 £000
Financial asset receivables		
Trade receivables	35,547	39,524
Accrued income	41,953	40,835
Sundry debtors	2,077	2,245
Amounts due from parent and fellow subsidiary undertakings due within one year	-	75
	<b>79,577</b>	82,679
Non-financial asset receivables		
Prepayments and accrued income	4,034	3,681
	<b>4,034</b>	3,681
<b>Total trade and other receivables</b>	<b>83,611</b>	86,360

## Notes to the group financial statements

for the year ended 31 March 2022

### 16. Trade and other receivables continued

#### Group and Company

All trade receivables at 31 March 2022 and 31 March 2021 are denominated in sterling.

Trade receivables are stated after provision for doubtful debts of £34.8 million (2021: £30.9 million).

They are non-interest bearing and settlement is due within 12 months. Receivables are determined to be impaired where there is a poor payment history or insolvency of the debtor and are fully or partially provided for.

Movements in the provision for impairment of receivables were as follows:

Group and Company	2022 £000	2021 £000
Provision brought forward	30,898	28,085
Charge for the year	5,010	3,788
Amounts utilised	(1,151)	(975)
<b>Provision carried forward</b>	<b>34,757</b>	30,898

As at 31 March, the analysis of trade receivables past due but not impaired is as follows:

	2022 £000	2021 £000
< 30 days	7,978	7,872
30 - 60 days	3,034	3,773
60 - 90 days	1,746	2,280
90 - 120 days	1,059	1,548
120 - 150 days	1,004	1,410
150 - 365 days	7,745	7,953
> 365 days	12,981	14,688
	<b>35,547</b>	39,524

### 17. Cash and cash equivalent

Cash and cash equivalents comprise the following at 31 March:

	Group		Company	
Group and Company	2022 £000	2021 £000	2022 £000	2021 £000
Cash at bank and in hand	14,539	41,617	11,411	41,441
	<b>14,539</b>	41,617	<b>11,411</b>	41,441

Included in the group and company cash at bank and in hand balance at 31 March 2022 was £10.5 million (2021: £38.8 million) held in an on demand deposit account.

At 31 March 2022, £0.1 million (2021: £0.8 million) of restricted cash was held for the group in designated bank accounts and £nil (2021: £0.6 million) of restricted cash was held for the company in designated bank accounts in order to meet interest falling due in respect of the listed debt and index linked loans (note 8).

## Notes to the group financial statements

for the year ended 31 March 2022

### 18. Loans and borrowings

Group	2022 £000	2021 £000
<b>Non-current</b>		
Loans and borrowings	1,116,318	1,033,789
Debentures	985	990
Lease liabilities	3,175	3,592
	<b>1,120,478</b>	1,038,371
<b>Current</b>		
Drawdown facility	-	80,000
Lease liabilities	339	318
	<b>339</b>	80,318
<b>Total loans and borrowings</b>	<b>1,120,817</b>	1,118,689

The loan documentation for the group's long and short-term loans and borrowings contain a number of covenants that the group is required to meet to safeguard the interest of its lenders.

Group	2022 £000	2021 £000
<b>Loans and borrowings</b>		
Listed bonds	355,194	341,469
Index linked loans	418,475	399,704
Variable rate loan	118,905	118,725
Fixed rate loan notes	223,744	173,891
	<b>1,116,318</b>	1,033,789

Group	Loan due 2029 £000	Loan due 2041 £000	Total £000
<b>2022</b>			
<b>Listed bonds</b>			
Original loan consideration	166,000	130,000	296,000
Indexation on bonds	-	60,932	60,932
Less: unamortised issue costs	(775)	(963)	(1,738)
	<b>165,225</b>	<b>189,969</b>	<b>355,194</b>
<b>2021</b>			
Original loan consideration	166,000	130,000	296,000
Indexation on bonds	-	47,369	47,369
Less: unamortised issue costs	(886)	(1,014)	(1,900)
	165,114	176,355	341,469

## Notes to the group financial statements

for the year ended 31 March 2022

### 18. Loans and borrowings continued

The group holds non-current bonds listed on the London Stock Exchange with an original value of £296 million (2021: £296 million), with effective terms, as follows:

- £166 million at a fixed rate of 5.5834 per cent, falling due for repayment on 29 March 2029 (or earlier at the option of the group)
- £130 million at a variable rate linked to inflation, falling due for repayment on 3 June 2041 (or earlier at the option of the group)

Issue costs incurred by the group in securing the long-term borrowings were deducted from the amount of the consideration received. The issue costs have been amortised under the effective interest rate method over the lives of the bonds to which the costs relate.

Indexation accrues on the bond repayable in 2041 under the terms of the bond.

Group	Loan due 2032 £000	Loan due 2033 £000	Loan due 2037 £000	Total £000
<b>2022</b>				
<b>Index linked loans</b>				
Original loan amounts	135,000	34,000	100,000	269,000
Indexation on bonds	100,886	21,102	29,705	151,693
Less: unamortised issue costs	(871)	(171)	(1,176)	(2,218)
	<b>235,015</b>	<b>54,931</b>	<b>128,529</b>	<b>418,475</b>
<b>2021</b>				
Original loan amounts	135,000	34,000	100,000	269,000
Indexation on bonds	92,159	19,064	21,869	133,092
Less: unamortised issue costs	(952)	(184)	(1,252)	(2,388)
	226,207	52,880	120,617	399,704

The group holds index linked loans with an original value of £269 million and with effective terms as follows:

- £135 million at a variable rate linked to inflation, falling due for repayment on 30 September 2032 (or earlier at the option of the group)
- £34 million at a variable rate linked to inflation, falling due for repayment on 30 September 2033 (or earlier at the option of the group)
- £100 million at a variable rate linked to inflation, falling due for repayment on 1 December 2037 (or earlier at the option of the group)

Indexation on the loans accrues under the terms of the loans. Issue costs incurred by the group in securing the long-term borrowings were deducted from the amount of the consideration received. The issue costs have been amortised under the effective interest rate method over the lives of the bonds to which the costs relate.

The irredeemable debentures, listed bonds and index linked loans detailed above are secured on the assets of South East Water (Holdings) Limited, South East Water Limited and South East Water (Finance) Limited (the South East Water (Holdings) Limited group) as far as allowed by the Water Industry Act 1991 and South East Water's licence. The agreements for the bonds and loans contain a number of covenants that the group is required to meet to safeguard the interests of the lenders.

## Notes to the group financial statements

for the year ended 31 March 2022

### 18. Loans and borrowings continued

Group	2022 £000	2021 £000
<b>Variable rate loan</b>		
Original loan amount	120,000	120,000
Less: unamortised issue costs	(1,095)	(1,275)
	<b>118,905</b>	118,725

In December 2018 the group entered into a loan facility for £120 million which matures in December 2025. This loan facility was drawn down in full in September 2019 at a variable rate of London Inter-Bank Offered Rate "LIBOR" plus 1.2 per cent.

The group has agreed amendments with its lenders to the fall back provisions to move from GBP LIBOR to Sterling Overnight Index Average "SONIA" on its other floating rate borrowing, being the £120.0 million floating rate loan. This has taken effect from 28 December 2021, after UK LIBOR has ceased.

Group	2022 £000	2021 £000
<b>Fixed rate loan notes</b>		
Loan note series 1	75,000	75,000
Loan note series 2	100,000	100,000
Loan note series 3	50,000	-
Less: unamortised issue costs	(1,256)	(1,109)
	<b>223,744</b>	173,891

On 16 September 2019 the company issued fixed rate loan notes totalling £175 million. The notes were issued in two tranches being:

- £75 million falling due for repayment on 16 September 2031
- £100 million falling due for repayment on 16 September 2042

On 1 December 2021 the company issued new fixed rate loan notes totalling £50 million.

- £50 million falling due for repayment on 1 December 2035

Group	2022 £000	2021 £000
<b>Irredeemable Debenture Stock</b>		
3 % perpetual stock	25	25
3.5 % perpetual stock	384	384
4 % perpetual stock	175	178
5 % perpetual stock	363	365
5.5 % perpetual stock	1	1
6 % perpetual stock	37	37
	<b>985</b>	990

Interest on irredeemable debenture stock is payable six monthly.

## Notes to the group financial statements

for the year ended 31 March 2022

### 18. Loans and borrowings continued

Group	2022 £000	2021 £000
<b>Lease liability</b>		
Balance as at 1 April	3,910	4,239
Lease revaluation	(59)	-
Less: capital repayment	(337)	(329)
	3,514	3,910

The total cash outflow in the year in respect of the group's leasing activities was £0.4 million (2021: £0.5 million).

Group	2022 £000	2021 £000
<b>Lease liability</b>		
Non-current lease liability	3,175	3,592
Current lease liability	339	318
	3,514	3,910

Company	2022 £000	2021 £000
<b>Non-current</b>		
Loans and borrowings	1,116,318	1,033,789
Debentures	985	990
Lease liabilities	3,175	3,592
	1,120,478	1,038,371
<b>Current</b>		
Drawdown facility	-	80,000
Lease liabilities	339	318
	339	80,318
<b>Total loans and borrowings</b>	<b>1,120,817</b>	<b>1,118,689</b>



## Notes to the group financial statements

for the year ended 31 March 2022

### 18. Loans and borrowings continued

The carrying value of loans and borrowings classified as financial liabilities measured at amortised cost approximates fair value.

Company	2022 £000	2021 £000
<b>Loans and borrowings</b>		
Loans from subsidiary	483,723	462,086
Index linked loans	289,946	279,087
Variable rate loan	118,905	118,725
Fixed rate loan notes	223,744	173,891
	<b>1,116,318</b>	1,033,789

Company	Loan due 2029 £000	Loan due 2041 £000	Loan due 2037 £000	Total £000
<b>2022</b>				
<b>Loans from subsidiary</b>				
Original loan consideration	166,000	130,000	100,000	396,000
Indexation on bonds	-	60,932	29,705	90,637
Less: unamortised issue costs	(775)	(963)	(1,176)	(2,914)
	<b>165,225</b>	<b>189,969</b>	<b>128,529</b>	<b>483,723</b>
<b>2021</b>				
Original loan amounts	166,000	130,000	100,000	396,000
Indexation on bonds	-	47,369	21,869	69,238
Less: unamortised issue costs	(886)	(1,014)	(1,252)	(3,152)
	165,114	176,355	120,617	462,086

The company's subsidiary undertaking, South East Water (Finance) Limited, has debt with an original consideration of £396 million (2021: £396 million), of which £296 million (2021: £296 million) is listed on the London Stock Exchange. The funds raised are lent to the company under loan agreements between the company and its subsidiary. An annual fee of £23,000 (2021: £23,000) was charged by South East Water (Finance) Limited to South East Water Limited.

The effective terms of the £396 million loans due to South East Water (Finance) Limited are as follows:

- £166 million at a fixed rate of 5.5834 per cent, falling due for repayment on 29 March 2029 (or earlier at the option of the company)
- £130 million at a variable rate linked to inflation, falling due for repayment on 3 June 2041 (or earlier at the option of the company)
- £100 million at a variable rate linked to inflation, falling due for repayment on 1 December 2037 (or earlier at the option of the company)

Issue costs incurred by the company in securing the long-term borrowings were deducted from the amount of the consideration received. The issue costs have been amortised under the effective interest rate method over the lives of the bonds to which the costs relate.

Indexation accrues on the loan repayable in 2041 under the terms of the loan.

The amounts due to subsidiary undertakings and the indexed loans are secured on the assets of South East Water (Holdings) Limited Group as far as allowed by the Water Industry Act 1991 and South East Water's licence.

## Notes to the group financial statements

for the year ended 31 March 2022

### 18. Loans and borrowings continued

Company	Loan due 2032 £000	Loan due 2033 £000	Total £000
<b>2022</b>			
<b>Index linked loans</b>			
Original loan amounts	135,000	34,000	169,000
Indexation on bonds	100,886	21,102	121,988
Less: unamortised issue costs	(871)	(171)	(1,042)
	<b>235,015</b>	<b>54,931</b>	<b>289,946</b>
<b>2021</b>			
Original loan consideration	135,000	34,000	169,000
Indexation on bonds	92,159	19,064	111,223
Less: unamortised issue costs	(952)	(184)	(1,136)
	<b>226,207</b>	<b>52,880</b>	<b>279,087</b>

The company holds index linked loans with an original consideration of £169 million and effective terms as follows:

- £135 million at a variable rate linked to inflation, falling due for repayment on 30 September 2032 (or earlier at the option of the company)
- £34 million at a variable rate linked to inflation, falling due for repayment on 30 September 2033 (or earlier at the option of the company)

Indexation on the loans accrues under the terms of the loans. Issue costs incurred by the company in securing the long-term borrowings were deducted from the amount of the consideration received. The issue costs have been amortised under the effective interest rate method over the lives of the bonds to which the costs relate. Index linked loans are stated after the uplift for accrued indexation and the deduction of issue costs to be amortised at the balance sheet date.

The listed bonds and unlisted loan are secured on the assets of South East Water (Holdings) Limited Group as far as allowed by the Water Industry Act 1991 and South East Water's licence.

Company	2022 £000	2021 £000
<b>Variable rate loan</b>		
Original loan amount	120,000	120,000
Less: unamortised issue costs	(1,095)	(1,275)
	<b>118,905</b>	<b>118,725</b>

In December 2018 the group entered into a loan facility for £120 million which matures in December 2025. This loan facility was drawn down in full in September 2019 at a variable rate of LIBOR plus 1.2 per cent.

The group has agreed amendments with its lenders to the fall back provisions to move from GBP LIBOR to SONIA on its other floating rate borrowing, being the £120.0 million floating rate loan. This has taken effect from 28 December 2021, after UK LIBOR has ceased.

## Notes to the group financial statements

for the year ended 31 March 2022

### 18. Loans and borrowings continued

Company	2022 £000	2021 £000
<b>Fixed rate loan notes</b>		
Loan note series 1	75,000	75,000
Loan note series 2	100,000	100,000
Loan note series 3	50,000	-
Less: unamortised issue costs	(1,256)	(1,109)
	<b>223,744</b>	173,891

On 16 September 2019 the company issued fixed rate loan notes totalling £175 million. The notes were issued in two tranches being:

- £75 million falling due for repayment on 16 September 2031
- £100 million falling due for repayment on 16 September 2042

On 1 December 2021 the company issued new fixed rate loan notes totalling £50 million.

- £50 million falling due for repayment on 1 December 2035

Company	2022 £000	2021 £000
<b>Irredeemable Debenture Stock</b>		
3 % perpetual stock	25	25
3.5 % perpetual stock	384	384
4 % perpetual stock	175	178
5 % perpetual stock	363	365
5.5 % perpetual stock	1	1
6 % perpetual stock	37	37
	<b>985</b>	990

Interest on irredeemable debenture stock is payable six monthly.

Company	2022 £000	2021 £000
<b>Lease liability</b>		
Balance as at 1 April	3,910	4,239
Lease revaluation	(59)	-
Less: capital repayment	(337)	(329)
	<b>3,514</b>	3,910

The total cash outflow in the year in respect of the company leasing activities was £0.4 million (2021: £0.5 million).

## Notes to the group financial statements

for the year ended 31 March 2022

### 18. Loans and borrowings continued

Company	2022 £000	2021 £000
<b>Lease liability</b>		
Non-current lease liability	<b>3,175</b>	3,592
Current lease liability	<b>339</b>	318
	<b>3,514</b>	3,910

### 19. Provisions

Group and Company	Third party damage claims £000	Leak allowance £000	Other provisions £000	Total £000
As at 1 April 2021	2,030	2,426	3,527	7,983
Additional amounts provided	854	5,792	3,742	10,388
Unused amounts reversed	(379)	-	(51)	(430)
Amounts utilised	(890)	(4,550)	(4,187)	(9,627)
<b>31 March 2022</b>	<b>1,615</b>	<b>3,668</b>	<b>3,031</b>	<b>8,314</b>
As at 1 April 2020	1,655	2,802	-	4,457
Additional amounts provided	1,305	3,064	3,527	7,896
Amounts utilised	(930)	(3,440)	-	(4,370)
31 March 2021	2,030	2,426	3,527	7,983

Other provisions relates to various contracted and legal claims against the group. The amount recorded represents management's best estimate of the value of settlement and any associated costs.

The timing of settlement/court judgement for these claims is uncertain but management consider that settlement is more likely than not within the next year, and therefore amounts provided have been classified as current.

The group needs to determine the chances of a claim against it being successful, the likelihood of an outflow of economic benefits occurring and whether there is a need to disclose a contingent liability or whether a provision is required based on this assessment. There is an inherent risk that the final outcome of legal claims will be different to amounts provided.

The group has taken the option under paragraph 92 of IAS 37 for non-disclosure of certain information relating to provisions and contingent liabilities in extremely rare cases where this can be expected to seriously prejudice the entity in a dispute.

for the year ended 31 March 2022

## 20. Trade and other payables

Group	2022 £000	2021 £000
<b>Current liabilities</b>		
Financial liability payables		
Trade payables	10,919	11,369
Amounts due to parent and fellow subsidiary undertakings	11,209	10,901
Other payables	2,363	2,334
Accruals	33,032	27,237
	57,523	51,841
Non-financial liability payables		
Payments received in advance	41,207	35,199
Other taxes and social security	1,121	1,921
	42,328	37,120
<b>Total trade and other payables</b>	<b>99,851</b>	<b>88,961</b>
<b>Non-current liabilities</b>		
Financial liability payables		
Deposits payable to developers	4,154	4,623

Company	2022 £000	2021 £000
<b>Current liabilities</b>		
Financial liability payables		
Trade payables	10,919	11,369
Amounts due to parent and fellow subsidiary undertakings	11,832	14,315
Other payables	2,363	2,334
Accruals	30,363	24,767
	55,477	52,785
Non-financial liability payables		
Payments received in advance	41,207	35,199
Other taxes and social security	1,121	1,921
	42,328	37,120
<b>Total trade and other payables</b>	<b>97,805</b>	<b>89,905</b>
<b>Non-current liabilities</b>		
Financial liability payables		
Deposits payable to developers	4,154	4,623

As at 31 March 2022 and 2021, amounts due to parent and fellow subsidiary undertakings represent unsecured non-interest bearing balances relating to the surrender of group tax relief in respect of the group and the surrender of group tax relief and interest due on debt with the subsidiary company in respect of the company.

## Notes to the group financial statements

for the year ended 31 March 2022

### 21. Financial instruments – Fair values and risk management

#### Financial risk management objectives and policies

The group's financial instruments comprise index linked loans, variable rate loans, fixed rate loans, cash, short-term and medium-term deposits, trade receivables and trade and other payables. The main purpose of the group's financial instruments is to raise finance for the group's operations.

The group's treasury operations are managed within parameters defined by the board and the board of HDF. It is the group's policy to minimise liquidity risk within an acceptable range of interest rates. The group does not use foreign currency financial instruments. The main risks arising from the group's financial instruments are interest rate and liquidity risk. There are no regulatory capital requirements placed on the group.

#### Interest rate and Cash flow risk

The group finances its activities through a mixture of cash generated from operations, irredeemable debentures and other fixed rate long-term loans, variable rate loans and long-term index linked loans. Debentures are long-term fixed rate loans. Other fixed rate loans include listed bonds and loan notes. Long-term index linked loans comprise loans linked to inflation.

The group's policy is to manage short-term interest rate risk and cash flow risk by using short-term fixed rate drawdowns under a revolving committed facility. During the year to 31 March 2022 there was a net outflow of £80 million to repay the committed facility (2021: net inflow of £50 million). It is the view of the group that long-term fluctuations in interest rates will be within the parameters that are considered acceptable by the group.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, on the group's profit before tax (through the impact on floating rate borrowings). The sensitivity analysis excludes all fixed rate financial instruments carried at amortised cost as well as all floating rate financial instruments.

Group and Company	Increase/ decrease in basis points	Effect on profit before tax £000	Effect on shareholders' equity £000
<b>2022</b>			
Sterling	+300	(15,570)	(12,456)
Sterling	-100	5,190	4,152
<b>2021</b>			
Sterling	+300	(17,970)	(14,376)
Sterling	-100	5,990	4,792



## Notes to the group financial statements

for the year ended 31 March 2022

### 21. Financial instruments – Fair values and risk management continued

#### Liquidity risk

The group aims to maintain a balance between continuity of funding and flexibility. Continuity of funding has been guaranteed throughout the period by the existence of long-term funding facilities. Short-term flexibility is achieved by varying the drawdown amounts under the revolving committed facility. Further details are given below. Cash is also put on deposit with variable maturity dates so as to mitigate liquidity risk.

#### Inflation risk

The group manages its inflation risk on its financial liabilities through the use of index linked bonds and loans (note 18). The group considers that the inflation rate risk is effectively managed as Ofwat allows revenues to be increased in line with inflation.

#### Credit risk

The group's financial assets include short-term and medium-term bank deposits and trade receivables, which represent the group's maximum exposure to credit risk in relation to financial assets. The group's credit risk is primarily attributable to its trade receivables, which are stated in the statement of financial position at original invoice amount less an allowance for any doubtful debts (see note 16). An estimate for the provision for doubtful debts is calculated by management based on the application of expected recovery rates to an aged debt profile. We have no significant concentration of credit risk with exposure spread over a large number of domestic customers and a number of retail customers. For our retail customers, we have secured adequate collateral under the Market Codes to mitigate any risk.

#### Capital management risk

The objectives and management of the group's capital management risk are discussed in the strategic report.

#### Fair values of financial assets and financial liabilities

Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties.

The following tables provide a comparison by category of the carrying amount and the fair values of the group's financial assets and financial liabilities at 31 March 2022. The fair values of loan instruments as at 31 March 2021 have been updated to a third party valuation in the year, in line with the approach for fair values as at 31 March 2022.

## Notes to the group financial statements

for the year ended 31 March 2022

### 21. Financial instruments – Fair values and risk management continued

	Notes	Book Value 2022 £000	Fair Value 2022 £000	Book Value 2021 £000	Fair Value 2021 Restated £000
<i>Financial assets at amortised cost</i>					
Trade and other receivables	16	79,577	79,577	82,680	82,680
Cash	17	14,539	14,539	41,617	41,617
		<b>94,116</b>	<b>94,116</b>	124,297	124,297
<i>Financial liabilities at amortised cost</i>					
Trade and other payables	20	46,314	46,082	40,940	40,715
Irredeemable debentures	18	985	681	990	861
Listed bonds	18	355,196	501,184	341,469	430,369
Index linked loans	18	418,473	628,059	399,704	630,114
Drawdown facility	18	-	-	80,000	80,000
Variable rate loan	18	118,905	125,073	118,725	126,514
Fixed rate loan notes	18	223,744	214,687	173,891	183,015
Lease liability	18	3,514	3,325	3,910	3,910
Amounts due to parent and group undertakings	20	11,209	11,153	10,901	10,841
Trade and other payables over 1 year	20	4,154	4,133	4,623	4,598
		<b>1,182,494</b>	<b>1,534,377</b>	1,175,153	1,510,937

The net book value is considered to equate to the fair value for trade and other receivables due to the short maturity of the amounts receivable. The fair value of trade and other payables and amounts due to parent and group undertakings have been adjusted for the appropriate credit risk. The fair values of irredeemable debentures and the lease liability have been calculated using the discounted cash flow method. The calculation includes all future capital and interest payments discounted by an amount representing credit risk and a further amount representing future inflation.

The fair value of the group's other long term debt, consisting of listed bonds, index linked loans, variable rate loans and fixed rate loan notes have been calculated based on the expected future yields on each of the debt instruments except where a current market valuation is available.

#### Fair value hierarchy

The group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2: other techniques for which all inputs with a significant effect on the recorded fair value are observable, either directly or indirectly.
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

## Notes to the group financial statements

for the year ended 31 March 2022

### 21. Financial instruments – Fair values and risk management continued

The group held the following financial instruments which are not measured at fair value but fair value disclosures are required:

31 March 2022	Total £000	Level 1 £000	Level 2 £000	Level 3 £000
<i>Fair value of financial liabilities at amortised cost</i>				
Trade and other payables	46,082	-	46,082	-
Irredeemable debentures	681	-	681	-
Listed bonds	501,184	193,611	307,573	-
Index linked loans	628,059	-	628,059	-
Variable loan rate	125,073	-	125,073	-
Loan notes	214,687	-	214,687	-
Lease liability	3,325	-	3,325	-
Amounts due to parent and group undertakings	11,153	-	11,153	-
Trade and other payables over 1 year	4,133	-	4,133	-
<b>Total fair value of financial liabilities at amortised cost</b>	<b>1,534,377</b>	<b>193,611</b>	<b>1,340,766</b>	<b>-</b>

31 March 2021 (restated)	Total £000	Level 1 £000	Level 2 £000	Level 3 £000
<i>Fair value of financial liabilities at amortised cost</i>				
Trade and other payables	40,715	-	40,715	-
Irredeemable debentures	861	-	861	-
Listed bonds	430,369	430,369	-	-
Index linked loans	630,114	-	630,114	-
Drawdown facility	80,000	-	80,000	-
Variable rate loan	126,514	-	126,514	-
Loan notes	183,015	-	183,015	-
Lease liability	3,910	-	3,910	-
Amounts due to parent and group undertakings	10,841	-	10,841	-
Trade and other payables over 1 year	4,598	-	4,598	-
<b>Total fair value of financial liabilities at amortised cost</b>	<b>1,510,937</b>	<b>430,369</b>	<b>1,080,568</b>	<b>-</b>

During the reporting year ended 31 March 2022 a transfer between level 1 and level 2 fair value measurements was made as there was no current market valuation for one of the group's listed bonds available. No transfers between level 1 and level 2 were made in the reporting year ended 31 March 2021. No transfers into or out of level 3 fair value measurements were made in the reporting years ended 31 March 2022 and 2021.

## Notes to the group financial statements

for the year ended 31 March 2022

### 21. Financial instruments – Fair values and risk management continued

#### Maturity of financial instruments

The table below summarises the maturity profile of the group's financial assets and liabilities based on contractual undiscounted payments:

31 March 2022	Within 1 year £000	1 – 2 years £000	2 – 5 years £000	Over 5 years £000	Total £000
<i>Fixed rate</i>					
Fixed rate financial liabilities:					
Irredeemable debentures	42	42	125	1,082	1,291
Listed bond	9,268	9,268	27,805	184,537	230,878
Loan notes	6,445	6,445	19,335	287,017	319,242
<b>Total fixed rate financial liabilities</b>	<b>15,755</b>	<b>15,755</b>	<b>47,265</b>	<b>472,636</b>	<b>551,411</b>
<i>Floating rate</i>					
Floating rate financial assets:					
Short-term financial assets	79,576	-	-	-	79,576
Cash	14,539	-	-	-	14,539
<b>Total floating rate financial assets</b>	<b>94,115</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>94,115</b>
Floating rate financial liabilities:					
Short-term financial liabilities	57,504	-	-	-	57,504
Listed bond	4,786	4,891	15,306	347,798	372,781
Index-linked loans	13,773	14,040	43,724	629,572	701,109
Variable rate bank loan	1,990	1,990	121,434	-	125,414
Lease liability	444	430	1,268	1,630	3,772
Trade and other payables over 1 year	-	4,153	-	-	4,153
<b>Total floating rate financial liabilities</b>	<b>78,497</b>	<b>25,504</b>	<b>181,732</b>	<b>979,000</b>	<b>1,264,733</b>
<b>31 March 2021</b>	<b>Within 1 year £000</b>	<b>1 – 2 years £000</b>	<b>2 – 5 years £000</b>	<b>Over 5 years £000</b>	<b>Total £000</b>
<i>Fixed rate</i>					
Fixed rate financial liabilities:					
Irredeemable debentures	42	42	125	1,087	1,296
Listed bond	9,268	9,268	27,805	221,612	267,953
Loan notes	5,425	5,425	16,275	240,258	267,383
<b>Total fixed rate financial liabilities</b>	<b>14,735</b>	<b>14,735</b>	<b>44,205</b>	<b>462,957</b>	<b>536,632</b>
<i>Floating rate</i>					
Floating rate financial assets:					
Short-term financial assets	82,680	-	-	-	82,680
Cash	41,617	-	-	-	41,617
<b>Total floating rate financial assets</b>	<b>124,297</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>124,297</b>
Floating rate financial liabilities:					
Short-term financial liabilities	51,841	-	-	-	51,841
Listed bond	4,464	4,569	14,339	351,920	375,292
Index-linked loans	12,860	13,127	40,985	642,212	709,184
Variable rate bank loan	1,620	1,620	124,456	-	127,696
Lease liability	446	429	1,268	2,497	4,640
Trade and other payables over 1 year	-	4,623	-	-	4,623
<b>Total floating rate financial liabilities</b>	<b>71,231</b>	<b>24,368</b>	<b>181,048</b>	<b>996,629</b>	<b>1,273,276</b>

## Notes to the group financial statements

for the year ended 31 March 2022

### 21. Financial instruments – Fair values and risk management continued

#### Borrowing facilities

The group has committed borrowing facilities of £183 million (2021: £148 million), of which £nil (2021: £80 million) was drawn down. Any drawdowns under these facilities are repayable in less than one year. The capital and working capital facility of £125 million (2021: £90 million) expires in June 2026. The DSR Liquidity Facility of £38 million (2021: £38 million) and the O&M Reserve Facility of £20 million (2021: £20 million) expire in June 2023.

#### Items of income, expense, gains and losses.

The net gains or losses of the different classes of financial instruments on the income statement are:

	Note	2022 £000	2021 £000
Financial assets at amortised cost	8	705	3,093
Financial liabilities at amortised cost	8	(67,565)	(42,956)
Financial assets due to impairment	16	(5,010)	(3,788)

### 22. Deferred Income

Group and Company	2022 £000	2021 £000
As at 1 April	8,961	8,856
Received in the year	9,215	6,338
Released during the year	(8,121)	(6,233)
As at 31 March	10,055	8,961
Non-current	4,315	3,625
Current	5,740	5,336
	10,055	8,961

Contributions received towards below ground assets are released to the income statement on completion of the performance obligations within the contracts with customers.

## Notes to the group financial statements

for the year ended 31 March 2022

### 23. Retirement benefit schemes

#### Group and Company (hereafter referred to as “group” in this note)

The South East Water pension scheme provides benefits to current and former group employees. From 17 June 2011 onwards, benefits from the South East Water pension scheme have been provided solely on a defined contribution basis.

The scheme was originally contracted-out under the Guaranteed Minimum Pension Test. From 6 April 1997, after taking independent actuarial advice, the group decided to contract-out via the Protected Rights Test. With effect from 6 April 2012, the Government removed the option for schemes to contract-out via a Protected Rights basis. From 6 April 2012, the group decided to contract-out via a salary related basis.

The final salary defined benefit section of the scheme was closed to new entrants with effect from July 2002.

The last full actuarial valuation of the South East Water scheme took place as at 31 March 2020. The next full actuarial valuation will be performed at 31 March 2023.

The group contribution rate for the defined benefit pension scheme during the year was £nil (2021: £nil) of pensionable remuneration plus an annual contribution of £4.0 million (2021: £4.0 million) in respect of the deficit as at 31 March 2020. The group's future annual contribution is expected to be £4.0 million, uplifted for RPI on 1 April each year.

As a result of the merger of South East Water and Mid Kent Water Limited in October 2006, the group acquired the Mid Kent Group Pension Scheme, which is a defined benefit scheme in the UK.

The last full actuarial valuation of this scheme took place as at 31 March 2020. The next full actuarial valuation will be performed at 31 March 2023.

The group contribution for the defined benefit pension scheme during the year was £nil (2021: £nil) of pensionable remuneration plus an annual contribution of £1.4 million (2021: £1.4 million) in respect of the deficit as at 31 March 2020. The group's future annual contribution is expected to be £1.4 million, uplifted for RPI on 1 April each year.

Both of the defined benefit schemes are separate funds that are legally separate from the group. The trustees of the pension schemes are required by law to act in the interests of the funds and all relevant stakeholders in the plans. The trustees of the pension funds are responsible for the investment policies with regard to the assets of the funds.

On 31 March 2015 both of the group's defined benefit schemes closed to further benefit accrual. This was advised to the schemes' members on 13 December 2012. From 31 March 2015 all active members became deferred members and their accrued benefits will increase in line with statutory deferred revaluation. All members were invited to join the group's defined contribution scheme from 1 April 2015.

The group also has obligations to pay a number of former employees' pensions on a defined benefit basis which are not included in either of the pension schemes. These pensions are paid by the group directly. The payments are treated as contributions for unfunded pensions in the tables below and equal to the benefits paid. The value of future obligations has been calculated on an actuarial basis and the liability of £2.9 million (2021: £3.2 million) is recognised on the statement of financial position.



## Notes to the group financial statements

for the year ended 31 March 2022

### 23. Retirement benefit schemes continued

Following the High Court ruling on 26 October 2018 regarding the equalisation of Guaranteed Minimum Pension ('GMP') benefit within the Lloyds pension scheme, the Schemes were required to adjust benefits to remove the inequalities between the GMP benefits awarded to males and females. The company included an allowance of £273,000 for the impact of GMP equalisation within its 2019 accounting figures and this estimate remains unchanged.

On 20 November 2020 the High Court issued a supplementary ruling in the Lloyds bank GMP equalisation case with respect to members that have transferred out of their scheme prior to the ruling. The results of this mean that:

- Trustees are obliged to make transfer payments that reflect equalised benefits and are required to make top up payments where this was not the case in the past.
- A DB scheme that received a transfer is concurrently obliged to provide equalised benefits in respect of the transfer payments.
- There were no exclusions on the grounds of discharge forms, CETV legislation, forfeiture provisions or the Limitation Act 1980.

This additional cost was recognised through the income statement as a past service cost in the 2021 financial statements amounting to £6,000 for the SEWPS and £3,000 for the MKGPS.

The indexation of pension increases in payment in the MKGPS changed from RPI to CPI with effect from 30 April 2020. A Deed of Record was signed to formalise the change of inflation index from RPI to CPI, with members being written to and notified of the change at the end of April 2020. The first pension increase that was determined with reference to CPI instead of RPI was awarded on 1 April 2021. This event was treated at a plan amendment as at 30 April 2020. The impact of this plan amendment was recognised as a past service credit of £7.8 million, based on market conditions at 30 April 2020.

The impact of Covid-19 is reflected in the assumptions for future improvements in life expectancy. In 2020 and 2021 mortality rates were significantly higher than the long-term trend as a result of Covid-19, although 2021 was an improvement on 2020. The latest version of the CMI projections model (CMI\_2021) allows users to choose what weight to place on 2020 and 2021 mortality experience. The group has placed a weighting of 10 per cent of mortality experience in 2020 and 2021 to take account of the impact of Covid-19. This is equivalent to assuming that mortality rates in 2022 are worse than in 2019, the last full year before Covid-19, but that they subsequently improve back to 2019 rates over several years.

## Notes to the group financial statements

for the year ended 31 March 2022

### 23. Retirement benefit schemes continued

#### Defined contribution scheme

Pension costs recognised in the income statement for the defined contribution scheme were as follows:

Group and Company	2022 £000	2021 £000
Defined contribution scheme	2,512	2,481

#### Defined benefit schemes

The major assumptions used for the actuarial valuations were:

	SEW Pensions 2022 %	SEW Pensions 2021 %	MKW Pensions 2022 %	MKW Pensions 2021 %
<i>Main assumptions</i>				
Rate of increase in pensions in payment				
CPI – Linked	2.95	2.55	2.95	2.55
Rate of increase in deferred pensions	2.95	2.55	2.95	2.55
Discount rate	2.70	2.05	2.70	2.05
RPI assumption	3.65	3.25	3.65	3.25
CPI assumption	3.00	2.55	3.00	2.55
<i>Life expectancies from age 65</i>				
Currently aged 65 – male	21.0	21.6	21.0	21.6
Currently aged 65 – female	23.6	24.0	23.6	24.0
Currently aged 45 – male	23.3	24.0	23.3	24.0
Currently aged 45 – female	25.8	26.3	25.8	26.3

The following table demonstrates the sensitivity to a reasonably possible change in the above key assumptions, with all other variables held constant, on the schemes' liabilities:

	(Decrease)/ increase in liabilities £000	(Decrease)/ increase %
0.1% decrease to the discount rate	3,900	1.5
0.1% increase to inflation	3,500	1.4
One year increase in life expectancy	11,100	4.4

## Notes to the group financial statements

for the year ended 31 March 2022

### 23. Retirement benefit schemes continued

The fair value of the assets in the schemes and the present value of the liabilities in the schemes were:

Group and Company	SEW Pensions £000	MKW Pensions £000	Total £000
<b>2022</b>			
Fair value of scheme assets	180,591	125,891	306,482
Present value of defined benefit obligations	(154,400)	(94,736)	(249,136)
<b>Surplus in the schemes</b>	<b>26,191</b>	<b>31,155</b>	<b>57,346</b>
			£000

*Unfunded obligation 2022*

**Present value of unfunded obligations** **(2,869)**

Group and Company	SEW Pensions £000	MKW Pensions £000	Total £000
<b>2021</b>			
Fair value of scheme assets	177,704	126,513	304,217
Present value of defined benefit obligations	(166,991)	(102,858)	(269,849)
Surplus in the schemes	10,713	23,655	34,368
			£000

*Unfunded obligation 2021*

Present value of unfunded obligations (3,172)

SEW Pension Scheme Group and Company	Quoted £000	Unquoted £000	Total £000	%
<b>2022</b>				
Equities	20,616	98	20,714	12%
Corporate bonds	57,497	41,560	99,057	55%
Government bonds	49,234	-	49,234	27%
Cash	6,075	143	6,218	3%
Insured persons	-	5,368	5,368	3%
<b>Total fair value of assets</b>	<b>133,422</b>	<b>47,169</b>	<b>180,591</b>	<b>100%</b>

## Notes to the group financial statements

for the year ended 31 March 2022

### 23. Retirement benefit schemes continued

SEW Pension Scheme Group and Company	Quoted £000	Unquoted £000	Total £000	%
<b>2021</b>				
Equities	32,527	-	32,527	18%
Corporate bonds	51,583	34,532	86,115	49%
Government bonds	47,547	-	47,547	27%
Cash	5,600	281	5,881	3%
Insured persons	-	5,634	5,634	3%
Total fair value of assets	137,257	40,447	177,704	100%

MKW Pension Scheme Group and Company	Quoted £000	Unquoted £000	Total £000	%
<b>2022</b>				
Corporate bonds	25,218	37,515	62,733	50%
Government bonds	57,474	-	57,474	45%
Cash	574	136	710	1%
Insured persons	-	4,974	4,974	4%
<b>Total fair value of assets</b>	<b>83,266</b>	<b>42,625</b>	<b>125,891</b>	<b>100%</b>

MKW Pension Scheme Group and Company	Quoted 2021 £000	Unquoted 2021 £000	Total 2021 £000	%
<b>2021</b>				
Equities	17,406	-	17,406	14%
Corporate bonds	23,371	40,184	63,555	50%
Government bonds	37,323	-	37,323	30%
Cash	2,790	193	2,983	2%
Insured persons	-	5,246	5,246	4%
Total fair value of assets	80,890	45,623	126,513	100%

Equity investments include Global Tactical Asset Allocation, Private Equity Fund and Absolute Return Investments.

## Notes to the group financial statements

for the year ended 31 March 2022

### 23. Retirement benefit schemes continued

Analysis of amounts charged/(credited) to income statement:

Group and Company	SEW Pensions £000	MKW Pensions £000	Unfunded Pensions £000	Total £000
<b>2022</b>				
Net interest on net defined benefit asset	(258)	(496)	62	(692)
Past service cost/(credit)	-	-	-	-
Administrative expenses	305	281	-	586
<b>Total amount charged to income statement</b>	<b>47</b>	<b>(215)</b>	<b>62</b>	<b>(106)</b>
<b>2021</b>				
Net interest on net defined benefit asset	(388)	(441)	68	(761)
Past service cost/(credit)	6	(7,802)	-	(7,796)
Administrative expenses	495	406	-	901
<b>Total amount charged to income statement</b>	<b>113</b>	<b>(7,837)</b>	<b>68</b>	<b>(7,656)</b>

The amount charged to the income statement for 2021 in respect of MKW Pensions includes a past service costs credit of £7.8 million due to the change in indexation in pension increases from RPI to CPI.

Also included in the past service costs for 2021 are costs of £6,000 for SEW Pensions and £3,000 for MKW Pensions in respect of GMP equalisation.

Analysis of amounts recognised in the statement of comprehensive income:

Group and Company	SEW Pensions £000	MKW Pensions £000	Unfunded Pensions £000	Total £000
<b>2022</b>				
Return on schemes' assets excluding interest income	3,599	280	-	3,879
Actuarial gains due to changes in financial assumptions	6,400	3,969	42	10,411
Actuarial gains due to changes in demographic assumptions	2,321	2,163	36	4,520
Experience loss on obligation	(865)	(537)	-	(1,402)
<b>Actuarial gains recognised in the statement of comprehensive income</b>	<b>11,455</b>	<b>5,875</b>	<b>78</b>	<b>17,408</b>
<b>Cumulative actuarial losses</b>	<b>(2,144)</b>	<b>(9,724)</b>	<b>(3,515)</b>	<b>(15,383)</b>
<b>2021</b>				
Return on schemes' assets excluding interest income	8,304	4,981	-	13,285
Actuarial losses due to changes in financial assumptions	(20,454)	(14,906)	(240)	(35,600)
Actuarial losses due to changes in demographic assumptions	(336)	(323)	(34)	(693)
Experience gain on obligation	4,206	3,835	-	8,041
<b>Actuarial losses recognised in the statement of comprehensive income</b>	<b>(8,280)</b>	<b>(6,413)</b>	<b>(274)</b>	<b>(14,967)</b>
<b>Cumulative actuarial losses</b>	<b>(13,599)</b>	<b>(15,599)</b>	<b>(3,593)</b>	<b>(32,791)</b>

## Notes to the group financial statements

for the year ended 31 March 2022

### 23. Retirement benefit schemes continued

Reconciliation of defined benefit obligations:

Group and Company	SEW Pensions £000	MKW Pensions £000	Unfunded Pensions £000	Total £000
<b>2022</b>				
Opening defined benefit obligations	166,991	102,858	3,172	273,021
Interest cost	3,341	2,062	62	5,465
Actuarial losses	(7,856)	(5,595)	(78)	(13,529)
Benefits paid	(8,076)	(4,589)	(287)	(12,952)
<b>Closing defined benefit obligations</b>	<b>154,400</b>	<b>94,736</b>	<b>2,869</b>	<b>252,005</b>
<b>2021</b>				
Opening defined benefit obligations	154,121	102,575	3,115	259,811
Interest cost	3,462	1,748	68	5,278
Actuarial gains	16,584	11,394	274	28,252
Past service cost	6	(7,802)	-	(7,796)
Benefits paid	(7,182)	(5,057)	(285)	(12,524)
Closing defined benefit obligations	166,991	102,858	3,172	273,021

Reconciliation of fair value of plans' assets:

Group and Company	SEW Pensions £000	MKW Pensions £000	Total £000
<b>2022</b>			
Opening fair values of schemes' assets	177,704	126,513	304,217
Interest income on assets	3,599	2,558	6,157
Return on scheme assets excluding interest income	3,599	280	3,879
Contributions by employer	4,070	1,410	5,480
Administrative expenses	(305)	(281)	(586)
Benefits paid	(8,076)	(4,589)	(12,665)
<b>Closing fair values of schemes' assets</b>	<b>180,591</b>	<b>125,891</b>	<b>306,482</b>
<b>2021</b>			
Opening fair values of schemes' assets	169,198	123,410	292,608
Interest income on assets	3,850	2,189	6,039
Return on scheme assets excluding interest income	8,304	4,981	13,285
Contributions by employer	4,029	1,396	5,425
Administrative expenses	(495)	(406)	(901)
Benefits paid	(7,182)	(5,057)	(12,239)
Closing fair values of schemes' assets	177,704	126,513	304,217

The Trust Deed provides South East Water with an unconditional right to a refund of surplus assets assuming the full settlement of plan liabilities in the event of a plan wind-up. Furthermore, in the ordinary course of business the Trustee has no rights to unilaterally wind up or otherwise augment the benefits due to members of the scheme. Based on these rights, any net surplus in the UK scheme is recognised in full.



## Notes to the group financial statements

for the year ended 31 March 2022

### 24. Share capital

Authorised	2022 Number	2022 £000	2021 Number	2021 £000
<b>Shares treated as equity</b>				
Ordinary Shares shares of £1.00 each	100,000,000	100,000	100,000,000	100,000
<b>Issued and fully paid</b>				
<b>Ordinary Shares shares of £1.00 each</b>				
At 1 April and 31 March	49,312,354	49,312	49,312,354	49,312

### 25. Analysis of amounts recognised in other comprehensive income

Group and Company	Retained earnings 2022 £000	Retained earnings 2021 £000
Net actuarial gain/(loss) on defined benefit pension schemes	17,408	(14,967)
Deferred tax (charge)/credit on net actuarial (gain)/loss	(4,352)	2,844
Impact of deferred tax rate change in respect of pension schemes	1,639	-
	14,695	(12,123)

### 26. Movement in liabilities arising from financing activities

Group non-current loans and borrowings	Irredeemable debenture stock £000	Listed bonds £000	Fixed, Variable, Indexed linked loans and lease liability £000	Non-current loans and borrowing £000
Balance 1 April 2020	990	338,926	689,081	1,028,997
<b>Changes from other financing activities:</b>				
Indexation on index linked instruments	-	2,383	6,694	9,077
Lease liability reclassification	-	-	(319)	(319)
Amortisation of issue costs	-	161	455	616
Balance at 31 March 2021	990	341,470	695,911	1,038,371
Balance 1 April 2021	990	341,470	695,911	1,038,371
<b>Changes from financing cash flows:</b>				
New loan notes issued during the period	-	-	50,000	50,000
Loan fees incurred	-	-	(260)	(260)
Debentures redeemed	(5)	-	-	(5)
<b>Changes from other financing activities:</b>				
Indexation on index linked instruments	-	13,563	18,601	32,164
Lease liability reclassification	-	-	(357)	(357)
Lease revaluation	-	-	(59)	(59)
Amortisation of issue costs	-	161	463	624
<b>Balance at 31 March 2022</b>	<b>985</b>	<b>355,194</b>	<b>764,299</b>	<b>1,120,478</b>

## Notes to the group financial statements

for the year ended 31 March 2022

### 26. Movement in liability arising from financing activities continued

Company non-current loans and borrowings	Irredeemable debenture stock £000	Amounts due to subsidiary undertakings £000	Fixed, Variable & Indexed linked loans £000	Non-current loans and borrowing £000
Balance 1 April 2020	990	457,250	570,757	1,028,997
<b>Changes from other financing activities:</b>				
Indexation on index linked instruments	-	4,600	4,477	9,077
Lease liability reclassification	-	-	(319)	(319)
Amortisation of issue costs	-	237	379	616
Balance at 31 March 2021	990	462,087	575,294	1,038,371
Balance 1 April 2021	<b>990</b>	<b>462,087</b>	<b>575,294</b>	<b>1,038,371</b>
<b>Changes from financing cash flows:</b>				
New loan notes issued during the period	-	-	50,000	50,000
Loan fees incurred	-	-	(260)	(260)
Debentures redeemed	(5)	-	-	(5)
<b>Changes from other financing activities:</b>				
Indexation on index linked instruments	-	21,399	10,765	32,164
Lease liability reclassification	-	-	(357)	(357)
Lease revaluation	-	-	(59)	(59)
Amortisation of issue costs	-	237	387	624
<b>Balance at 31 March 2022</b>	<b>985</b>	<b>483,723</b>	<b>635,770</b>	<b>1,120,478</b>

Group & Company current loans and borrowings	Bank loans and lease liability £000	Current loans and borrowings £000
Balance at 1 April 2020	30,329	30,329
<b>Changes from financing cash flows:</b>		
New loans received during the year	50,000	50,000
Lease capital payments	(330)	(330)
<b>Changes from other financing activities:</b>		
Lease liability reclassification	319	319
Balance at 31 March 2021	80,318	80,318
Balance 1 April 2021	<b>80,318</b>	<b>80,318</b>
<b>Changes from financing cash flows:</b>		
New loans received during the period	50,000	50,000
Lease capital payments	(337)	(337)
Loans repaid in the period	(130,000)	(130,000)
<b>Changes from other financing activities:</b>		
Loan amortisation fee	-	-
Lease liability reclassification	358	358
<b>Balance at 31 March 2022</b>	<b>339</b>	<b>339</b>

## Notes to the group financial statements

for the year ended 31 March 2022

### 27. Capital commitments

Group and Company	2022 £000	2021 £000
Contracts placed for future capital expenditure not provided in the financial statements	28,227	47,119

All of the above capital commitments relate to property, plant and equipment.

#### Contingent liabilities

Through the ordinary course of operations, the company is party to various contract disputes. The Directors do not expect the ultimate resolution of any of these proceedings to have a material adverse effect on the company's results of operations, cash flows or financial position.

### 28. Obligations under operating leases

Group and Company	Notes	2022 £000	2021 £000
Minimum lease payments under operating leases recognised as an expense in the year	6	394	271
		394	271

### 29. Events after the reporting date

There are no post balance sheet events.

## Notes to the group financial statements

for the year ended 31 March 2022

### 30. Related party transactions

The group of companies into which results of the group are consolidated is that headed by HDF, a company registered in England and Wales.

Balances and transactions between the company and its subsidiary, which is related party of the company, have been eliminated on consolidation and are not disclosed in this note. Details of balances and transactions between the Group and other related party are disclosed below.

#### 30.1 Transactions with the group's parent company

	2022 £000	2021 £000
Opening balance as at 1 April	6,845	7,214
Group relief purchased	993	1,331
Group relief paid	(1,164)	(1,700)
Interest charged	0	(2,200)
Interest received	0	2,200
<b>Closing balance as at 31 March</b>	<b>6,674</b>	<b>6,845</b>

#### 30.2 Other related party transactions

Other related party transactions are as follows:

Group's ultimate parent company	2022 £000	2021 £000
Opening balance as at 1 April	3,845	3,374
Group relief purchased	484	546
Legal fee recharges	-	(75)
Legal fee recharges paid	75	-
<b>Closing balance as at 31 March</b>	<b>4,404</b>	<b>3,845</b>

Co-subsidiary of Group's ultimate parent company	2022 £000	2021 £000
<b>Group relief balance as at 31 March</b>	<b>132</b>	<b>132</b>

Key management compensation is disclosed in note 7 and discussed further in the remuneration report.

### 31. Parent company and ultimate controlling parties

Utilities of Australia Pty Limited as Trustee for the Utilities Trust of Australia ("UTA"), NatWest Pension Trustee Limited as Trustee for the NatWest Group Pension Fund ("NWPF"), Régime de Rentes du Mouvement Desjardins ("RRMD"), Desjardins Financial Security Life Assurance Company ("DFSL") and Certas Home and Auto Insurance Company ("Certas") are the company's joint ultimate holding companies. UTA is resident in Australia. NWPF is resident in the United Kingdom, RRMD, DFSL and Certas are resident in Canada. It is the directors' belief that there is no single ultimate controlling party and that the joint ultimate holding companies control the company jointly.

The immediate parent company is South East Water (Holdings) Limited.

The largest and smallest group of companies into which results of the company are consolidated is that headed by HDF (UK) Holdings Limited, a company which is incorporated in Great Britain and registered in England and Wales. The consolidated financial statements of HDF may be obtained from the Company Secretary at the company's registered office at Rocfort Road, Snodland, Kent, ME6 5AH.