

south east water

GROUP ANNUAL REPORT 2020/21

CORPORATE GOVERNANCE

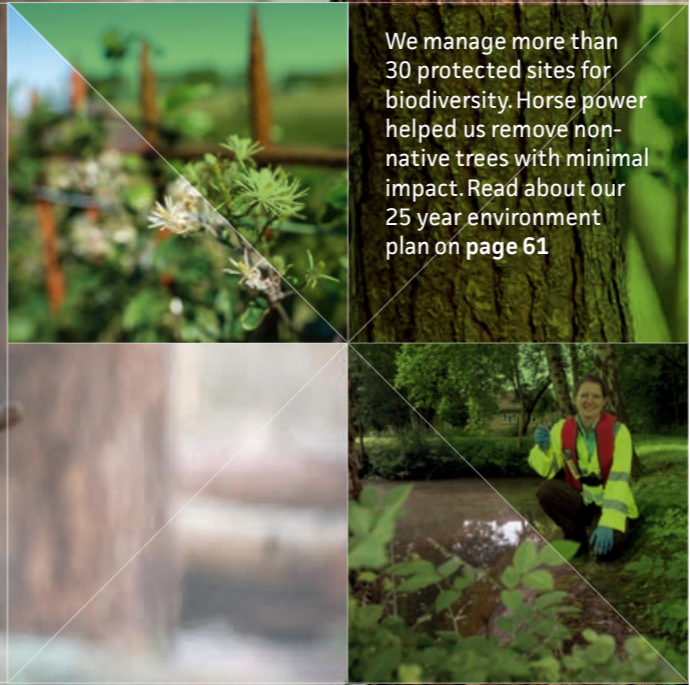


Pure know h₂ow



Flourishing environment

HOW WE CONTRIBUTE TO AN ENVIRONMENT THAT FLOURISHES TODAY AND TOMORROW



We manage more than 30 protected sites for biodiversity. Horse power helped us remove non-native trees with minimal impact. Read about our 25 year environment plan on page 61

CORPORATE GOVERNANCE

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OUR DIRECTORS ON 15 JULY 2021

INDEPENDENT NON-EXECUTIVE DIRECTORS*



NICK SALMON CHAIR

Nick was appointed Chair of the board of South East Water on 1 April 2015. He brings 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. He is currently Chair of Scotia Gas Network Limited. Nick holds a BSc. Degree in Mechanical Engineering and is a Fellow of the Royal Academy of Engineering.



JOHN BARNES

John was appointed a 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.



CHRIS GIRLING

Chris was appointed a 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.



CÉLIA PRONTO

Célia was appointed a 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 an independent non-executive director of Moto Hospitality Ltd and Samworth Brothers. 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.

* AS DEFINED IN THE UK CORPORATE GOVERNANCE CODE 2018

NON-EXECUTIVE DIRECTORS

RACHEL DREW

Rachel is an Investment Director at HRL Morrison & Co and was appointed to the South East Water 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. Rachel is also a non-executive director at rail company Porterbrook and the Northern Irish gas distribution business Phoenix Natural Gas. 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.



ANNE-NOËLLE LE GAL (APPOINTED ON 18 JUNE 2021)

Anne-Noëlle is an Investment Director at Vantage Infrastructure focusing on the asset management and transaction execution of European equity infrastructure investments, and was appointed to the South East Water board in June 2021. 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.



EXECUTIVE DIRECTORS

DAVID HINTON CHIEF EXECUTIVE OFFICER

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 CHIEF FINANCIAL OFFICER

Andrew, who joined as Chief Financial Officer 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 holds a BSc (Hons) in Engineering and Business Studies from the University of Warwick and qualified as a Chartered Accountant with Price Waterhouse.



OUR DIRECTORS ON 15 JULY 2021 continued

RESIGNING DIRECTORS*



PAUL BUTLER

MANAGING DIRECTOR (RESIGNED ON 31 JULY 2020)

Paul has a wealth of water industry experience, having previously been Managing Director of Mid Kent Water from 2001 to 2006 and Chair of UKWIR, a water industry research organisation from 2005 to 2012. A Chartered Accountant, he previously worked for Mid Kent Water as Group Financial Controller, Ernst & Young and Marks and Spencer. Paul Butler had informed the board of his intention to retire at the end of July 2020 and took his retirement on 31 July 2020.



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 South East Water board in December 2016. Marissa has a Bachelor of Science in finance, accounting and economics and is also a non-executive director at rail company Porterbrook.

* DIRECTORS IN OFFICE DURING THE PERIOD FROM 1 APRIL 2020 TO 31 MARCH 2021 AND RESIGNED BEFORE 15 JULY 2021.



Please see page 135 for details of the changes on our board.

COMPANY DETAILS

NICOLAS TRUILLET

COMPANY SECRETARY

COMPANY'S BANKERS

HSBC BANK PLC,
60 QUEEN VICTORIA STREET,
LONDON EC4N 4TR

COMPANY'S AUDITOR

DELOITTE LLP STATUTORY AUDITOR
LONDON, UNITED KINGDOM

REGISTERED OFFICE

ROCFORT ROAD, SNODLAND,
KENT ME6 5AH

REGISTERED NO. 02679874

COUNTRY OF DOMICILE AND
INCORPORATION: ENGLAND AND WALES

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Corporate governance and compliance are an integral part of how our board and our business as a whole operate

INTRODUCTION FROM THE CHAIR

Corporate governance and compliance are an integral part of how our board and our business as a whole operate.

During the year we have completed the process initiated last year, of adopting new articles of association which enshrine our purpose and revised directors' duties. This was an integral part of our strategy and corporate plan for 2020 to 2025. It will help us demonstrate that South East Water can be trusted as a provider of an essential public service in years to come.

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 our interests and those of our customers, other stakeholders and the environment.

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.

We explain below how we meet the objectives of the board leadership, transparency and governance principles published by Ofwat and how we have followed the principles of our own corporate governance code during the year.

This annual statement has been prepared to provide clear information on our business to our customers, investors, regulators and other stakeholders. We describe how we put governance into practice in this statement which I hope you will find helpful in demonstrating our commitment to excellence in governance.

This statement describes our corporate governance and how the board has operated within our corporate governance framework to promote a culture of public service and the long-term success of the business. It explains the concrete steps we have taken to meet the objectives, principles and provisions of our corporate governance code in the financial year.

The board confirms that it has complied with the principles of the company's corporate governance code (which incorporate Ofwat's board leadership, transparency and governance principles and relevant principles of the 2018 UK Corporate Governance Code) with the following exceptions or alternatives 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 percentage of company pension benefits for executive directors is aligned with the percentage available to the workforce for new appointments or a change of role and the pension benefits of the CFO have also been aligned with effect from 1 April 2021. Further details are provided in the directors' remuneration report. (Code provision 5.1.2)
- 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 but there has not been a specific engagement with the workforce on executive remuneration. There will be engagement with the Staff Council in 2021/22 as explained in the directors' remuneration report. (Code provision 5.2.4)

Further details on how we have met the objectives of the board leadership, transparency and governance principles are set out below.

This statement presents our governance in practice following the main themes in our corporate governance code.

NICK SALMON
CHAIR
15 JULY 2021

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 56.

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

BOARD LEADERSHIP AND COMPANY PURPOSE continued

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)
- reflect 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
- reflect a commitment to an inclusive approach to stakeholder engagement as a means of achieving the company’s purpose and achieve 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 contribute to promoting our purpose and values 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
- 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 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.

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
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.	• 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.	On our governance on page 119
	• We embedded our purpose into our articles of association and revised directors’ duties.	
	• Our articles of association are available at corporate.southeastwater.co.uk/about-us/our-governance	
	• We have developed our strategy for 2020 to 2025 to be aligned with our purpose and values and our corporate governance framework.	On how our governance helps deliver our strategy on page 56.
	• 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.	

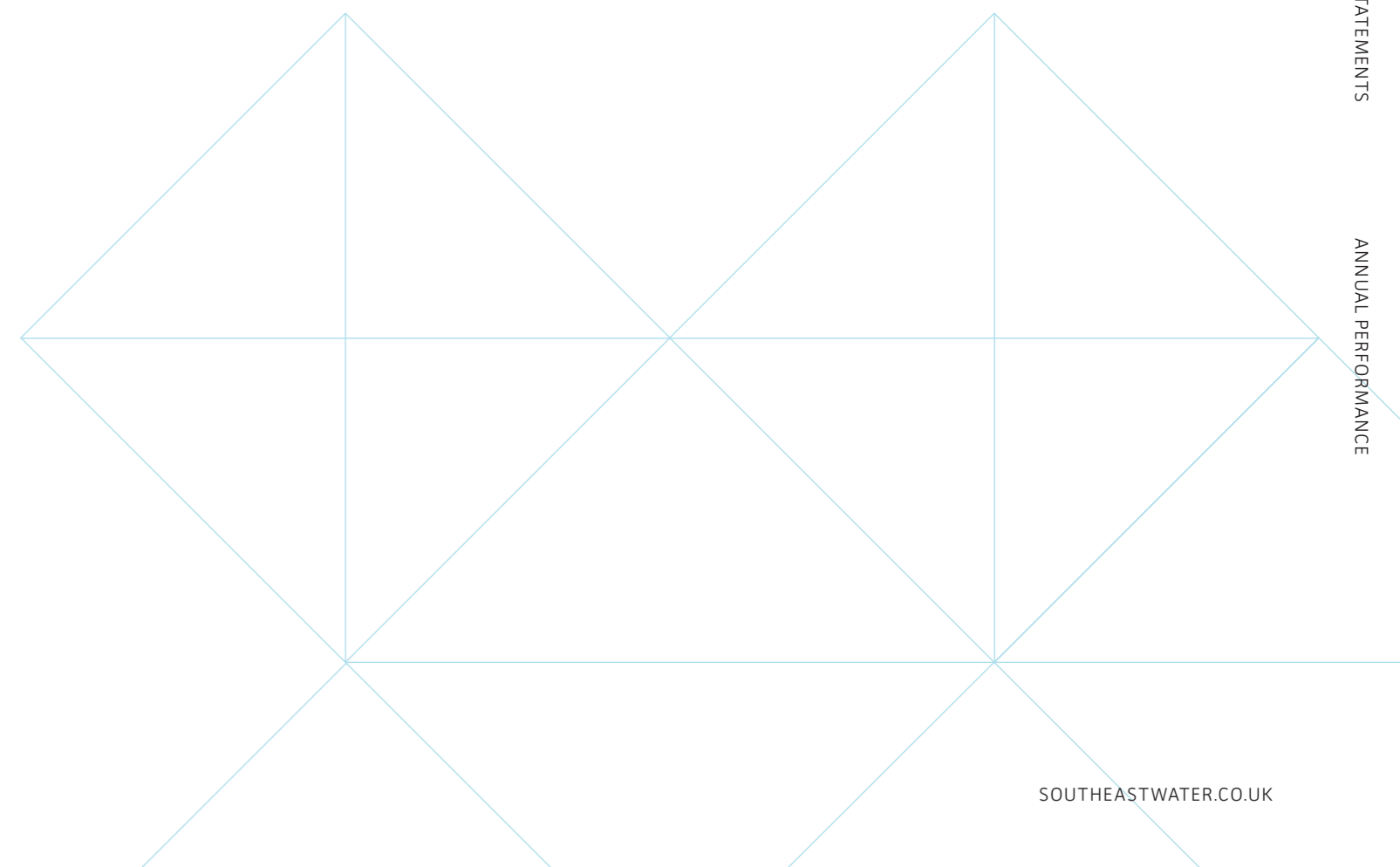
Objective 2	How we meet the objectives	Read more
The Appointee has an effective board with full responsibility for all aspects of the Appointee’s business for the long-term.	• The board has full responsibility for all aspects of the company’s business and sets the company’s strategic aims, purpose, values and the overall culture and standards of behaviours. It balances the long-term and short-term interests of the company.	On our board and committees composition and role on page 131
	• 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.	
	• We maintain a compact board that facilitates discussion and independent non-executive directors are the largest group on our board.	
	• The board has procedures in place to identify and avoid conflicts of interest.	On how we avoid conflicts of interest on page 127.
	• Our core responsibilities include planning for future water resources and 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 dry weather plan.	

BOARD LEADERSHIP AND COMPANY PURPOSE continued

HOW WE MEET THE OBJECTIVES OF THE BOARD LEADERSHIP, TRANSPARENCY AND GOVERNANCE PRINCIPLES (BLTG) continued

Objective 3	How we meet the objectives	Read more
<p>The board of the Appointee's leadership and approach to transparency and governance engenders trust in the Appointee and ensures accountability for their actions.</p>	<p>OUR GENERAL APPROACH TO TRUST, TRANSPARENCY AND GOVERNANCE</p> <ul style="list-style-type: none"> 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. 	
	<p>TRANSPARENCY ON OUR PERFORMANCE</p> <ul style="list-style-type: none"> Every year, we publish a performance, people, planet report with information on our performance and our corporate social responsibility in a clear and accessible format. Our performance, people and planet report is available at southeastwater.co.uk/performance 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. 	
	<ul style="list-style-type: none"> 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. Our company monitoring framework is at southeastwater.co.uk/cmfm 	<p>On how we ensure the accuracy and reliability of our data and reporting in our data assurance summary in our APR.</p>
	<p>TRANSPARENCY ON OWNERSHIP, EXECUTIVE PAY AND DIVIDENDS</p> <ul style="list-style-type: none"> Ownership structure: We explain our group and ownership structure and provide information about our investors. Executive pay: The pay of our executive directors includes a variable element which is based on actual performance against our performance commitments. Our directors' remuneration report has been updated to provide increased transparency on executive remuneration in line with the requirements applicable to quoted companies. 	<p>On our structure and investors on page 71.</p> <p>Our directors' remuneration report on page 142.</p>
	<ul style="list-style-type: none"> Dividends: 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. Our dividend policy for 2020 to 2025 is available on our website at southeastwater.co.uk/ourgovernance. 	<p>On our dividends and how we have applied our dividend policy on pages 172 and 268.</p>

Objective 4	How we meet the objectives	Read more
<p>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.</p>	<p>BOARD AND COMMITTEES EFFECTIVENESS</p> <ul style="list-style-type: none"> 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. 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 from 1 August 2020, the number of executive directors has been reduced to two. We ensure that our board and committees have the appropriate mix of skills and experience including specific customer and service sector experience. 	<p>On our board and committees composition and role on page 131.</p> <p>On the experience of our directors on page 114.</p>
	<p>BOARD EVALUATION</p> <ul style="list-style-type: none"> We carry 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. 	<p>On our 2020 board evaluation on page 136.</p>



BOARD LEADERSHIP AND COMPANY PURPOSE continued

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 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 82.

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 and of our responsible business commitments 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 commitments.

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 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.

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 to 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.

HOW OUR BOARD, COMMITTEES AND EXECUTIVE TEAM OPERATE

The diagram below shows the roles of our board and its committees and of the executive team and the main management steering group.

BOARD

CHAIR: NICK SALMON
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: JOHN BARNES
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: NICK SALMON
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 committees' membership.

RESPONSIBLE BUSINESS COMMITTEE

CHAIR: RACHEL DREW
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 government 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.

BOARD LEADERSHIP AND COMPANY PURPOSE continued

THE ROLE OF THE BOARD AND OF ITS COMMITTEES continued

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 being 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
- our carbon reduction strategy and new roadmap to net zero
- 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 relies on the company monitoring framework which describes the internal processes to ensure the accuracy and reliability of the information published by the company. It also relies on external assurance of the company's reporting and underlying data to assess the reliability of the information provided to it.

CONFLICT OF INTERESTS

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 communication 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 interest.

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.

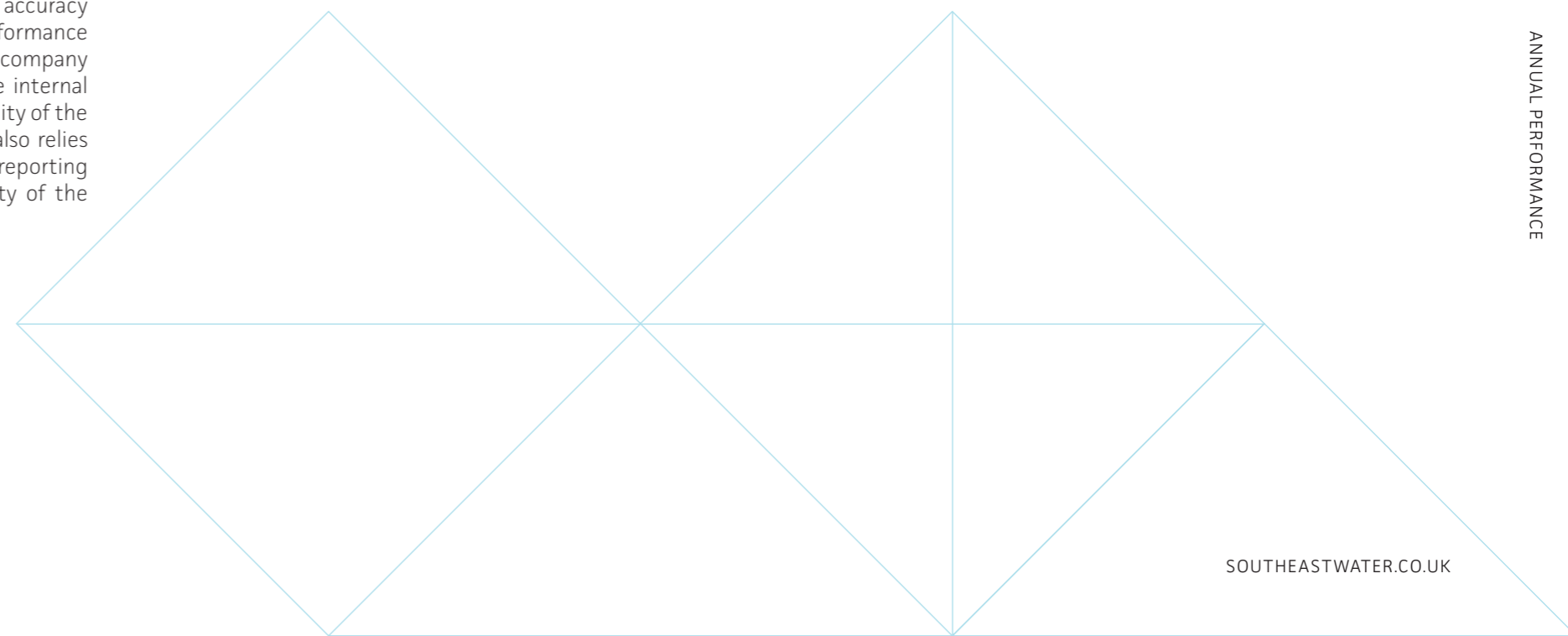
The articles of association of the company include provisions permitting directors to authorise certain potential conflict situations.

BOARD ACTIVITIES IN 2020/21

During the period from 1 April 2020 to 31 March 2021 there were seven scheduled board meetings, including one meeting specifically dedicated to strategy. The board also receives a full performance report every month.

From the first lockdown in 2020 we received regular updates and had bi-weekly board updates by video conference to follow up our response to the crisis. A series of board papers on our ongoing assessment of the operational, legal and financial consequences of the impact of the Covid-19 outbreak were considered. At the beginning of the financial year there were four additional meetings dedicated to Covid-19 in April, May and June 2020.

At the strategy session in October 2020 we considered in detail our People Plan setting out our strategy relating to our workforce and culture, the corporate plan implementation for the 2020 to 2025 regulatory period and the actions plans for the delivery of ODIs and the delivery of investment. We considered a presentation on the impact of Covid-19 on water companies and on the final determination. We received an update on the referrals of the price determinations to the CMA and considered possible implications for PR24. We discussed current and future industry issues with Christine McGoutry, CEO of Water UK. We also considered how to improve awareness of the company's brand and how this may relate to C-MeX and customer satisfaction.



BOARD LEADERSHIP AND COMPANY PURPOSE continued

ATTENDANCE AT BOARD AND COMMITTEE MEETINGS IN 2020/21

Director	Board	Audit & risk	Nomination	Remuneration	Responsible business
N Salmon	7/7		2/2	3/3	
J Barnes	7/7	3/3	2/2	3/3	3/3
C Girling	7/7	3/3			
C Pronto	7/7	3/3	2/2	3/3	
M Szczepaniak	7/7	3/3	2/2	3/3	3/3
R Drew	7/7	3/3	2/2	3/3	3/3
P Butler – R: 31/07/2020	2/2				
A Farmer	7/7				
D Hinton	7/7				3/3

R – Resigned

SUMMARY OF OUR ACTIVITIES IN 2020/21

SERVICE DELIVERY AND OPERATIONAL PERFORMANCE

- considered regular updates at board meetings, additional video conferences and email updates of the management of the impact of the Covid-19 pandemic to ensure a continuous service to critical facilities and all our customers whilst maintaining the safety of our workforce and the public
- regularly reviewed performance against our operational commitments and outcome delivery incentives and the initiatives taken to ensure we meet our targeted performance
- considered the annual review of our water quality performance for AMP6 and for the current year. Considered the actions taken to deal with the impact of Covid-19 on water quality activities. Considered the actions taken in respect of notices issued by the DWI and progress in the delivery of related action plans. Considered the key recommendations of the DWI and lessons learnt highlighted in their annual report and how to address them
- considered the annual report on the delivery of our capital programme and capital expenditure in 2019/20, on our capital programme for 2020/21 as well as updates on the progress of the main schemes taking account of the impact of Covid-19

- reviewed the retendering of our contract for engineering and consultancy services and the alignment of the contract requirements with our operational needs and performance targets. Considered the management of mobilisation and transition risks following the award of the contract to Atkins, our new engineering and asset management delivery partner
- considered the organisational changes implemented in Operations. Considered regular reviews of operational performance in the context of Covid-19 and the operational response to high water demand related to the pandemic and the preparation for summer peak demand
- considered the lessons learnt from the supply interruptions during the heatwave that affected the south of England in August 2020. Considered the need for local resilience issues to be dealt with as part of the WRMP process and we would promote this approach
- reviewed our retail performance including an overview of the organisational and process changes implemented, the impact of Covid-19, C-MeX and other ODIs performance, and future initiatives

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 2019/20 including the viability statement prepared in line with specific requirements set out by Ofwat. Reviewed and approved the half-year financial reporting for 2020/21
- reviewed and approved our annual performance report and other regulatory reporting for 2019/20
- considered the report from the audit and risk committee on the audit plan, the independence of the auditors, the audit fees and on new reporting requirements for the 2020/21 annual report. Approved the audit and non-audit fees. Considered the update from the audit and risk committee on the tender process for audit services
- approved our revised dividend policy taking into account the expectations formulated by Ofwat at PR19. Considered and approved dividends for the 2020/21 financial year
- approved the repayment to the company of the loan to its immediate holding company to simplify the company's financial structure and approved the related special restructuring dividend
- considered the budget assumptions and approved the financial budget for 2021/22 and the update to the corporate plan
- considered a STID proposal under the company's finance documents to improve liquidity and financial resilience in the context of Covid-19 including the ability to draw down additional debt under certain trigger event conditions
- considered an update on non-regulated business activities

ESG, RISK MANAGEMENT AND STAKEHOLDER ENGAGEMENT

- reviewed the composition of the board and its committees. Approved the renewal of the appointment of Chris Girling, Nick Salmon and Célia Pronto
- carried out the annual evaluation of the board's effectiveness through an anonymous online questionnaire, discussed the points arising and agreed follow up actions
- met with Zoe McLeod, Chair of the Customer Challenge Group (CCG), to discuss the work of the CCG during 2020 to 2025 including the key activities agreed with the CCG and how it would be holding the company to account for its commitments in the business plan. Considered areas for potential development and improvements in customer and stakeholder engagement highlighted by the CCG
- considered the annual update on human resources and the workforce engagement and changes to working practices implemented to deal with Covid-19. Considered the presentation of the People Plan setting our strategy on workforce related matters for 2020 to 2025
- considered the annual health, safety and wellbeing performance review and considered the effectiveness of our Thrive 365! strategy and related initiatives. Reviewed the initiatives implemented in 2019/20, the programme of actions for 2020/21 including continued implementation of our mental health strategy
- adopted our modern slavery statement and reviewed the related procedures implemented to ensure compliance with legislation on modern slavery
- considered developments in corporate governance and the related requirements of Ofwat's board leadership transparency and governance principles as well as those of the 2018 UK Corporate Governance Code. Adopted a new corporate governance framework, our company purpose and new articles of association embedding our company purpose and revising directors' duties to include fulfilling the company's purpose

BOARD LEADERSHIP AND COMPANY PURPOSE continued

ESG, RISK MANAGEMENT AND STAKEHOLDER ENGAGEMENT continued

- reviewed and approved our pay gap reporting and the actions to take to address gender pay gap including related initiatives in our People Plan
- reviewed the water industry and the company's preparation for a no-deal Brexit and the coordination with Defra. Reviewed the implementation of the industry's and company's risk management plans relating in particular to the supply of chemicals, additional stocks of chemicals and equipment, and the coordination with suppliers and emergency services
- considered the annual review of our information technology systems and infrastructure and of our information technology strategy. Reviewed cyber security processes and compliance with the Network and Information Systems Regulations (NIS). Considered the changes to related risks arising from Covid-19 and the increased reliance on IT Systems for remote working
- reviewed our insurance programme and the renewal of the policies and benchmarking. Approved the subscription of a cyber liability policy
- carried out the annual review of risks and of the effectiveness of our risk management process
- considered plans for controlled return to the office and the future implementation of flexible working
- considered the board engagement programme with the workforce, the CCG and stakeholders

STRATEGY AND REGULATION

- considered the key issues raised in the referrals of Ofwat's determinations to the CMA and the company's own submissions to the CMA in relation to these referrals
- 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 2021/22 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 2020/21 and assurance plan
- considered and approved the consent of the company to the modification of condition B of its licence in relation to the RFI blind year adjustment
- considered the report from Frontier Economics on the impact of Covid-19 on water companies and on final determinations
- considered proposals to improve the company's support for markets and in particular the non-household retail market
- considered the process for and progress of the preparation of the Water Resources Management Plan and dry weather plan. Considered specific issues relating to regional plan and the work of the WRSE including the inclusion of local resilience schemes. Approved the draft dry weather plan for submission to Defra and publication

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. Nick Salmon, 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 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.

DIVISION OF RESPONSIBILITIES AND BOARD COMPOSITION *continued*

Since 1 August 2020 following the retirement of Paul Butler, the number of executive directors has been reduced to two with David Hinton, CEO and Andrew Farmer, CFO sitting on the board. Senior managers regularly attend board meetings to present agenda items as well as management and operational information, they also ensure 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 has been directly involved in the preparation of our business plan and is well prepared to closely monitor the delivery of performance commitments and wider objectives in this 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 provide oversight and challenge on key regulatory matters or the review of the company's response to significant operational events.

Our directors' biographies can be found on page 114.

BOARD BALANCE AND COMPOSITION ON 31 MARCH 2021

Independent Non-Executive Directors	Appointment	Resignation	Term*	Audit & Risk	Remuneration	Nomination	Responsible Business
Nick Salmon (Chair)	01/04/15	na	6 yrs		☐	Chair	
John Barnes	28/01/16	na	5 yrs 2 m	☐	Chair	☐	☐
Chris Girling	30/10/14	na	6 yrs 5 m	Chair			
Célia Pronto	01/06/18	na	2 yr 10 m	☐	☐	☐	

Non-Executive Directors (shareholder nominated)	Appointment	Resignation	Term*	Audit & Risk	Remuneration	Nomination	Responsible Business
Rachel Drew (Morrison & Co)	06/12/19	na	1 yr 4 m	☐	☐	☐	☐
Marissa Szczepaniak** (Vantage Infrastructure)	08/12/16	na	4 yrs 3 m	☐	☐	☐	Chair

Executive Directors	Appointment	Resignation	Term*	Audit & Risk	Remuneration	Nomination	Responsible Business
Andrew Farmer (CFO)	01/08/15	na	5 yrs 8 m				
David Hinton (CEO)	01/06/13	na	7 yrs 10 m				☐

Resigning Directors	Appointment	Resignation	Term*	Audit & Risk	Remuneration	Nomination	Responsible Business
Paul Butler	02/10/06	31/7/20	13 yrs 10 m				

* As at 31 March 2021.

** 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 will monitor performance against the responsible business commitments in our business plan.

The responsible business committee will ensure 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 to Marissa Szczepaniak as chair of the committee on 31 May 2021. 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. The appointment of representatives of shareholders (Vantage Infrastructure and HRL Morrison & Co), 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 at



southeastwater.co.uk/ourgovernance

Read more online. You will find our business plan and the responsible business appendix on our website at



southeastwater.co.uk/businessplan2020

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 and stakeholders 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

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.

REPORT FROM THE NOMINATION COMMITTEE

COMMITTEE MEMBERS

Nick Salmon (Chair) Independent Non-Executive Director
John Barnes Independent Non-Executive Director
Célia Pronto Independent Non-Executive Director

Rachel Drew Non-Executive Director
Marissa Szczepaniak Non-Executive Director*
Anne-Noëlle Le Gal Non-Executive Director*

*Anne-Noëlle Le Gal replaced Marissa Szczepaniak on 18 June 2021

Following a formal interview process conducted by a panel comprising the Chair of the nomination committee and the shareholder representatives last year, David Hinton was unanimously appointed CEO and succeeded Paul Butler from 1 August 2020.

Last year also saw the renewal of the executive team with the appointment of a new Customer Service Director, Operations Director and Regulation and Strategy Director through internal succession planning.

Over the last 12 months:

- We recommended the renewal of the appointment of Chris Girling as an independent non-executive director and Chair of the audit and risk committee which was approved by the board for a period of three years until 29 October 2023.
- We 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 remuneration committee which was approved by the board for a period of three years until 31 May 2024.
- The committee recommended the renewal of my appointment 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. I did not take part in any deliberations concerning my own appointment.
- 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.
- The appointment of Anne-Noëlle Le Gal, from Vantage Infrastructure, to replace Marissa Szczepaniak, as shareholder nominated non-executive director was recommended by the nomination committee and 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 and from 31 May 2021. Rachel Drew succeeded Marissa Szczepaniak as Chair of the 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 at corporate.southeastwater.co.uk/news-info/publications/gender-pay-gap-report
- 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.

Looking ahead, the committee and the board as a whole considered the progressive replacement of independent non-executive directors in a way that will 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.

In this context the decision was made that I would remain Chair for another year during which the search for a new Chair will take place. This will ensure that after a handover period my successor will have time to settle in before the next price determination process takes place. We will follow a similar approach for the succession of the other independent non-executive directors over the next few years.

NICK SALMON
 CHAIR
 15 JULY 2021

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 of this corporate governance statement.

At the 2020 board evaluation the board discussed diversity and acknowledged that the gender balance on the board had improved. However, there was more to do to in considering diversity of the whole organisation and whether the company reflected the ethnic diversity of the communities it served. The board also wished to have more visibility and direct engagement with different levels of the business and a board engagement programme was developed allowing more interaction by the board and individual 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. The People Plan that had been presented to the board included a work stream on succession planning and a plan for the succession of the executive team and the senior management team would be presented to the directors.

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 discussed the planned succession of the two shareholder representatives and the renewal of the Chair over a relatively short time period. The proposed appointment of Anne-Noëlle Le Gal would provide an element of continuity but it was agreed that particular care would need to be taken over the next year to ensure new appointees on the board receive appropriate induction and continuing support and information to allow them to acquire the knowledge and understanding of the business that is required to contribute effectively to the deliberations of the board.

The 2021 board evaluation concluded that the board and its committees were operating effectively.

COMMITMENT

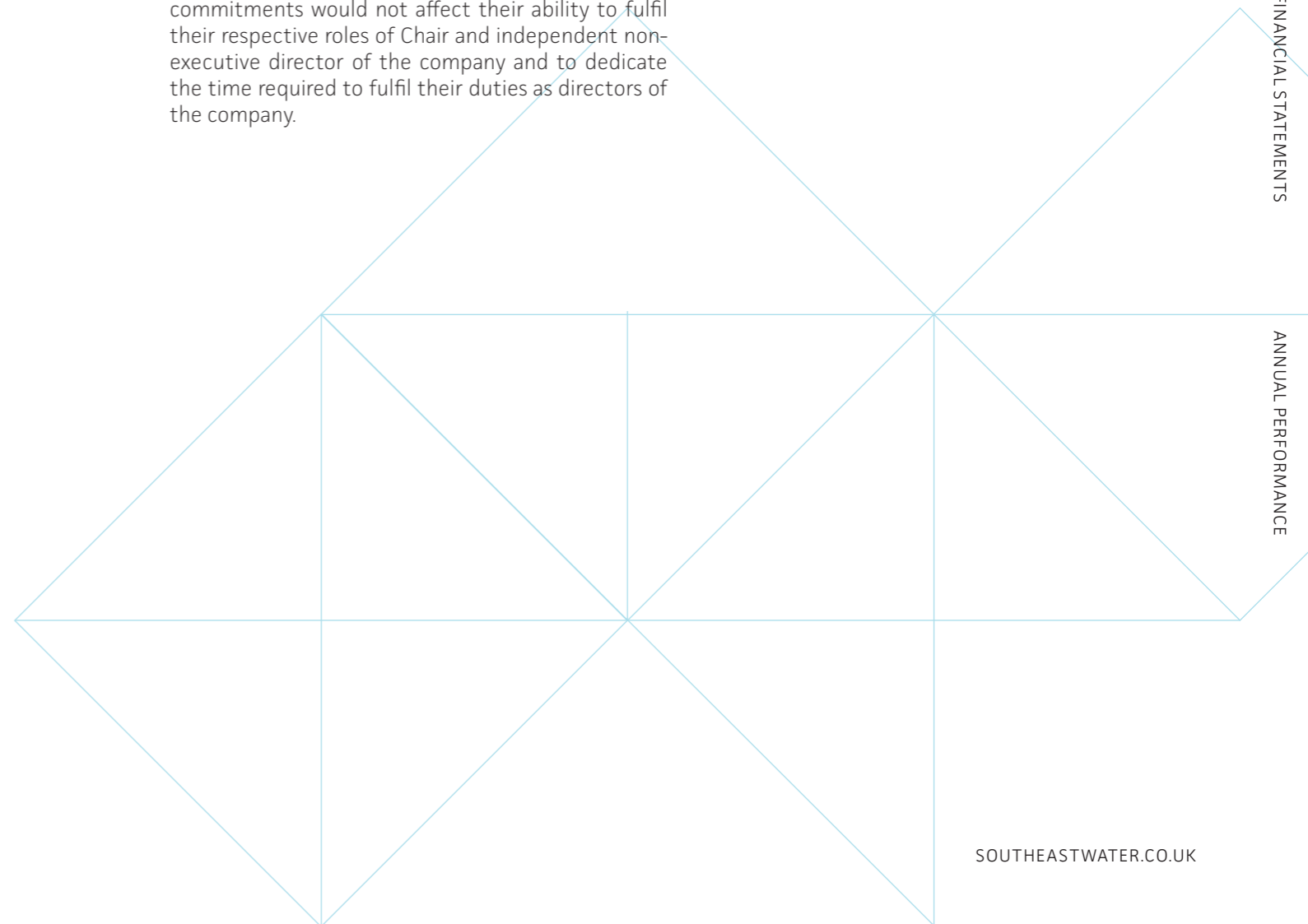
The expected commitment including outside scheduled board meetings when required is reviewed as part of the appointment process of the non-executive directors. The terms of appointment of non-executive directors do not include a set expected time commitment but instead include an undertaking that the 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 114.

At the beginning of 2021 Nick Salmon became Chair of the board of Scotia Gas Network Limited and Célia Pronto became a non-executive director of Samworth Brothers. The board was satisfied that these new commitments would not affect their ability to fulfil their respective roles of Chair and independent non-executive director of the company and to dedicate the time required to fulfil their duties as directors of the company.

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

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.

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 the board statement on accuracy and completeness of data and information 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.

Our company monitoring framework is available

 southeastwater.co.uk/cmfr

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 risk 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.

REPORT FROM THE AUDIT AND RISK COMMITTEE

COMMITTEE MEMBERS

Chris Girling (Chair) Independent Non-Executive Director
John Barnes Independent Non-Executive Director
Célia Pronto Independent Non-Executive Director

Rachel Drew Non-Executive Director
Marissa Szczepaniak Non-Executive Director*
Anne-Noëlle Le Gal Non-Executive Director*

*Anne-Noëlle Le Gal replaced Marissa Szczepaniak on 18 June 2021.

I am pleased to report on the work of the audit and risk committee since 1 April 2020 and in relation to this annual report for 2020/21.

- We reviewed the half-year group financial reporting and this annual report for 2020/21 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 long-term viability statement. We had regard in particular to the impact of both the Covid-19 outbreak and the PR19 final determination on the prospect of the business to 2025 and beyond and throughout the whole lookout period. Our assessment considered how our downside sensitivities would change if our trading activities and cash collections were impaired in the current and future financial years. We have recommended that the board maintain a lookout period of 10 years for its long-term 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 long-term viability statement are set out in the strategic report.
 - We have paid particular attention to ensure 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 of the auditors including their review including internal controls and management override.
 - We considered the impact of Covid-19 on our key judgements and estimates in the financial statements, in particular the impact on our debtor book and expected credit loss adjustment.
- We considered the potential impact of exceptional items arising from damage to assets and commercial and legal claims.

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 2020/21 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.

TRANSPARENCY, AUDIT, RISK AND INTERNAL CONTROL continued

REPORT FROM THE AUDIT AND RISK COMMITTEE continued

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. Our cash collection history over the past three years has been used to determine future collection rates. This marks a change from the prior year where cash collection history over the past four years has been used. This change in approach is as a result of Covid-19 and places a greater weight on cash collection history over the last year when Covid-19 has been a factor.

- **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 appropriate accounting standards. The committee ensures that the costs capitalised as fixed assets are directly attributable to capital projects.

- **Change in pension increases index (Mid Kent Pension Scheme)**

We ensured that the implementation and the accounting treatment of the change of reference index from RPI to CPI were appropriate.

- **Management override and controls**

The committee keeps the judgements and sources of estimation uncertainty under review and challenges as appropriate, typically as part of the review of the half-year accounts and the year-end audit. The board also exercises scrutiny throughout the year when reviewing 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.

EXTERNAL AUDITORS

- **Audit fee**

We reviewed the audit fee proposal from the auditors for the 2020/21 audit and the justifications presented for the increase applied for the 2019/20 audit for recommendation to our board for approval.

- **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 Deloitte to ensure consistency. The committee concluded that Deloitte remained objective and independent in their role as external auditor.

Deloitte LLP have been auditors for 11 years, an extension of their tenure being authorised by the FRC in May 2020 allowing them to carry out the audit for 2020/21. Helen Burridge has been the Lead Audit Partner for two years.

We applied our policy on non-audit services that requires approval of non-audit work by the Chair of the audit committee or the full committee for any work in excess of £50,000.

AUDIT TENDER

- An extension of the appointment of Deloitte LLP for the financial period ending 31 March 2021 was requested due to the impact of the Covid-19 pandemic and granted by the Financial Reporting Council in May 2020 and the tendering process was extended accordingly.

- We oversaw the tender process for audit services taking account of the developments of rules relating to the provision of audit services, and the appointment is planned to be made in the middle of the financial year ending 31 March 2022.

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 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 been on the management of the risks related to Covid-19 which took priority over the review of other areas of risk management and internal control in 2020/21.

CHRIS GIRLING

CHAIR
15 JULY 2021

REMUNERATION

REPORT FROM THE REMUNERATION COMMITTEE

COMMITTEE MEMBERS

John Barnes (Chair) Independent Non-Executive Director

Nick Salmon Independent Non-Executive Director

Célia Pronto Independent Non-Executive Director

Rachel Drew Non-Executive Director

Marissa Szczepaniak Non-Executive Director*

Anne-Noëlle Le Gal Non-Executive Director*

*Anne-Noëlle Le Gal replaced Marissa Szczepaniak on 18 June 2021.

I am pleased to present the directors' remuneration report for the year ended 31 March 2021.

Our aim is to ensure that executive pay is aligned with our 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.

Our remuneration reporting has been expanded to improve transparency and clarity 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 2020/21:

BASE SALARY AND FEES

- We decided that the salaries of the executive directors and the other members of the executive team would be increased from 1 April 2021 by 0.6 per cent in line with the company pay award negotiated with the Staff Council.
- The fees received by independent non-executive directors were also increased in line with the company pay award.

VARIABLE PAY IN THE FINAL YEAR OF AMP6

2019/20 was the final year of AMP6 and the committee determined the awards under the executive bonus scheme with a partial deferral until January 2021, under the Commercial Director bonus scheme, and the final pro-rata award for the last year of the AMP to the three eligible participants in the Long-Term Incentive Plan (LTIP) covering the five year period from April 2015 to March 2020. These awards were disclosed in the directors' remuneration report for 2019/20.

ANNUAL INCENTIVE PLAN 2020 TO 2025

New annual incentive plan (AIP) for 2020 to 2025

- We defined the AIP as a single annual bonus scheme with deferral of a third of the annual pay-out for two years which replaces the previous annual executive bonus scheme and the previous long term incentive plan, simplifying the incentives for AMP7 and improving the alignment with the business performance objectives.
- We decided that the performance measures and targets (including the performance levels for threshold, target and stretch) under the AIP would be set annually to maintain an appropriate level of stretch and would be defined on the basis of the corporate plan approved following the final determination to ensure a focus on operational performance and delivery for customers.
- We decided that customer outcomes (including operational outcomes delivery incentives, customer satisfaction, environmental and ESG outcomes) would represent 60 per cent of the total award, the rest being allocated between financial performance (30 per cent) and personal objectives (10 per cent).

- We agreed that the AIP rules would include a mechanism for malus and claw back to reflect possible changes in performance and ensure that the committee would retain discretion to adjust or cancel awards where appropriate.
- We engaged external legal advisers, White & Case, to draft the rules of the AIP which we adopted in July 2020.

Operation of the AIP in 2020/21

- We considered proposals on performance measures and targets (including threshold and stretch levels) and approved the final measures and targets for the 2020/21 AIP on 2 July 2020.
- At the beginning of the financial year, we considered the potential impact of Covid-19 on performance and operation of the AIP and decided to maintain the targets initially set to maintain the focus of management on achieving the original performance objectives and that we would consider the impact of Covid-19 when assessing the potential awards at the year end.
- We reviewed the full year performance of the company in 2020/21 and that of individual executive directors, and approved the awards under the 2020/21 AIP deciding to exercise discretion to take account of the impact of additional costs due to Covid-19 on financial performance. Details on the operation of the AIP and the award for 2020/21 are provided in this directors' remuneration report.

Operation of the AIP in 2021/22

- We decided to maintain the same performance measures as in 2020/21 and updated the targets in line with our corporate plan targets for 2021/22. The details of the targets for 2021/22 are provided below in this directors' remuneration report.



We are keen to ensure that we link executive pay to successful business performance

GOVERNANCE

- We reviewed our approach to remuneration reporting and decided to update this directors' remuneration report having regard to the requirements applying to quoted companies and to the principles of the UK Corporate Governance Code incorporated into the company's corporate governance code.
- We reviewed the remit of the committee and how we would review the workforce remuneration and engage with the workforce. We decided that the Staff Council would be the most appropriate forum for any such engagement and that this could be taken forward by Célia Pronto as part of the planned engagement with the Staff Council as both the INED nominated for engagement with workforce and member of the committee.
- We reviewed the pay award negotiated with the Staff Council for the workforce which included a one-off bonus of £250 for all employees (excluding senior management) to recognise their commitment to public service during the pandemic and we reviewed the senior managers' bonus scheme for 2020/21 including in particular its alignment with ODIs and strategic objectives and its consistency with the executive team bonus scheme.
- 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.

JOHN BARNES

CHAIR

15 JULY 2021

REMUNERATION continued

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

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 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.

<p>Clarity</p> <p>Remuneration arrangements should be transparent and promote effective engagement with shareholders and the workforce.</p> <ul style="list-style-type: none"> • 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. 	<p>Simplicity</p> <p>Remuneration structures should avoid complexity and their rationale and operation should be easy to understand.</p> <ul style="list-style-type: none"> • 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.
<p>Risk</p> <p>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.</p> <ul style="list-style-type: none"> • 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. 	<p>Predictability</p> <p>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.</p> <ul style="list-style-type: none"> • 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 participants. (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.
<p>Proportionality</p> <p>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.</p> <ul style="list-style-type: none"> • 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 recovery provisions in the AIP rules. 	<p>Alignment to culture</p> <p>Incentive schemes should drive behaviours consistent with company purpose, values and strategy.</p> <ul style="list-style-type: none"> • 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 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 continued

REMUNERATION POLICY

EXECUTIVE DIRECTORS' REMUNERATION POLICY

The following remuneration policy is the policy adopted by the committee for the duration of AMP7 (2020/21 to 2024/25) in relation to all components of remuneration including the annual incentive plan (AIP).

The rules of the AIP were finally approved by the remuneration committee on 2 July 2020 and are intended to apply until 2025.

The policy for 2021 to 2025 set out below formalises the remuneration principles previously adopted by the remuneration committee when determining the remuneration of directors for 2020/21. For this reason information on the implementation of the remuneration principles for 2020/21 have also been described in the table below.

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 with effect from 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 2020/21

Executive directors' salaries were increased by 2% on 1 April 2020:

CEO: £270,000
(from 1 August 2020 post annual increase)

CFO: £201,069

Paul Butler (to 31 July 2020):
£88,130

Implementation 2021/22

CEO: £271,620
(increased by 0.6% on 1 April 2021)

CFO: £222,503
(from 1 April 2021 in connection with the alignment of pension benefits with the workforce)

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 2020/21

CEO from 1 August 2020:
Company car, life assurance, private medical insurance and health cash plan.

CFO: Car allowance, life assurance, private medical insurance and health cash plan.

Paul Butler (to 31 July 2020):
Company car, life assurance, private medical insurance and health cash plan.

Implementation 2021/22

The CEO and CFO benefits for 2021/22 are the same as in 2020/21.

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.

A review of the legacy pension arrangement for the CFO was carried out with a view to align the CFO pension benefits with the level of pension contribution available to the workforce.

Implementation 2020/21

CEO: 10% of salary as pension cash allowance and/or employer pension contribution.

CFO: 20% of salary as pension cash allowance and/or employer pension contribution.

Paul Butler (to 31 July 2020):
20% pension allowance

Implementation 2021/22

CEO: 10% of salary as pension cash allowance and/or employer pension contribution

CFO: 10% of salary as pension cash allowance and/or employer pension contribution.

REMUNERATION 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 to avoid 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%), responsible business (20%), financial (30%) and personal objectives (10%) which are predominantly based on performance commitments in the corporate plan and in particular delivery 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% of any award determined by the remuneration committee is paid in cash in the month of July following the end of the financial year, the remaining 34% 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 154.

ANNUAL INCENTIVE PLAN continued

Maximum opportunity

CEO: Target performance: 75% of salary
Maximum (outperformance): 100% of salary
CFO: Target performance: 60% of salary
Maximum (outperformance): 85% of salary

Implementation 2020/21

Further details on the operation of the AIP, performance measures and awards are set out on page 158.

Implementation 2021/22

The targets for 2021/22 are set out on page 166.

NOTES TO THE REMUNERATION POLICY TABLE

Note on retirement and appointment

Paul Butler retired and stepped down as Managing Director on 31 July 2020. David Hinton was an executive director and CEO Designate on 1 April 2020 and became CEO on 1 August 2020.

Note on base salary

The base salary of David Hinton for 2020/21 shown above is his salary as CEO from 1 August 2020. The salary he received over the 2020/21 financial year was £251,107 reflecting his salary of £213,320 as Asset Director/CEO Designate from 1 April 2020 to 31 July 2020 and his salary of £270,000 as CEO from 1 August 2020.

Note on taxable benefits

Up to 31 July 2020 David Hinton received the following benefits as Asset Director/CEO Designate: company car, fuel allowance, concessionary water, life assurance, private medical insurance, health cash plan. His benefits from 1 August 2020 are set out in the table above.

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.

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 is being 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, necessary adjustments being implemented in the course of 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.

REMUNERATION continued

NOTES TO THE REMUNERATION POLICY TABLE continued

Note on annual incentive plan and other incentives

The AIP is available only to the CEO and CFO and to the other three members of the Executive Team. Paul Butler who retired on 31 July 2020 was not a participant to the AIP in 2020/21. David Hinton is a participant to the AIP for the whole financial year 2020/21; from 1 April 2020 CEO Designate and as CEO upon the effective retirement of Paul Butler on 1 August 2020.

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.

INDEPENDENT NON-EXECUTIVE DIRECTORS' REMUNERATION POLICY

FEE

Purpose and link to strategy	Operation and performance measures	
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.	<p>The policy of the company is that non-executive directors' fees should be comparable to those of companies of similar size, activities and complexity.</p> <p>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 a committee or other specific responsibilities. Fees are paid in cash monthly.</p> <p>Fees are reviewed at the discretion of the company and increases take effect on 1 April.</p> <p>This is a fixed remuneration which is not determined by reference to performance measures.</p> <p>There are no provisions to withhold or recover any sums paid.</p>	
Maximum opportunity	Implementation 2020/21	Implementation 2021/22
There is no set maximum fee but increases are typically the same as the company wide pay award negotiated with the Staff Council.	The fees paid to independent non-executive directors in 2020/21 are set out on page 157.	The fees to independent non-executive directors were increased in line with the company pay award.

Anne-Noëlle Le Ga and Rachel Drew 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 until her resignation.

INDEPENDENT NON-EXECUTIVE DIRECTORS' REMUNERATION POLICY continued

OTHER ITEMS

Purpose and link to strategy	Operation and performance measures	
To facilitate the performance of non-executive directors' duties to the Company.	<p>Reasonable travel and other expenses incurred by directors when performing their duties are reimbursed.</p> <p>Non-executive directors do not receive any other remuneration or benefits.</p> <p>This component is not determined by reference to performance measures and there are no provisions to withhold or recover any sums paid.</p>	
Maximum opportunity	Implementation 2020/21	Implementation 2021/22
None.	Expenses have been reimbursed in line with the policy.	Expenses will be reimbursed in line with the policy.

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 is 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.

Base salary

The base salary would reflect any market data or market assessment that may be carried out by the remuneration committee to inform its decision. It would 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.

Benefits

The benefits package would be in line with those provided to other executive directors under the remuneration policy.

REMUNERATION continued**POLICY ON RECRUITMENT REMUNERATION** continued**Executive directors** continued*Pension*

The pension contribution rates for executive directors, or payments in lieu, would be aligned with those available to the workforce (currently 10 per cent of base salary).

AIP

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 would be pro-rated to the actual period of employment in that year.

Relocation

The remuneration committee may agree a cash payment for reasonable relocation and temporary accommodation costs as well as travel and incidental expenses incurred.

Forfeited variable pay

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 would not be more generous in terms of quantum or vesting period than the forfeited awards and would be subject to clawback in the event of an early termination of appointment for any reason.

Sign-on bonus

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.

DIRECTORS' SERVICE AGREEMENTS AND LETTERS OF APPOINTMENT

The CEO and CFO had service contracts that were not fixed term contracts with the following notice periods:

	CEO	CFO
Effective date of contract	1 August 2020**	29 June 2015
Notice period by director	12 months	6 months
Notice period by company*	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:

	Nick Salmon	Chris Girling	John Barnes	Célia Pronto
Effective date of contract*	1 April 2021	30 October 2020	28 January 2016	1 June 2021
Expiry date	31 March 2022	29 October 2023	27 January 2022	31 May 2024
Notice period by director	3 months	3 months	3 months	3 months
Notice period by company**	1 month	1 month	3 months	3 months

*Full terms since appointment are shown in the corporate governance report

**Other than for breach of the terms of appointment

Anne-Noëlle Le Gal and Rachel Drew 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 until her resignation.

REMUNERATION continued

PAYMENT FOR LOSS OF OFFICE

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 the AIP is at the discretion of the remuneration committee and 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 IAP 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 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 requirement of our 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 in 2021/22 facilitated by Célia Pronto who is a member of the committee and the independent non-executive director designated for engagement with the workforce. As part of that engagement process she will attend a meeting of the Staff Council at least once a year to cover topics that will include the committee's approach to remuneration including how it aligns with the company's objectives, governance principles and how it reflects wider company pay policy. It was also agreed that the committee would receive updates on the implementation of relevant aspects of the people plan to 2025.

CONSIDERATION OF SHAREHOLDER VIEW

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.

REMUNERATION continued

EXECUTIVE REMUNERATION FOR 2020/21

SINGLE REMUNERATION FIGURE (AUDITED)

Single remuneration figure for executive directors

	David Hinton		Andrew Farmer		Paul Butler	
	2019/20	2020/21	2019/20	2020/21	2019/20	2020/21
Base salary	£153,321	£251,107	£197,127	£201,069	£259,207	£88,130
Taxable benefits	£20,971	£15,649	£13,156	£13,504	£15,892	£4,610
Annual bonus	£91,762	£120,181	£117,981	£71,599	£217,190	-
Long term incentives	£58,193	-	£74,819	-	£99,759	-
Pension	£20,664	£50,256	£39,425	£40,214	£51,841	£17,626
Company car trade	£2,052	£2,052	-	-	£2,753	£917.52
Total	£346,963	£439,245	£442,508	£326,386	£646,642	£111,284
Total fixed remuneration	£197,008	£319,064	£249,708	£254,787	£329,693	£111,284
Total variable remuneration	£149,955	£120,181	£192,800	£71,599	£316,949	-

Note on base salary

The base salary of David Hinton for 2020/21 shown above is 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

The AIP for David Hinton is 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 IAP award

A sum of £40,862, in respect of the award of David Hinton, and of £24,344 in respect of the award of Andrew Farmer corresponding to 34 per cent of the total AIP award for 2020/21 will be deferred. Both deferred sums will be paid in cash in July 2023 (provided relevant conditions under the rules of the IAP are met at the time). The amount corresponding to 66 per cent of the award paid in July 2021 to David Hinton will be £79,320 and to Andrew Farmer will be £47,256.

Note on retirement of Paul Butler

Paul Butler took his retirement and stepped down as Managing Director on 31 July 2020. The remuneration committee determined that he was a "good leaver" for the purposes of the annual bonus scheme and the LTIP in respect of the period up to 31 March 2020. Paul Butler was not a participant to the AIP in 2020/21.

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 is being 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 in the course of the financial year but is being progressively adjusted throughout 2021/22. 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, necessary adjustments being implemented in the course of 2021/22.

Single remuneration figure for non-executive directors

	Nick Salmon		Chris Girling		John Barnes	
	2019/20	2020/21	2019/20	2020/21	2019/20	2020/21
Fee	£105,266	£107,371	£42,106	£42,948	£40,858	£39,553
Taxable benefits	-	-	£2,339	-	£4,346	£3,441
Annual bonus	-	-	-	-	-	-
Long term incentives	-	-	-	-	-	-
Pension	-	-	-	-	-	-
Total	£105,266	£107,371	£44,445	£42,948	£45,204	£42,994
Total fixed remuneration	£105,266	£107,371	£44,445	£42,948	£45,204	£42,994
Total variable remuneration	-	-	-	-	-	-

	Célia Pronto		Marissa Szczepaniak		Rachel Drew	
	2019/20	2020/21	2019/20	2020/21	2019/20	2020/21
Fee	£34,738	£35,433	-	-	-	-
Taxable benefits	£409	-	-	-	-	-
Annual bonus	-	-	-	-	-	-
Long term incentives	-	-	-	-	-	-
Pension	-	-	-	-	-	-
Total	£35,147	£35,433	-	-	-	-
Total fixed remuneration	£35,147	£35,433	-	-	-	-
Total variable remuneration	-	-	-	-	-	-

Anne-Noëlle Le Gal and Rachel Drew 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 until her resignation.

REMUNERATION continued

ANNUAL INCENTIVE PLAN OUTCOME FOR 2020/21

The commitment of our entire workforce to our public purpose has never been so important than during the Covid-19 pandemic and 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.

The remuneration committee discussed the approach to adopt in respect of the impact of Covid-19 early in 2020/21 and determined that the most appropriate approach for the business as a whole would be not to suspend the scheme in 2020/21 but instead to apply the approved scheme rules (including the approved performance targets for 2020/21) subject to the exercise by the committee of appropriate discretion reflecting the operating environment. This would 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 recognised that it would be most appropriate to exercise discretion *a posteriori* when assessing potential awards under the scheme to take account of the impact of Covid-19 on the actual performance achieved as well as potential changes to performance commitments that may be agreed with Ofwat and any other relevant considerations.

Among many challenges during the year, the company faced unprecedented water demand in the summer of 2020 due to the combination of a significant increase in underlying demand for water as more customers were staying at home and exceptional peak demand due to high temperatures.

The committee concluded that while the ODI performance had been affected by the effects of Covid-19, performance was such that the outcome would have been below threshold notwithstanding such effects, principally due to interruptions and burst mains performance. Hence no discretion was exercised in respect of the ODI element of the scheme which therefore paid out zero.

The remuneration committee did recognise that additional and unforeseen Covid-19 related operational costs had been incurred to meet the exceptional demand and due to increased costs of working with Covid-19 restrictions and safety measures and the increase in bad debt. Accordingly the committee exercised discretion to allow for these impacts in respect of the financial metrics within the AIP.

The performance score for the responsible business and for personal objectives were close to the maximum as objectives were achieved despite challenging conditions. This reflected the commitment of the company to the health, safety and wellbeing of our workforce that was crucial in the context of the pandemic also demonstrated by engagement results and positive feedback from the HSE. There was good progress in the delivery of environmental outcomes despite the challenges posed by Covid-19. ESG performance was good, the company being awarded the highest score in its category under the GRESB benchmark.

ACTUAL CASH AWARDS FOR 2020/21 UNDER THE AIP

	Total Award	Total Award (% of salary)	Amount Paid in July 2021	Amount Payable in July 2023
CEO	£120,181	44.5%	£79,320	£40,862
CFO	£71,599	35.6%	£47,256	£24,344

A proportional award is made for performance between threshold and target and between target and outperformance.

OPERATION OF THE AIP IN 2020/21

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. Performance against operational targets is assessed based on annual reporting data following completion of the internal and external assurance processes. Details on how the board and the members of the remuneration committee ensure that the performance information they use is reliable are set out in the board statement on accuracy and completeness of data and information.

The assessment of financial performance is based on the audited financial statements and supporting information and reconciliation provided by the CFO. The assessment of the performance of the CFO against personal objectives is carried out by the committee following presentation of the assessment by the CEO. The assessment of the performance of the CEO against personal objectives is carried out by the committee following presentation of the assessment by the Chair of the board.

The potential awards are set as a percentage of salary at the beginning of the year for a given performance. For 2020/21 the potential awards for an overall performance at target level and the maximum potential award (at or above outperformance level) were set as follows:

Potential Score	Potential Award (% of salary)		Potential Award	
	CEO	CFO	CEO	CFO
@ Target: 100	75%	60%	£202,500	£120,642
@ Maximum: 133.3	100%	85%	£270,000	£170,909

A proportional award is made for performance between threshold and target and between target and outperformance.

REMUNERATION continued

ANNUAL INCENTIVE PLAN OUTCOME FOR 2020/21 continued

AIP MEASURES, TARGETS, SCORING AND ACTUAL PERFORMANCE IN 2020/21

The following table summarise the structure, performance measures, actual performance achieved and the financial outcome of the AIP for 2020/21.

Category	Measure	Threshold	Target	Maximum	Actual Performance*	Actual Score CEO	Award CEO (% of salary)	Actual Score CFO	Award CFO (% of salary)
ODIs (40%)	Net reward / penalty (£m)	-3.6	-2.9	-1.7	£-4.1m	0.0	0%	0.0	0%
	ODI Score	0	40	54.8					
Responsible business (20%)	Points achieved	0	2	4	3.67	26.2	19.6%	26.2	15.7%
	RB Score	0	20	27.4					
Financial (30%)									
	Appointed cash receipts & opex (20%)	Net variance from target values (£m)	-4	0	+4	£-1.3m	13.3	10%	13.3
	Finance Score 1	0	20	27.4					
Non-appointed operating profit (10%)	Profit target (£m)	4.1	4.6	5.1	£4.7m	10.4	7.8%	10.4	6.2%
	Finance Score 2	0	10	13.7					
Personal objectives (10%)	Points achieved	0	10		-	9.5	7.1%	9.5	5.7%
	Personal objectives Score	0	10						
Total		0	100	133.3	-	59.4	44.5%	59.4	35.6%

*The actual performance is after adjustments to take account of the exceptional impact of Covid-19.

- In respect of the ODIs measure, an adjustment of £2.3 million was made reflecting the impact of Covid-19 on operational performance but without any impact on the outcome for that measure as performance remains below threshold after adjustment.
- In respect of the Responsible Business measure, an adjustment was made to exclude two RIDDORs related to Covid-19.
- In respect of appointed cash receipts and opex an adjustment of £6.3 million was made to offset the impact of additional Covid-19 related costs including additional demand related costs (power, chemicals), contractors' claims, costs of internal organisational changes, additional bad debt charge, untaken annual leave, undelivered efficiencies, savings (employee expenses etc), summer event costs.
- In respect of non-appointed profit from operations, an adjustment of £0.2 million was made to offset the impact of Covid-19 on non-appointed activities.

The final C-MeX and D-MeX position is determined by Ofwat after publication of our reporting and the award for 2020/21 is based on an estimated position using available data. Any necessary adjustment will be made in 2021/22 when Ofwat's assessment is known and will be applied to the IAP awards for 2021/22 to achieve an equivalent outcome.

PERFORMANCE MEASURES INCLUDED IN THE ODI CATEGORY

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 void business properties
Leakage reduction on a 3 year average	The delivery of the Water Industry National Environment Programme schemes
Reduction of per capita consumption on 3 year average	The number of sites protected from the risk of flooding
Unplanned outage	The bespoke Abstraction Incentive Mechanism (AIM)
Supply interruptions	The number of properties at risk of low pressure
The number of mains bursts repairs	The delivery of the Wellwood to Potters Corner strategic main
The taste and odour of tap water	

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.

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 had 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.

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. Then the threshold, target and maximum levels of performance for the ODI metrics in the AIP have 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.

REMUNERATION continued

ANNUAL INCENTIVE PLAN OUTCOME FOR 2020/21 continued

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 2020/21 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 2020/21	0.33
3 or less RIDDORS (excluding slips/trips).	0.33	Satisfaction of household customers who are experiencing payment difficulties (Reputational ODI): 4.2 out of 5 for 2020/21	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): 4.1 out of 5 for 2020/21	0.33

ESG	Points	Environmental	Points
GRESB benchmark score >85 for 2020/21	0.5	Target met on protecting wildlife and increasing biodiversity (financial ODI)	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)	0.5

FINANCIAL TARGETS

The appointed cash receipts and opex measures seek to incentivise effective cash collection performance and management of bad debt and efficient operations whilst maintaining delivery of the strategic priorities of the business.

The non-appointed profit from operations 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 completed. Personal objectives seek to incentivise the delivery of projects or activities within the remit of a director that contribute or support the delivery of key company objectives and strategies.

FURTHER DISCLOSURES ON REMUNERATION

PENSION BENEFITS EARNED

Approved contributory final salary pension scheme

One executive director was a deferred member of the defined benefit pension scheme during the year. Their accrued entitlements under the scheme were as follows:

Accrued benefits	David Hinton
At March 2021	
Annual pension	£29,785
Lump sum	£89,211
At March 2020	
Annual pension	£29,625
Lump sum	£88,767
Increase in accrued benefits excluding inflation	
Annual pension	-
Lump sum	-
Increase in accrued benefits after allowing for inflation	
Annual pension	£160
Lump sum	£444

Paul Butler has exercised his right to draw a pension and as such there are no benefits accruing in the pension scheme as at 31 March 2021.

The defined benefit pension was closed to future accrual on 31 March 2015.

APPROVED DEFINED CONTRIBUTION SCHEME

In the year to 31 March 2021 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 2021:

	Contributions in 2019/20	Value of contributions as at 31 March 2020	Contributions in 2020/21	Value of contributions as at 31 March 2021
David Hinton	£9,966	£125,335	-	£125,335
Andrew Farmer	-	£96,897	£14,000	£110,897

CEO PAY RATIOS

The table below sets out a comparison between the CEO's single total figure of remuneration for 2020/21 and an equivalent figure for UK employees at the 25th, 50th and 75th percentile. 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 2020/21.

Total pay and benefits have been calculated as at 31 March 2021 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

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 2020/21. 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.

REMUNERATION continued

CEO PAY RATIOS continued

CEO*Method	
Base salary	£268,130
Total pay and benefit	£419,205
Employees	
Base salary 25th percentile	£22,768
Base salary 50th percentile	£29,650
Base salary 75th percentile	£33,500
Total pay and benefits 25th percentile	£26,662
Total pay and benefits 50th percentile	£31,234
Total pay and benefits 75th percentile	£37,856

*Combined remuneration received by Paul Butler and David Hinton as CEO during 2020/21.

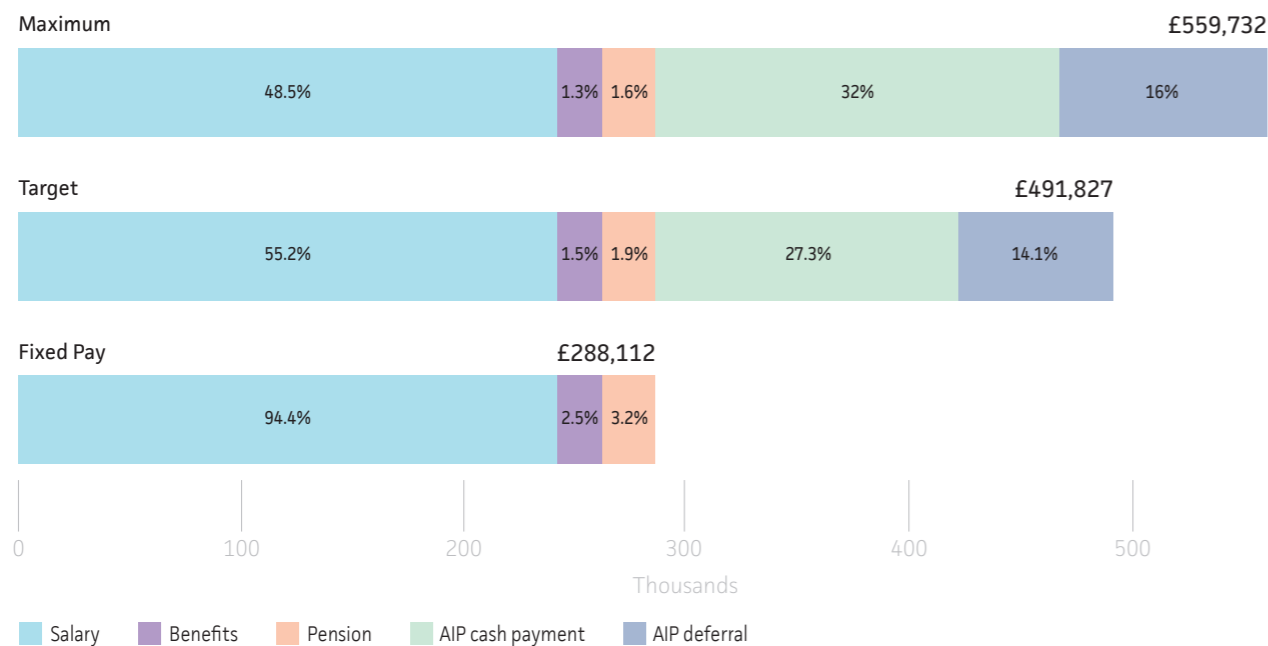
IMPLEMENTATION OF REMUNERATION POLICY IN 2021/22

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 in 2021/22 is set out below.

The structure and operation of the AIP for 2021/22 will be the same as is described above in respect of the AIP for 2020/21. The targets for 2021/22 have been updated by the remuneration committee on 6 May 2021 to ensure they remain stretching and in line with the corporate plan for 2020 to 2025 approved by the board following the final determination. Details on the new targets are set out below.

ILLUSTRATION OF POTENTIAL REMUNERATION IN 2021/22

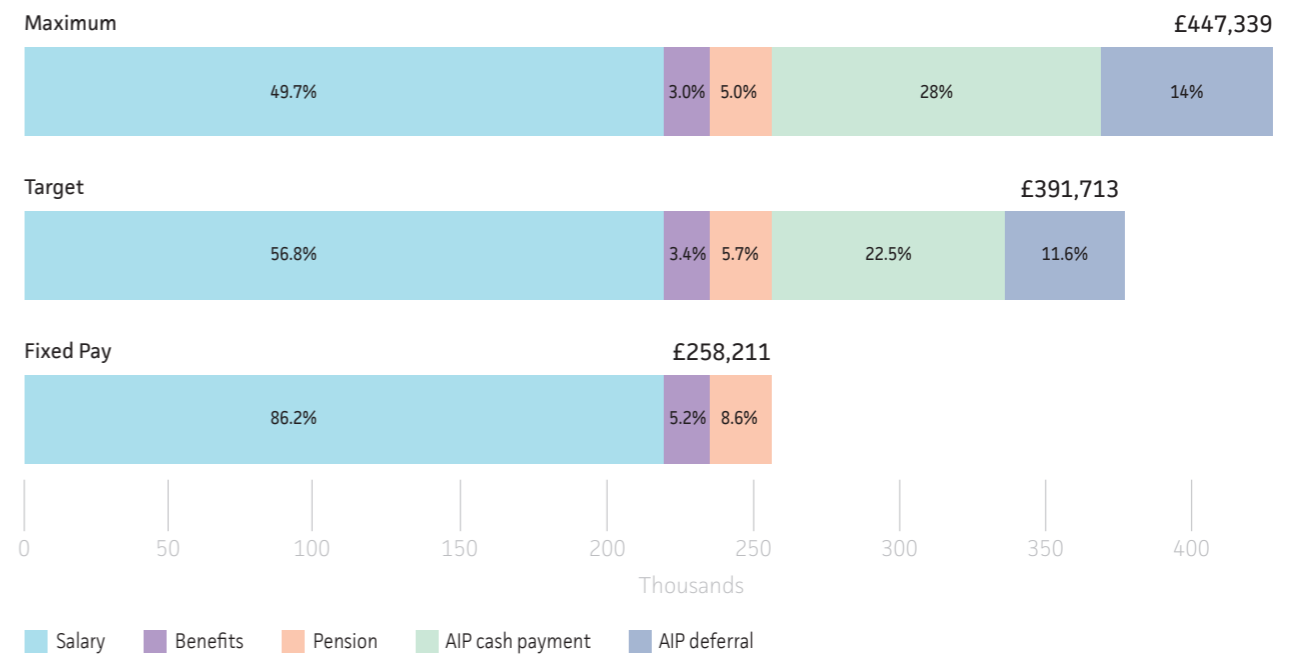
CEO - Illustration of the possible outcomes of the remuneration policy for 2021/22



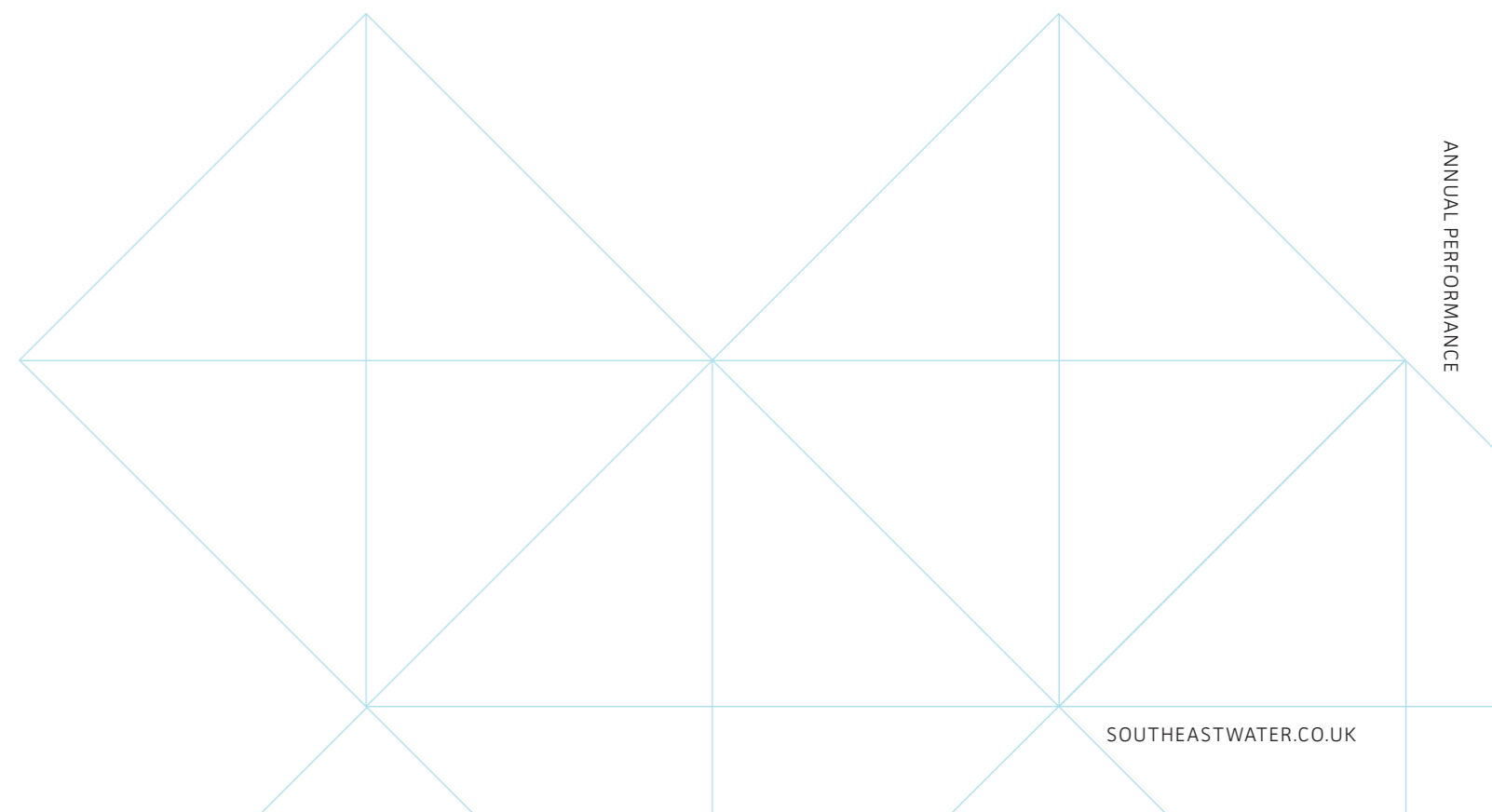
Note on IAP: The total potential award for the CEO including the amount payable in July 2022 and the amount deferred would be £203,715 at target performance and £271,620 maximum.

Note on benefits: The benefits relating to car allowance are estimated in anticipation of the replacement of the CEO's company car with an electric vehicle which will reduce the value of the company car benefit in 2021/22.

CFO - Illustration of the possible outcomes of the remuneration policy for 2021/22



Note on IAP: The total potential award for the CFO including the amount payable in July 2022 and the amount deferred would be £133,502 at target performance and £189,128 maximum.



REMUNERATION continued

IMPLEMENTATION OF REMUNERATION POLICY IN 2021/22 continued

AIP METRICS AND TARGETS 2021/22

Category	Measure	Threshold	Target	Outperformance
ODIs (40%)	Net reward / penalty (£m)	-3.8	-2.5	-1.4
	ODI Score	0	40	54.8
Responsible business (20%)	Points achieved	0	2	4
	RB Score	0	20	27.4
Financial (30%)				
Appointed cash receipts and opex (20%)	Net variance from target values (£m)	-4	0	+4
	Finance Score 1	0	20	27.4
Non-appointed profit from operations (10%)	Profit target (£m)	3.5	3.9	4.3
	Finance Score 2	0	10	13.7
Personal objectives (10%)	Points achieved	0	10	
	Personal objectives Score	0	10	
Total Score		0	100	133.3

The updated responsible business targets are set out in the table below:

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	Points	Environmental	Points
GRESB benchmark score >=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

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 2020/21.

POTENTIAL AWARD BASED ON TOTAL SCORE FOR 2021/22

The potential awards are set as a percentage of salary at the beginning of the year 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) have been set as follows:

Potential Score	Potential Award (% of salary)		Potential Award	
	CEO	CFO	CEO	CFO
@ Target: 100	75%	60%	£203,715	£133,502
@ Maximum: 133.3	100%	85%	£271,620	£189,128