

# Directors' Remuneration Report

## Remuneration Committee Report

### Chair's Annual Statement



#### I am pleased to present the Remuneration Committee's report for the year to 31 March 2023.

I was appointed to the Committee on 1 May 2023 and, although not a member of the Remuneration Committee during the reporting year, I make this statement having reviewed all relevant matters of the committee members in post during that time.

I would like to thank Paul Sheffield, who retired from the Board and the Remuneration Committee on 31 March 2023, for his stewardship of remuneration matters as Chair of the Remuneration Committee. Paul has supported the committee in handing over his knowledge to me. I also welcome Mike Putnam and Christèle Delbé to the committee, joining, respectively, 1 May 2023 and 31 May 2023. Keith Lough will step down from the committee on 31 July 2023. I intend to support the committee as chair for the next year or so, before handing over to the new chair.

One of the purposes of the Remuneration Committee is to put in place the incentive and retention structures that allow Southern Water to drive performance delivery and improvement across a broad and balanced set of outcomes. These outcomes are shaped to deliver benefits for our customers, the environment and our shareholders, while encouraging our employees to align with the high ethical values of the company of 'doing the right thing'. In delivering this purpose, the company takes advice on an ad-hoc basis where necessary and is supported by the Company Secretary. It also takes account of guidance and regulation from, among others, Ofwat. In addition to its broader purpose, the main focus of the Remuneration Committee is to

set remuneration for the company's executives, always aligned to the broader purpose.

### Summary of the year

2022–23 has seen further significant challenge for the company during a period of transition. Ian McAulay was replaced as CEO by Lawrence Gosden on 1 July 2022; Nadim Ahmad replaced Sebastiaan Boelen as Interim CFO and was in place from 31 July 2022 to 3 January 2023. Stuart Ledger was appointed as CFO with effect from 3 January 2023. All of these changes and the respective implications on reported remuneration are set out in this report.

The company's turnaround, led by Lawrence Gosden, will take time to deliver the ambitious targets that have been set. Those ambitious targets were embodied in stretching remuneration KPIs, with customers, the environment and shareholders at their heart. As noted below, for 2022–23 the remuneration outcomes for the executives and for the company as a whole have reflected the challenges in meeting the targets, although the Board and the Remuneration Committee recognises the significant effort that everyone in the company makes.

Throughout the year, and within this context, the Remuneration Committee reviewed the remuneration policy, committee terms of reference and base and variable pay arrangements and satisfied itself on their application.

In setting bonus arrangements for the coming years, the Remuneration Committee has followed Ofwat guidance and best practice. In addition to the continuing Annual Bonus Plan, the committee has finalised a longer-term incentive plan for key executives to deliver outcomes to the end of the asset management period.

### Remuneration outcomes for 2022–23

The metrics agreed for the 2022–23 year were designed to deliver operational performance and better outcomes for customers, the environment and shareholders alike. They embodied ESG principles and were compliant with the undertakings given by the company to Ofwat in October 2019.

In a year where targets were not met, the Remuneration Committee is satisfied that the remuneration KPIs have tracked

# Directors' Remuneration Report continued

## Remuneration Committee Report continued

business performance and that with two exceptions, no bonus has been earned under the remuneration KPIs. CRI has reduced significantly year on year and there was a small reward based on the target. Of particular note, the Remuneration Committee determined that the company's health and safety transformation has been judged to have made good progress and that this produces a reward for everyone in the company.

The detailed bonus outturn and how this translates to outcomes for the executive directors is set out in the detailed report. As has been announced previously, both Lawrence Gosden and Stuart Ledger have declined the bonus that had been earned under the terms of the Annual Bonus Plan for 2022–23 on the basis that customer and environmental outcomes have not been met. Additionally, Lawrence Gosden has declined the 6% cost of living salary increase, which otherwise he would have been eligible to receive.

As has been reported in previous years, bonus awards relating to years prior to the reporting year, under the previous bonus scheme applicable to the executive directors, the Incentive and Retention Plan, had been deferred into a bonus pool with the balance being paid to each executive in July 2023, subject to the rules of the scheme. Details of payments to the executive directors are set out in the report. The Remuneration Committee exercised its discretion under the rules of the scheme to withhold 100% of payments to Ian McAulay and Sebastiaan Boelen that otherwise would have been due to be paid.

### **Malcolm Cooper**

Chair of the Remuneration Committee

7 July 2022

# Directors' Remuneration Report continued

## Remuneration Committee Report continued

### Introduction

This report details the activities of the Remuneration Committee for the period to 31 March 2023. It sets out the remuneration policy and remuneration details for the executive and non-executive directors of the company. It has been prepared in accordance with the Corporate Governance Code, the Ofwat Board, Leadership, Transparency and Governance Objectives and Principles, the guidance issued by Ofwat in Regulatory Accounting Guidance (RAG 3.14) and, where relevant for a non-listed company, has taken into account the requirements of the Companies Act 2006 and the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

### The Remuneration Committee of Southern Water

The Remuneration Committee has the responsibility for setting the remuneration policy and structure of the executive directors and senior executives. It is also responsible for setting the remuneration

of the Chair. The committee has defined terms of reference, which are published at [southernwater.co.uk/board-committee-terms-of-reference](https://www.southernwater.co.uk/board-committee-terms-of-reference). These have been reviewed and revised during the year.

We recognise that the independent non-executive directors have an important role to play in determining and challenging remuneration policy and practice. In order to reflect this, the independent non-executive directors are a majority on the committee. The Chair of the company is considered independent for these purposes; he will step down from the committee on 31 July 2023.

Only committee members are entitled to attend meetings, with the Chief Executive Officer and Chief Financial Officer attending by invitation. The Company Secretary acts as secretary to the committee.

No attendee participates in discussions regarding their own remuneration.

### Committee membership during the period 1 April 2022 to 31 March 2023



**Paul Sheffield**

Chair

Attendance 4/4



**Keith Lough**

Committee member

Attendance 4/4



**Will Price**

Committee member

Attendance 4/4

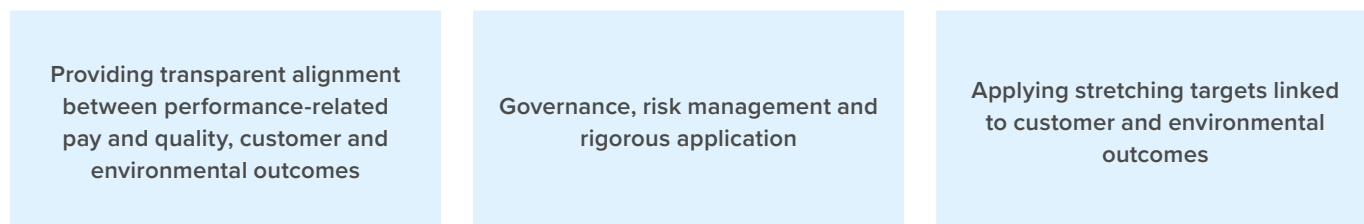
Note: Following Paul Sheffield's retirement from the Board and the committee, Malcolm Cooper and Christèle Delbé were appointed to the committee on 1 May 2023 and 31 May 2023 respectively, Malcolm as chair.

# Directors' Remuneration Report continued

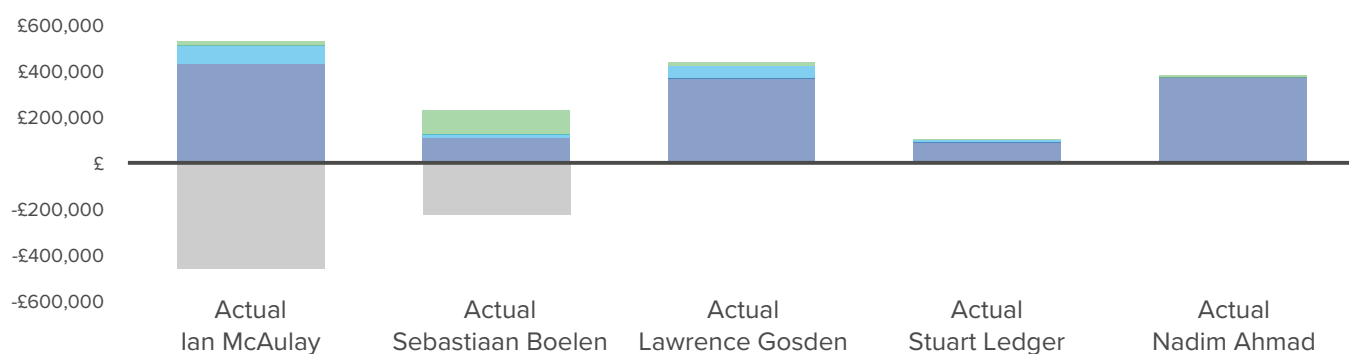
## Remuneration Committee Report continued

### Remuneration at a glance

#### Key objectives



### Single total figure of remuneration for executive directors for year ended 31 March 2023



#### Key:

- Salary
- Pension
- Benefits
- Annual bonus plan
- IRP withheld

Note: The chart presented above includes the impact of the Remuneration Committee's decision to exercise its discretion to withhold payments to Ian McAulay and Sebastiaan Boelen previously awarded under the Incentive and Retention Plan.

### Executive directors' remuneration policy

#### Elements of executive directors' pay

Element	Aspects
Base salary	Attracts and retains executives of the quality required to deliver our strategy.
Annual Bonus Plan	Drives and rewards performance against stretching financial, customer and operational KPIs, which are directly linked to business strategy.
Pension	Defined contribution scheme.
Other benefits	Provides market competitive benefits.
Release of historic balances in Incentive and Retention Plan	Former bonus plan, now closed.

# Directors' Remuneration Report continued

## Remuneration Committee Report continued

<p>Ian McAulay 2022–23</p>	<p>2021–22</p>	<p><b>Fixed</b></p> <ul style="list-style-type: none"> <li>● Base Salary</li> <li>● Pension and other benefits</li> </ul> <p><b>Performance linked</b></p> <ul style="list-style-type: none"> <li>● Annual bonus</li> </ul>	<p><b>2022–23</b></p> <p>100%</p> <p>82%</p> <p>18%</p> <p><b>0%</b></p> <p>0%</p>	<p><b>2021–22</b></p> <p>55%</p> <p>45%</p> <p>10%</p> <p><b>45%</b></p> <p>45%</p>
<p>Sebastiaan Boelen 2022–23</p>	<p>2021–22</p>	<p><b>Fixed</b></p> <ul style="list-style-type: none"> <li>● Base Salary</li> <li>● Pension and other benefits</li> </ul> <p><b>Performance-linked</b></p> <ul style="list-style-type: none"> <li>● Annual bonus</li> </ul>	<p><b>2022–23</b></p> <p>100%</p> <p>47%</p> <p>53%</p> <p><b>0%</b></p> <p>0%</p>	<p><b>2021–22</b></p> <p>61%</p> <p>51%</p> <p>10%</p> <p><b>39%</b></p> <p>39%</p>
<p>Note: the charts above for Ian McAulay and Sebastiaan Boelen exclude the impact of the Remuneration Committees decision to withhold payments previously awarded under the IRP.</p>				
<p>Lawrence Gosden 2022–23</p>		<p><b>Fixed</b></p> <ul style="list-style-type: none"> <li>● Base Salary</li> <li>● Pension and other benefits</li> </ul> <p><b>Performance-linked</b></p> <ul style="list-style-type: none"> <li>● Annual bonus</li> </ul>	<p><b>2022–23</b></p> <p>100%</p> <p>84%</p> <p>16%</p> <p><b>0%</b></p> <p>0%</p>	
<p>Stuart Ledger 2022–23</p>		<p><b>Fixed</b></p> <ul style="list-style-type: none"> <li>● Base Salary</li> <li>● Pension and other benefits</li> </ul> <p><b>Performance-linked</b></p> <ul style="list-style-type: none"> <li>● Annual bonus</li> </ul>	<p><b>2022–23</b></p> <p>100%</p> <p>51%</p> <p>49%</p> <p><b>0%</b></p> <p>0%</p>	
<p>Nadim Ahmad 2022–23</p>		<p><b>Fixed</b></p> <ul style="list-style-type: none"> <li>● Base Salary</li> <li>● Pension and other benefits</li> </ul> <p><b>Performance-linked</b></p> <ul style="list-style-type: none"> <li>● Annual bonus</li> </ul>	<p><b>2022–23</b></p> <p>100%</p> <p>97%</p> <p>3%</p> <p><b>0%</b></p> <p>0%</p>	

# Directors' Remuneration Report continued

## Remuneration policy applicable in year (unaudited)

### Purpose

This remuneration policy applies to all Southern Water employees. The Board of Directors has adopted the remuneration policy at the recommendation of the Remuneration Committee. This policy applies to remuneration earned from 1 April 2022 to 31 March 2025. This was reviewed during the reporting period and will be reviewed again during the current period.

### Providing transparent alignment between performance-related pay and quality customer outcomes

The policy reflects the Board's commitment to being open and transparent in respect of executive pay and to follow Ofwat and other relevant guidance. The Board has also committed during the year to ensuring that performance-related executive pay has a clear alignment to delivering stretching performance improvement, which is in the interests of customers as well as providing sustained and long-term value creation for shareholders and other stakeholders by:

- setting stretching performance targets that are based on the performance ambitions set out in our business plan
- ensuring that targets and metrics have a substantial and demonstrable link to stretching performance delivery and quality outcomes that align with the interests of customers and the environment
- transparently reporting how performance-related executive pay is linked to the underlying performance of the company
- embedding behavioural competence built around company values to underpin the cultural change and instil a way of working that will increase employee engagement and therefore productivity
- ensuring employees feel encouraged to create sustainable results and that a clear link exists between customers, shareholders and employees' interests
- ensuring that performance payments do not compromise employees' compliance with the Ofwat Section 19 requirements
- aligning pay to the market-median position, recognising the need, from time to time, to implement specific arrangements for certain individuals
- ensuring employees are offered a competitive and market median-aligned remuneration package, which balances the fixed and variable remuneration components according to job role
- ensuring that Southern Water is able to attract, develop and retain high-performing and motivated employees in a competitive market.

The table on page 191 summarises the elements of our executive directors' remuneration package and our policy for each item.

### Governance, risk management and rigorous application

The Board applies sound and effective risk management principles to ensure that the policy is rigorously monitored and applied through:

- the application of good corporate governance by taking into account regulatory requirements and, among others, the UK Corporate Governance Code and any corporate governance principles issued by its regulator, Ofwat, from time to time
- a stringent governance structure for setting relevant and stretching goals, which are aligned to customer outcomes, and communicating these goals to employees
- clear alignment with our business strategy, company values, priorities and long-term goals
- during the year, the Remuneration Committee consisted of two independent non-executive directors and one non-executive director and no executive directors. The Remuneration Committee now consists of four independent non-executive directors (one of whom, Keith Lough, will step down on 31 July 2023) and one non-executive director. This avoids any conflicts of interest and aligns the principle of protection of customers, the environment and investors.
- a commitment to the transparent reporting of executive pay within our Annual Report and Financial Statements, and any other channels as appropriate in accordance with legal and regulatory requirements, including the Ofwat Board leadership, transparency and governance principles
- a commitment to transparently report any changes to the policy, including the underlying reasons, within the Annual Report and Financial Statements, and any other channels as appropriate
- an annual review of the constitution and terms of reference of the Remuneration Committee to maintain its operational effectiveness and publishing these on our website for transparency
- ensuring the ongoing effectiveness of the Board and its committees through regular external and independent evaluation.

# Directors' Remuneration Report continued

## Remuneration policy applicable in year (unaudited) continued

### Applying stretching targets linked to customer outcomes

The Board sets stretching bonus targets linked to outcomes for customers and the environment that require equivalent stretching performance. The Board is committed to setting more than 50% of bonus targets that are linked to customer outcomes, which have additional benefits to the environment. For 2022–23 these included five ODI performance commitment outcomes (pollution incidents, internal flooding incidents, leakage, C-MeX and water quality compliance).

Customers would also have benefited from performance against the financial metric, designed to drive financial efficiency.

The Health and Safety Transformation Programme, which is a key element of focus, was subject to stretching targets to ensure appropriate focus.

All of the targets were subject to adjustment factors to reflect the company's focus on operational performance.

All metrics were used throughout the organisation so that all company employees are incentivised to achieve stretching levels of customer service. Additionally, senior executives had stretching personal objectives, which influence remuneration outcomes.

### Executive remuneration components

Executive remuneration comprises both fixed and variable elements with the four remuneration components detailed as follows:

- Fixed remuneration (including fixed supplements)
- Performance-based remuneration (variable percentage of salary)
- Pension schemes, where applicable
- Other benefits in kind (e.g. car allowance and private medical cover).

The fixed remuneration is determined on the basis of the role and position of the individual employee, including professional experience, responsibility, job complexity and local market conditions and is benchmarked against industry peer groups.

The performance-based remuneration motivates and rewards those employees who significantly contribute to sustainable results, perform according to set expectations for the individual in question, strengthen long-term delivery of quality

outcomes for customers and generate income and shareholder value.

The Board of Directors has determined a maximum percentage of performance-based remuneration relative to the fixed salary remuneration for the executive management positions. The table below shows the maximum limit on variable remuneration (excluding any pension allowance) for the CEO and CFO for 2022–23.

	CEO	CFO
Total range of variable remuneration	0% – 150%	0% – 150%

Performance-based remuneration is disbursed as a cash bonus. For 2022–23, the Annual Bonus Plan was introduced, with any resulting payment being made in July 2023. Both the CEO and the CFO have declined to accept an annual bonus in respect of the 2022–23 financial year.

Note that for 2023–24, a new long-term incentive plan for senior executives is being introduced – see page 201.

Executive directors are covered by an insured four times salary 'death in service' lump sum benefit and a contribution to a personal pension arrangement. The CEO currently receives a 15% of base salary contribution rate and the CFO receives 11%. Where retirement savings have exceeded the Lifetime Allowance (as defined by HMRC for their circumstances) the employer contribution may instead be taken as a pay supplement, subject to the relevant tax and National Insurance deductions.

The policy is that remuneration should be market-competitive relative to other comparable companies, with a significant proportion being performance-related. The performance-related element is only paid out if stretching targets are achieved that benefit both customers and shareholders. In setting the remuneration policy for executive directors, the committee takes into account the remuneration practices found in other UK companies of a similar size or operating in the same sector. It also ensures that the remuneration arrangements for the executive directors are appropriate when compared with those for other senior executives and the wider workforce. Attracting and retaining first class leadership is vital to the long-term success of the company.



# Directors' Remuneration Report continued

## Remuneration policy applicable in year (unaudited) continued

In particular, the committee is kept informed on a regular basis of the following, which it uses to set executive remuneration policy:

- The level of salary increase for the general employee population
- Benefit provision and any proposed changes
- Overall spend on management bonus
- The gender pay gap across the company.

An investor representative non-executive director sits on the committee and as such is involved

in setting remuneration levels, monitoring the performance of the executive directors, agreeing payments and approving any changes to executive reward packages. This involvement ensures that shareholders play a key part in shaping remuneration policy and decisions. Along with the independent non-executive directors they ensure that the link between pay and performance is closely managed.

To ensure that our remuneration practices remain competitive, the committee periodically calls upon experienced specialist consultants.

## Remuneration components

Element of remuneration	Purpose and link to strategy	Policy and approach	Maximum opportunity 2022–23
<b>Base salary</b>	<p>Takes into account experience and personal contribution to our strategy and performance.</p> <p>Attracts and retains executives of the quality required to deliver our strategy.</p>	<ul style="list-style-type: none"> <li>• Reviewed annually with changes effective from 1 July, if applicable (1 April with effect from 2023–24 reporting year).</li> <li>• Consideration given to individual and company performance.</li> <li>• General pay increases to all employees taken into consideration.</li> <li>• Aim to pay within a mid-market range, but may pay higher salaries to attract and retain executives of the right calibre or for out-performance by the individual or company.</li> <li>• Referenced against UK companies of a similar size, utility companies and other water companies.</li> </ul>	Base salary increases are applied in line with the annual review.
<b>Annual Bonus Plan</b>	Drives and rewards performance against stretching financial, customer and operational KPIs, which are directly linked to business strategy.	<ul style="list-style-type: none"> <li>• Details of the operation of the plan are shown on page 192.</li> <li>• Performance metrics and targets are established annually by the committee, making sure they are sufficiently stretching, while also recognising the nature and risk profile of the company.</li> <li>• Where applicable, 25% of the opportunity available for each measure is created for achieving a threshold target. 100% is awarded for achieving the actual target, with stretch targets creating 120% for achieving outstanding performance.</li> <li>• The committee has discretion to amend or withdraw payments based on the consideration of other factors which could significantly affect business performance.</li> <li>• Plan awards are disclosed on pages 194 to 195.</li> </ul>	150% of salary for the CEO and CFO
<b>Pension</b>	Defined contribution scheme minimises the risk to the company associated with defined benefit pension plans.	<ul style="list-style-type: none"> <li>• A company contribution into a defined contribution scheme, and/or</li> <li>• A cash allowance in lieu of pension.</li> </ul>	<p>CEO 15% of salary</p> <p>CFO 11% of salary</p>



# Directors' Remuneration Report continued

## Remuneration policy applicable in year (unaudited) continued

Element of remuneration	Purpose and link to strategy	Policy and approach	Maximum opportunity 2022–23
Other benefits	Provides market competitive benefits.	May consist of: <ul style="list-style-type: none"> <li>• Car allowance</li> <li>• Health cover</li> <li>• Disturbance or relocation allowances.</li> </ul>	Based on individual circumstances.

### Notes to the policy table

#### Directors' pay

Executive directors who served during the 2022–23 year are shown below:

Lawrence Gosden	Chief Executive Officer (appointed 1 July 2022)
Ian McAulay	Chief Executive Officer (resigned 30 June 2022)
Stuart Ledger	Chief Financial Officer (appointed 3 January 2023)
Nadim Ahmad	Interim Chief Financial Officer (appointed 31 July 2022, resigned 3 January 2023)
Sebastian Boelen	Chief Financial Officer (resigned 31 July 2022)

Details are given on page 194 of the amounts paid to them in the year ended 31 March 2023.

#### Operation of the Annual Bonus Plan

Under the Annual Bonus Plan, participants have had the opportunity to earn an annual bonus based on both performance against targets pre-determined by the Board and on achievement of personal objectives. Any resulting award is paid out to participants in cash in July 2023. Both the CEO and the CFO have declined to accept an annual bonus in respect of the 2022–23 financial year.

#### Measures used in the Annual Bonus Plan

During the year, the Remuneration Committee identified and operated performance measures that support customer and environmental performance as well as transforming our plan to keep our employees safe and healthy at work and also for delivering financial performance for the company, such as:

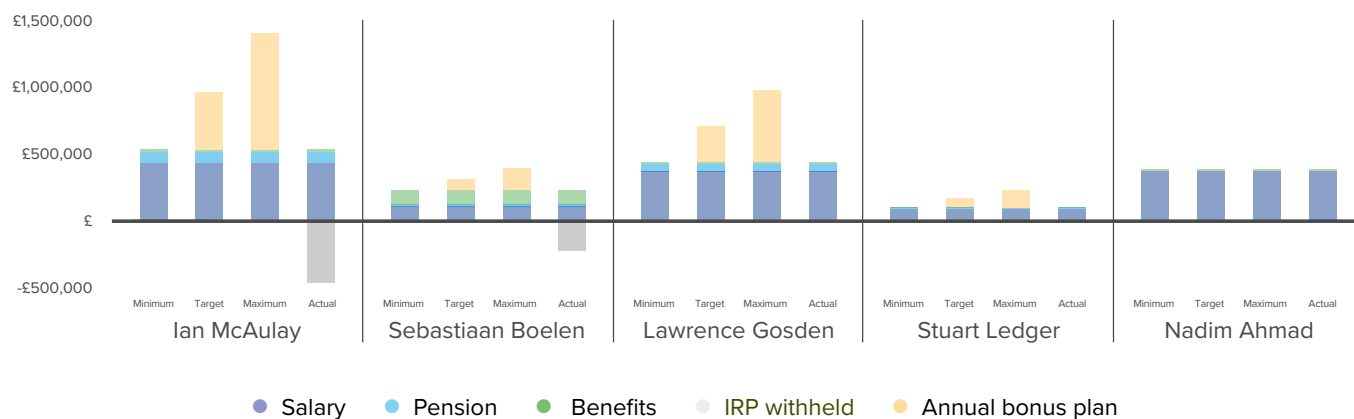
- Pollution incidents
- Internal sewer flooding incidents
- Leakage
- Water quality compliance
- Customer satisfaction, as measured by our C-MeX performance
- Delivery against our Health and Safety Transformation Programme
- Delivery of certain financial performance measures.

# Directors' Remuneration Report continued

## Remuneration policy applicable in year (unaudited) continued

### Remuneration scenarios for 2022–23

The following chart sets out the remuneration scenarios for each of the executive directors for various levels of performance as well as the actual remuneration for 2022–23.



Notes: 'Target' performance is the level of performance required for the annual bonus plan to pay out at 50% of maximum. The chart presented above includes the impact of the Remuneration Committee's decision to exercise its discretion to withhold payments to Ian McAulay and Sebastiaan Boelen previously awarded under the Incentive and Retention Plan.

### Notice periods

The table below sets out the contractual notice periods for the executive directors. If the notice period is worked, no termination payment is payable, otherwise a payment up to a maximum equivalent to the notice period of basic salary, pension and car allowance is payable.

	Notice period
Lawrence Gosden, CEO	12 months by either party
Stuart Ledger, CFO	12 months by either party

# Directors' Remuneration Report

## Annual remuneration report

### Single figure of remuneration for 2022–23 (audited)

Details of the remuneration received by the executive directors are shown below. The figures shown are the amounts paid or awarded for each of these financial years. Base salary is generally reviewed in July each year and so the amounts reported for base salary reflect a part-year effect of any pay award granted.

£'000		Base salary paid	Benefits	Annual Bonus Plan <sup>1</sup>	Incentive and Retention Plan <sup>2</sup>	Incentive and Retention Plan withheld <sup>2</sup>	Investment transaction incentive <sup>3</sup>	Total	Pension related benefit	Total including pension
Lawrence Gosden <sup>4</sup>	2022–23	360.0	13.7	–	–	–	–	373.7	54.0	427.7
	2021–22	–	–	–	–	–	–	–	–	–
Stuart Ledger <sup>5</sup>	2022–23	87.5	73.0	–	–	–	–	160.5	9.6	170.1
	2021–22	–	–	–	–	–	–	–	–	–
Ian McAulay <sup>6</sup>	2022–23	435.0	18.9	–	–	(474.3)	–	(20.4)	78.3	57.9
	2021–22	435.0	18.5	–	435.0	–	435.0	1,323.5	78.3	1,401.8
Sebastiaan Boelen <sup>7</sup>	2022–23	106.7	104.8	–	–	(229.4)	–	(17.9)	16.0	(1.9)
	2021–22	302.3	14.6	–	234.8	–	300.0	851.7	45.3	897.0
Nadim Ahmad <sup>8</sup>	2022–23	371.3	10.0	–	–	–	–	381.3	–	381.3
	2021–22	–	–	–	–	–	–	–	–	–

<sup>1</sup> Southern Water makes a performance related bonus based on the delivery of specific targets set out within the scheme. In line with the scheme, the Remuneration Committee assessed performance for the Annual Bonus Plan for 2022–23 and made an award of £97,638 to Lawrence Gosden and £19,307 to Stuart Ledger for those targets that were met as set out on page 196. In recognition of environmental and customer expectations Lawrence Gosden and Stuart Ledger have declined the awards made to them for 2022–23.

<sup>2</sup> Under the Incentive and Retention Plan, any amount earned was added to the bonus pool for the year and payments are then made out of the bonus pool. As noted in the committee chair's introduction, the Remuneration Committee exercised its discretion under the rules of the scheme to withhold 100% of payments to Ian McAulay and Sebastiaan Boelen for bonuses awarded in prior years under the scheme that otherwise would have been due to be paid in July 2023, as set out in the table. This scheme has now been closed.

<sup>3</sup> In 2021–22, the executive directors were incentivised to support a successful outcome to the investment transaction whereby funds managed by Macquarie Asset Management invested £530 million to recapitalise the company. These payments were not paid for by customers.

<sup>4</sup> Salary, benefits, pension and bonus figures for Lawrence Gosden reflect part-year earnings and are for the period from 1 July 2022 when he was first appointed to the Board. As noted above, Lawrence Gosden has not accepted a bonus in respect of the period 2022–23.

<sup>5</sup> Salary, benefits, pension and bonus figures for Stuart Ledger reflect part-year earnings and are for the period from 3 January 2023 when he was first appointed to the Board. His benefits include an amount of £65,446 as compensation for loss of vested LTIP benefit from his previous employer in respect of periods prior to 1 April 2022. A further equivalent payment of £39,989 is due in July 2024. As noted above, Stuart Ledger has not accepted a bonus in respect of the period 2022–23.

<sup>6</sup> Ian McAulay resigned as an executive director on 30 June 2022 but continued to receive salary and benefits up to the end of his required notice period being 31 March 2023.

<sup>7</sup> Sebastiaan Boelen resigned as an executive director on 31 July 2022. His benefits for 2022–23 are pro-rated to this date. Benefits include a payment of £100,000 agreed as compensation for extending his contract while a successor was appointed. Payments for loss of office are shown in the table below and include an amount of £159,833 for pay in lieu of notice.

£'000		Base salary paid	Benefits	Pay in lieu of notice	Total	Pension related benefit	Total including pension
Sebastiaan Boelen <sup>7</sup>	2022–23	–	43.9	159.8	203.7	24.0	227.7

<sup>8</sup> Nadim Ahmad served as an executive director for the period from 31 July 2022 to 3 January 2023 and his benefits for 2022–23 are pro-rated for this period. He was appointed on an interim basis.

# Directors' Remuneration Report continued

## Notes to the single figure of remuneration (unaudited)

### Annual Bonus Plan

The performance measures agreed by the Committee for 2022–23 were:

- Pollution incidents
- Internal sewer flooding incidents
- Leakage
- C-MeX – measuring customer experience
- Water quality compliance
- Health, Safety, Security and Wellbeing – ensuring our employees are kept safe and healthy at work
- Controllable Opex
- Role specific personal objectives.

The following adjustment factors apply:

Additional award/penalty for pollution incidents:

- For every quarter with 2 or more Category 2 pollution incidents a -2.5% Annual Bonus Plan penalty applies, with a maximum -10% penalty for the year
- For every quarter with 1 or more Category 1 pollution incidents a -5% Annual Bonus Plan penalty applies, with a maximum -20% penalty for the year
- If there are no Category 1 or 2 incidents during the year, an extra +20% Annual Bonus Plan bonus applies.

In the event that C-MeX target is met but there is no improvement on 16th ranking, a 50% penalty on that individual KPI outturn applies.

If, at the financial year end, the 12-month rolling average Lost-Time Accident Frequency Rate is above 0.39, a 2.5% Annual Bonus Plan penalty applies. If it is above 0.45, the Annual Bonus Plan penalty increases to 5%. If it falls below 0.31, the company will make a charitable donation. Starting position at 1 April 2022 was 0.39.

If there is an employee or contractor fatality, the Remuneration Committee has discretion to reduce Annual Bonus Plan award to zero.

All targets are considered to be compliant with the company's section 19 Undertakings given to Ofwat in October 2019 and to drive positive compliance with environmental permits and performance more generally.

These KPIs apply to all employees throughout the company in relation to different bonus schemes.

The performance for 2022–23 was assessed by the committee in May 2023. Details of the maximum bonus achievable, targets and outturn percentage for each executive director are shown in the tables below. Both Lawrence Gosden and Stuart Ledger have declined to take the bonus awards for 2022–23.

CEO and CFO	Maximum bonus achievable	Outturn %	Outturn as a % of salary
Annual Bonus Plan performance outturn	150%	14.71% <sup>1</sup>	22.07%

# Directors' Remuneration Report continued

Annual Bonus Plan 2022–23	2022–23	Threshold performance level (25%)	Target performance level (100%)	Stretch performance level (120%)	Performance <sup>1</sup>	Weighting (% of salary)	Outturn (% of salary)
Pollution Incidents	Performance	265	189	151	358	15.0%	0.0%
Internal Sewer Flooding	Performance	428	315	252	496	15.0%	0.0%
Leakage	Performance	95	94.3	88	98.9	15.0%	0.0%
C-MeX	Performance	72.5	73.5	77	69.77	7.5%	0.0%
Water Quality Compliance	Performance	6.0	4.0	2.0	6.38	22.5%	0.0%
Health & Safety	Performance	Satisfactory	Good	Excellent	Good	15.0%	15.0%
Controllable Opex	Performance	£491.3m	£457.0m	£422.7m	£559.8m	37.5%	0.0%
Personal objectives	Performance	Satisfactory	Good	Excellent	7.5% <sup>2</sup>	22.5%	11.25%
<b>Total</b>						<b>150.0%</b>	<b>26.25%</b>
Adjustments <sup>3</sup>							<b>-4.18%</b>
<b>Total awarded</b>							<b>22.07%</b>

<sup>1</sup> Where the performance has been based on the latest forecast position available at the time, any subsequent changes to the final outcome position will be adjusted for in the following performance year and in accordance with the Annual Bonus Plan scheme rules. In particular, the Pollution Incidents figure of 358 is subject to review.

<sup>2</sup> The outcome was adjudged by the committee as between satisfactory and good, 95% performance.

<sup>3</sup> There was a positive adjustment of +7.07% in the outturn in respect of Water Quality Compliance, where an in-year change in DWI methodology, which came into effect in May 2022, resulted in a 0.55 adjustment to the year-end outturn from 6.38 to 5.83. There was also a negative adjustment of -11.25% in the outturn due to there being one quarter where there were two Category 1 pollution incidents and two quarters where there were two Category 2 pollution incidents. See the notes above as to these adjustments.

The threshold, target and stretch bonus percentages shown reflect the level of bonus award for achievement of the threshold, target and stretch performance levels for each metric.

Both the CEO and the CFO have declined to accept an annual bonus in respect of the 2022–23 financial year.

## Incentive and Retention Plan closure

As has been reported in previous years, bonus awards under the previous bonus scheme applicable to executives, the Incentive and Retention Plan, had been deferred into a bonus pool with the balance being paid to each executive in July 2023, subject to the rules of the scheme.

As noted in the Committee Chairman's introduction, the Remuneration Committee exercised its discretion under the rules of the scheme to withhold 100% of payments to Ian McAulay and Sebastiaan Boelen that otherwise would have been due to be paid. The amounts were, respectively, £474,300 and £229,400.

# Directors' Remuneration Report continued

## Pension contributions

The pension contribution for the executive directors, for the period they served on the Board, is set out in the table below:

Pension	Salary received (£'000)	Pension contribution as a % of base salary	Cash allowance in lieu of pension (£'000)	Pension contribution to scheme (£'000)	Total Pension related benefit (£'000)
Lawrence Gosden	360.0	15%	54.0	–	54.0
Stuart Ledger	87.5	11%	9.6	–	9.6
Ian McAulay	108.8	18%	18.6	1.0	19.6
Sebastiaan Boelen	106.7	15%	12.0	4.0	16.0

Following the closure of the company's defined benefit pension scheme to future accrual and the introduction of a new defined contribution scheme for the company's workforce, the Remuneration Committee reviewed the pension contribution payable to the executives. In doing so, it also considered the expectation in Provision 38 of the UK Corporate Governance Code that the pension contributions payable to the executive directors are aligned to that of the workforce. Accordingly, it was agreed that from 1 April 2020, the employer pension contributions offering for new executive director appointments would be aligned to the 'all employee' rate of 11%. Lawrence Gosden's pension contribution is based on the previous executive director level, which was applicable at the time of his recruitment into the business in a different role and is therefore treated as a continuous term and condition of employment.

# Directors' Remuneration Report continued

## Non-executive director fees for the year (audited)

The Chair and the non-executive directors each receive a fee and do not participate in any performance-related incentive arrangements. The investor-nominated non-executive director does not receive any remuneration from the company.

The Board as a whole is responsible for setting the level of non-executive director fees and in doing so receives input from the Remuneration Committee.

Details of the emoluments received by the Chair and non-executive directors are shown below:

£'000	2022–23			2021–22		
	Fees	Other	Total	Fees	Other	Total
<b>Keith Lough</b> (Chair)	286.3	10.1	296.4	275.0	3.9	278.9
<b>Paul Sheffield</b> (Senior independent non-executive director) (Retired 31 March 2023)	73.8	2.1	75.9	70.0	0.6	70.6
<b>Rosemary Boot</b> (Independent non-executive director) (Retired 31 March 2023)	62.9	1.4	64.3	50.0	1.1	51.1
<b>Mike Putnam</b> (Independent non-executive director)	63.8	2.1	65.9	60.0	0.6	60.6
<b>Dame Gillian Guy DBE</b> (Independent non-executive director)	53.8	2.2	56.0	50.0	0.3	50.3
<b>Kevin McCullough</b> (Independent non-executive director) (Retired 31 July 2022)	22.1	0.3	22.4	65.0	0.7	65.7
<b>Malcolm Cooper</b> (Independent non-executive director)	68.8	0.6	69.4	65.0	0.7	65.7
<b>Steve Fraser</b> (Investor-nominated non-executive director) (from 1 May 2022)	49.6	3.8	53.4	n/a	n/a	n/a
<b>Marykay Fuller</b> (Greensands Board-nominated non-executive director) (to 8 September 2021)	n/a	n/a	n/a	26.3	0.1	26.4
<b>Martin Bradley</b> (Investor-nominated non-executive director) (from 8 September 2021 to 1 May 2022)	–	–	–	–	–	–
<b>Will Price</b> (Investor-nominated non-executive director) (from 8 September 2021)	–	–	–	–	–	–
<b>Mark Mathieson</b> (Investor-nominated non-executive director) (from 8 September 2021)	–	–	–	–	–	–
<b>Sara Sulaiman</b> (Investor-nominated non-executive director) (to 8 September 2021)	n/a	n/a	n/a	–	–	–

The base fees for the non-executive directors are £55,000.

In May 2022, the Remuneration Committee reviewed the fees paid to the Chair and independent non-executive directors, comparing the fee data between 2014–15 and 2020–21 of a number of other companies in the sector. Following this review, the Remuneration Committee agreed to increase the Chair's fees from £275,000 to £290,000 with effect from 1 July 2022.

The same data was subsequently presented to the Board at its May 2022 meeting, at which it was agreed to increase the base fees of non-executive directors from £50,000 to £55,000 per annum with effect from 1 July 2022, noting that there had been no increase since 2014. The Board also agreed that a responsibility supplement should be paid to the Chair of the newly-formed ESG Committee, Rosemary Boot, with effect from 1 May 2022.



# Directors' Remuneration Report continued

The table below provides details of applicable responsibility payments for 2022–23.

	Chair and date of appointment	Responsibility supplement	Comments on supplement
Audit Committee Chair	Malcolm Cooper 23 December 2019	£15,000	
Health, Safety and Operational Risk Committee Chair	Mike Putnam 1 July 2019	£10,000	
Remuneration Committee Chair	Paul Sheffield 1 April 2015	£10,000	
ESG Committee Chair	Rosemary Boot 1 May 2022	£10,000	Introduced with effect from 1 May 2022
Senior independent non-executive director	Paul Sheffield 1 April 2015	£10,000	

The other amounts payable to the non-executive directors include taxable expenses incurred in connection with attendance at Board meetings and shareholder events.

None of the directors who held office during the financial year had any disclosable interests in the shares of Southern Water or the group; there are no share options in place and no payments were made to them by any other group companies.

## Gender pay (unaudited)

Creating an environment to enable a diverse and inclusive workforce will have a positive effect on our organisation and this is a key part of Southern Water's People Strategy.

Our median pay gap is -3.32%, meaning that it is in favour of women. The median gives a strong indicator of 'average' earnings as it is not skewed by a few individuals earning at high or low levels, which can be true of the mean.

Our mean hourly pay gap has decreased by 2.22% to 2.58%. In 2021 the hourly pay gap had increased by approximately two percentage points from the previous year so this has now been reversed. The underlying reason for this is the movement in the gender balance in senior roles. There is a higher proportion of females in Upper and Upper Middle quartiles than in previous years.

The company will continue to focus on increasing the diversity of our workforce through our recruitment and attraction approach, inclusive development programmes and ensuring that all of our people have an opportunity to grow and develop their career with us.

For more information, see the report on our gender pay gap at [southernwater.co.uk/gender-pay-gap](https://southernwater.co.uk/gender-pay-gap).

## Creating a workplace where all of our people feel they belong

We have deliberately designed our diversity and inclusion approach and outcomes to be understandable, actionable and deliverable. We have created a clear vision that communicates our intent to consciously recognise and value our differences, ensuring that all of our people feel they belong and that we succeed together. So far we have made significant progress against our action plan and have welcomed external recognition through our position as an Inclusive Top 50 UK employer for the third year in a row. We are currently ranked 44 out of 50 which is an increase on the previous year. In terms of pay, we are committed to ensuring that we have a fair pay structure and that we have processes in place to make sure we have a consistent and fair approach. We recognise that while we do not have all the answers, we are keen to learn and grow, valuing the different experiences and perspectives that our people bring.

# Directors' Remuneration Report continued

## Executive pay gap reporting

From 2020 onwards, the Companies (Miscellaneous Reporting) Regulations 2018 require all publicly-listed companies with more than 250 UK employees to publish the ratio between their CEOs full time equivalent remuneration and that of employees at the 25th, 50th and 75th percentile when total remuneration is calculated and ranked from lowest to highest.

Although not a listed company, Southern Water has chosen to publish this information in line with our commitment to providing information about pay diversity and fairness within our organisation.

The regulations set out three options for calculating the pay ratio.

- Option A – takes into account all forms of remuneration and payments (pension etc)
- Option B – uses the gender pay calculation figures
- Option C – uses some other method

Our ratio has been calculated using 'Option A' as this takes into account full remuneration and is therefore the most comprehensive comparison.

Year	Method	25th Percentile Ratio	50th Percentile Ratio	75th Percentile Ratio
2022	A	23:1	18:1	14.1:1
2021	A	43.4:1	34.3:1	26.6:1

The calculation is based on total remuneration between April 2022 and March 2023, our current CEO has been in post since 1 July 2022, this will have impacted the reduction in ratio as a comparison against 2020–21. The 2021–22 measure spiked because of a special bonus made on completion of the Macquarie Acquisition to some of our senior managers, including our CEO.

An internal Remuneration Committee exists, made up predominantly of non-executive directors, which is responsible for setting and agreeing salary arrangements for the Executive Leadership Team and ensuring that arrangements for this group are in line with the strategic direction of the organisation and managed fairly in the context of the organisation.

Executive remuneration within Southern Water is in line with the structure of remuneration for the wider population. The main elements of remuneration are salary, bonus and pension contributions. Other taxable benefits are included i.e. health benefits and car benefits.

Salary is benchmarked with the external market for all roles, including members of the Executive Team. Salary increases in the Executive leadership are made in line with the budget and principles applied in other areas of the organisation subject to approval by the Remuneration Committee.

## Implementation of policy for 2023–24 (unaudited)

### Base salary

The base salaries for each executive director are as follows:

Base salary	Base salary for 2022–23 (£'000)	Base salary increase (%)	Base salary from 1 April 2023 (£'000)
Lawrence Gosden	480.0	0%	480.0
Stuart Ledger	350.0	6%	371.0

Note: Lawrence Gosden has declined the 6% cost of living salary increase which otherwise he would have been eligible to receive.

# Directors' Remuneration Report continued

## Annual Bonus Plan and Long-Term Incentive Plan

The Annual Bonus Plan (ABP) is based on performance conditions designed to focus the executive directors on the areas of key strategic importance for the company. As such, the performance conditions will be strongly aligned with delivering customer and environmental outcomes and associated appropriate behaviours, while ensuring that the company continues to strengthen its financial position in the interests of customers and stakeholders alike.

### We have fully committed to comply with Ofwat's code of practice for executive remuneration for 2020–25 and our Remuneration Policy sets out:

- our policy to provide transparent alignment between executive performance-related pay and stretching outcomes for all our stakeholders and, substantially, for our customers
- our policy to apply stretching targets linked to customer outcomes
- our policy to apply rigorous application of incentive scheme rules and provide independent governance of remuneration decisions, while taking into consideration risk management principles
- our policy to defer an element of bonus so that performance can be measured over the medium to long term.

### Our performance measures for 2023–24 will focus on positive outcomes for our customers and other stakeholders

In determining the performance measures for 2023–24, the Remuneration Committee considered the expectation under the Ofwat Principles that the company's performance-related elements should be linked to stretching delivery for customers, as well as the steps needed to further embed the Ofwat code of practice for executive remuneration. It was agreed that the following measures will be used to assess our performance:

#### Annual Bonus Plan objectives

- Five Ofwat PR19 ODI performance commitments (Pollution incidents; Internal sewer flooding incidents; Leakage; CSS score from C-MeX and Water quality compliance – notice delivery)
- Health and Safety Transformation Programme
- Cash spend

## Scheme adjustment factors

Additional award/penalty for pollution incidents:

- For every quarter with two or more Category 2 pollution incidents a -2.5% ABP penalty applies, with a maximum -10% penalty for the year
- For every quarter with one or more Category 1 pollution incidents a -5% ABP penalty applies, with a maximum -20% penalty for the year
- If there are no Category 1 or 2 incidents during the year, an extra 20% ABP bonus applies.

If, at the financial year end, the 12-month rolling average Lost-Time Accident Frequency Rate is above **0.27**, there is a 2.5% ABP penalty. If it is above **0.35**, the ABP penalty increases to 5%. If it falls below **0.25**, the company will make a charitable donation. Starting position at 1 April 2023 was **0.27**.

If there is an employee or contractor fatality, the Remuneration Committee has discretion to reduce the ABP award to zero.

All targets are considered to be compliant with the company's section 19 Undertakings given to Ofwat in October 2019 and to drive positive compliance with environmental permits and performance more generally.

The above targets will apply to the whole company. Further adjustments are reserved to the committee for executives within its remit relating to individual and financial performance.

## LTIP and objectives applicable from 1 April 2023 to 31 March 2025

The introduction of the new Long-Term Incentive Plan for executives within the committee's remit was delayed by one year to allow the new Turnaround Plan to be finalised and to ensure KPIs are aligned with that plan. The applicable objectives are focused as follows:

- EPA
- CRI
- C-MeX
- Financial
- PR24 Final Determination.

Awards, weightings, targets and adjustment factors along with actual performance, will be fully disclosed in the 2023–24 Remuneration Report.