

Corporate governance



Chair's overview



“Over the past year, public scrutiny of the water industry and Southern Water has been intense, focusing on the impact of our activities on our customers and the environment.”

Keith Lough
Chair

As I reported last year, 2021–22 was a year of major events and changes for Southern Water. We were given a significant fine as a result of charges brought by the Environment Agency; we received a major investment from funds managed by Macquarie Asset Management (which led to changes in the composition of our Board); and both our CEO and CFO announced that they would step down. We invested in strengthening the culture and ethics of the company and renewed our commitment to deliver for the environment, with supporting investments.

I am pleased to report that 2022–23 has seen us continue to make progress. We have made significant steps to address our performance and laid the ground for immediate and longer-term investments to assure the current and future delivery of our customer and environmental commitments. This includes strengthening the financial resilience of the company.

However, we know that our performance is still not good enough. We also, quite rightly, remain subject to public and regulatory scrutiny. It has been our

duty as a Board to lead from the front, working with a strengthened executive team, to address the issues we continue to face in the short term while making plans for the longer term.

This report demonstrates how we, as a strong and active Board, have in place the corporate governance arrangements needed to continue to take the company forward. Rightly, we measure the Board and our governance against best standards in this field, and against the Ofwat Board leadership, transparency and governance principles. But in these times especially, we need to show that it does more than satisfy an assessment framework. As a Board we are the upholders of the company's overriding public service mission. Over the past year we have sharpened the role of the Board to ensure focus, and in particular we have aimed to:

- challenge and seek remedy in areas of poor performance to address short-term issues. The focus of our work here has been in developing the Turnaround Plan. The CEO, with the Executive team, has driven the creation of this plan, and it is strongly supported by the Board. Key features of this plan are explained by Lawrence in his report on pages 16 to 19. We are already beginning to see the benefits of the focus provided by the plan.
- give relentless focus to developing our business plan for 2025–30 with underpinning projects and programmes to secure our long-term future. This will be submitted to Ofwat in October 2023 and will chart the way for the medium to longer term. It includes major and innovative investment proposals.

We also see it as core to the company's long-term future that as a Board we should continue to:

- work closely with our investors and give them the confidence to provide the investment needed to secure the long-term success and prosperity of the company;
- work with government and regulators to build confidence that we are on track to turn round our performance;
- create an environment in which our own people are led and motivated to deliver on our important mission. An environment in which they can work safely and securely in the knowledge of the importance of what they do. We maintain a robust focus on being a company whose performance turnaround is underpinned by values and ethics.



As Chair, I have engaged with, and heard directly from key stakeholders, to ensure that we, as a Board, understand the issues and priorities of others.

A separate and more detailed report of the main areas on which the Board has focused during the year is on page 165.

Under the terms of our licence, Southern Water is required to meet the objectives set out in Ofwat's Board leadership, transparency and governance principles (the 'Ofwat Principles'). We set out our assessment of our compliance with the Ofwat Principles on pages 181 and 183.

In addition, the Board has further sought to embed more consistently its consideration of section 172(1) factors in its decision making. Our section 172(1) Statement can be found on pages 96 to 99.

Keith Lough
Chair
7 July 2023

Board of directors



Keith Lough
Chair

Non-Executive

Independent: On appointment

Committee membership:

N **RE** (until 31 July 2023)

Date of appointment:

01/08/2019

Experience:

Keith has extensive experience in the natural resources and energy sectors in both finance and leadership roles, including as finance director for British Energy plc between 2001 and 2004 during a period of major restructuring.

In addition, Keith served as non-executive chairman of Gulf Keystone Petroleum plc following a successful debt restructuring. Immediately prior to his appointment to the Board of Southern Water, Keith was a non-executive member of the Gas and Electricity Markets Authority (Ofgem), where he was chairman of the Audit and Risk Assurance Committee, having served on the board since 2012.

Keith holds an MA in economics and MSc in finance and is a Fellow of the Association of Chartered Certified Accountants.

External appointments:

Keith holds non-executive directorships in a number of oil and gas companies, including at Rockhopper Exploration plc as non-executive Chairman, and at Hunting plc as Senior Independent Director.



Lawrence Gosden
Chief Executive Officer

Executive

Independent: No

Committee membership: N/A

Date of appointment:

01/07/2022

Experience:

Lawrence joined Southern Water in May 2020 and was appointed to the Board on 1 July 2022 when he was appointed CEO.

Lawrence brings significant experience to the Board having worked in the water sector for over 30 years. He has a track record for successful operational and capital programme delivery and a wealth of experience delivering major infrastructure programmes, asset management, customer service and operational transformation alongside the provision of impactful and inclusive strategic leadership.

Prior to his return to Southern Water, Lawrence spent 12 years at Thames Water in a variety of senior executive and leadership positions. Notably he was managing director for wastewater and subsequently chief operating officer.

Lawrence gained a first-class honours degree in engineering before starting his career as a graduate at Southern Water.

External appointments:

Lawrence is a non-executive director at National Highways where, among other things, he chairs their health and safety committee.

Committee membership key

- A** Audit Committee **N** Nomination Committee **RE** Remuneration Committee
E ESG Committee **RI** H&S and Operational Risk Committee **●** Committee Chair

Board of directors continued



Stuart Ledger
Chief Financial Officer

Executive

Independent: No

Committee membership: N/A

Date of appointment:

03/01/2023

Experience:

Stuart joined Southern Water as CFO on 3 January 2023.

He has held senior positions both inside and outside the water sector. Stuart was previously the CEO at Affinity Water and the CFO for Affinity for the four years prior to that. Stuart's extensive experience in the industry also includes nine years at Thames Water as the CFO of the Retail business and as group financial controller. Prior to this, he was financial controller at Wolseley, following almost eight years at EDF Energy.

External appointments:

Stuart is a director of Landlord Tap Limited, a website that provides water companies with details of who is responsible for paying water or wastewater charges in tenanted properties. He is also a trustee of Rett UK, a charity supporting sufferers of Rett Syndrome, as well as their families and carers.



Mike Putnam
Independent Non-Executive Director

Non-Executive

Independent: Yes

Committee membership:



Date of appointment:

26/09/2017

Experience:

Mike has over 25 years' experience leading and managing multiple businesses across development and construction. He has since transitioned to a plural career with a portfolio of non-executive directorships.

Mike was president and CEO of Skanska UK between 2009 and 2017, responsible for a business with circa £1.8 billion revenues and 6,000 employees. Prior to this, he was executive vice president and main board director from 2001, as well as working across the group as a non-executive director on some of the international boards.

He was a member of the Construction Leadership Council and Chair of the Green Construction Board, both of which were partnerships between government and industry developing the industry change and sustainability agendas. He was also a non-executive director of the Association of Consulting Engineers.

Mike is a Chartered Engineer and a Fellow of both the Institution of Civil Engineers and Royal Institution of Chartered Surveyors.

External appointments:

Mike currently serves on the boards of Network Rail, The Programme Board of Transpennine Route Upgrade, Arcadis NV and Bazalgette (Tideway) Tunnel Ltd.

Board of directors continued



Dame Gillian Guy DBE
Senior Independent Non-Executive Director

Non-Executive
Independent: Yes

Committee membership:



Date of appointment:
12/11/2018

Experience:

Gillian joined the Board in November 2018.

Gillian is a lawyer and spent 11 years as chief executive officer of the London Borough of Ealing before becoming chief executive officer of Victim Support. Following this she became chief executive of Citizens Advice.

Gillian has previously served as a non-executive board member and chair of the Audit Committee of the National Audit Office, as a non-judicial member of the Sentencing Council for England and Wales, as chair of the UK Finance Consumer Advisory Group and as a member of the Banking Standards Board.

Gillian was awarded a CBE in the New Year's Honours List in 2015 and was awarded a Damehood in the 2020 New Year's Honours List for services to public and voluntary sectors.

External appointments:

Gillian is Independent Assessor to the Financial Ombudsman Service.



Malcolm Cooper
Independent Non-Executive Director

Non-Executive
Independent: Yes

Committee membership:



Date of appointment:
23/12/2019

Experience:

Malcolm joined the Board in December 2019 and was appointed as Chair of the Audit Committee.

Malcolm has extensive experience in the regulated utility sector, having worked for around 30 years at National Grid plc, British Gas plc and other companies. He was a member of the board of both National Grid Gas plc and National Grid Electricity Transmission plc.

Malcolm was previously a non-executive director of St William. He is also a past president of the Association of Corporate Treasurers and was a member of the Listing Authority Advisory Panel of the FCA.

Malcolm has a degree in Pure Mathematics and is both a Fellow of the Association of Chartered Certified Accountants and the Association of Corporate Treasurers.

External appointments:

Malcolm is a non-executive director at: Morgan Sindall plc where he chairs the Audit Committee and the Responsible Business Committee; MORhomes plc where he is Senior Independent Director and chairs the credit committee; and the Custodian Property Income REIT plc where he chairs the Audit Committee. He is a non-executive director and chair of the Audit Committee of Local Pensions Partnership Ltd.

Committee membership key

- Audit Committee
 ● Nomination Committee
 ● Remuneration Committee
● ESG Committee
 ● H&S and Operational Risk Committee
● Committee Chair

Board of directors continued



Christèle Delbé
Independent Non-Executive Director

Non-Executive
Independent: Yes

Committee membership:



Date of appointment:
31/05/2023

Experience:

Christèle Delbé is a sustainable business director with more than 18 years pioneering strategic initiatives and shifting behaviour to unlock tangible commercial benefits across food, consumer goods, technology and non-profit sectors. She is an issues expert on responsible supply chains and consumption, carbon, waste, packaging and human rights.

Christèle was head of innovation and partnerships for Bonsucro, the global sustainability standard for sugarcane, where she shaped and secured £1.5 million in funding for seven multi-stakeholder impact programmes. She has also advised organisations including UNICEF, Solidaridad, RNIB, Producers Direct on developing strategic partnerships with the corporate sector. As Supply Chain Solutions Director at KSAPA, she is currently co-creating innovative solutions for smallholder led agriculture value chains with organisations including GPSNR, Reckitt Benckiser and Coca-Cola.

Previously, as head of sustainable innovation for the Vodafone Group, Christèle pioneered a £5 million B2B programme that sparked the creation of four mobile products for Unilever, Nestlé, Danone, Anglo American to address supply chain, community and water challenges across Africa and Asia. As group head of sustainability at Orange Group, Christèle spent seven years embedding global sustainability strategy, ethics and reporting frameworks into seven countries.

External appointments:

None



Kerensa Jennings
Independent Non-Executive Director

Non-Executive
Independent: Yes

Committee membership:



Date of appointment:
31/05/2023

Experience:

Kerensa Jennings is an award-winning digital leader and adviser who has held senior leadership positions in the private, public and charitable sectors. Selected by Computer Weekly among the most influential tech leaders in the UK, she has served on a range of boards including commercial companies, social enterprises, charities and government committees.

A former director at the Royal Household where she was CEO of a Royal social enterprise based at Buckingham Palace, she was previously the BBC's Head of Strategic Delivery. Her remit as BT Group Director of Data Platforms is helping BT transform from Telco to Techco. Kerensa is also a professionally qualified executive coach and a bestselling author.

External appointments:

Her current portfolio includes chair at the Centre for the Acceleration of Social Technology (CAST) helping the social sector with digital, data and design; Trustee at Sir John Soane's Museum; chair at techUK Local Digital Capital Index Working Group; visiting professor of Media, Strategy and Communications at University of Huddersfield; Fellow at RSA; and Advisory Board member at Digital Leaders and at Digital Boost.

Board of directors continued



Steve Fraser
Non-Executive Director

Non-Executive
Independent: No

Committee membership: N/A

Date of appointment:
01/05/2022

Experience:

Steve has over 20 years' experience of managing and transforming infrastructure businesses, latterly as COO and a main board director of the FTSE100 water and wastewater company United Utilities.

He has a degree in management studies and a Master's in engineering management from UMIST and also holds a diploma in advanced management from Harvard University.

After leaving education, Steve trained in utilities operations working across water, electricity, and latterly high-pressure gas pipelines.

He became a director of Bethell Group, where he worked to establish them as a leading player in the energy services sector. This was prior to joining United Utilities in 2005 to run the global outsourcing division Energy and Contracting Services working across the UK, Europe and the Middle East.

External appointments:

Steve is the CEO at Cadent Gas, accountable for serving circa 11 million customers, across four gas distribution networks, as well as running the National Gas Emergency Number on behalf of all distribution networks.



Will Price
Non-Executive Director

Non-Executive
Independent: No

Committee membership:



Date of appointment:
08/09/2021

Experience:

Will joined the Board in September 2021.

Will joined Macquarie in 2007, and now heads the European Utilities team for Macquarie Asset Management.

Will has a Bachelor of Science in Economics and Politics from the University of Bristol in the UK. He also holds a Master of Finance from INSEAD business school in France.

External appointments:

Will currently serves as a non-executive director on the boards (and various wholly-owned subsidiaries) of National Gas in the UK, and EP Infrastructure and Czech Grid Holding in the Czech Republic.

Committee membership key

- A Audit Committee
 N Nomination Committee
 RE Remuneration Committee
E ESG Committee
 RI Health and Safety and Operational Risk Committee
● Committee Chair

Board of directors continued



Mark Mathieson
Non-Executive Director

Executive
Independent: No

Committee membership:



Date of appointment:
08/09/2021

Experience:

Mark joined the Board in September 2021.

A Chartered Engineer, and a Fellow of the Institution of Engineering and Technology, he has 33 years of experience in the energy utility sector.

Mark joined Macquarie in 2018.

Previously Mark was CEO at Green Highlands Renewables, and prior to that he spent 26 years at the North of Scotland Hydro Electric Board, subsequently part of SSE plc, where he was the MD responsible for electricity networks business.

He was also a non-executive director at the Smart DCC company, and is a past chair of both the Energy Networks Association, the trade association and EA Technology.

Mark has a Bachelor of Engineering in Electrical and Electronic Engineering from Heriot-Watt University, Edinburgh.

External appointments:

Mark sits on the Boards of Cadent Gas Networks, Nortegas Energia Grupo, and Distributie Energie Oltenia SA, an electricity distribution network in Romania.



Phil Swift
Non-Executive Director

Non-Executive
Independent: No

Committee membership:

Date of appointment:
31/05/2023

Experience:

Former President, National Grid Electricity Distribution (NGED)/CEO Western Power Distribution (WPD).

Phil joined WPD (then SWEB) in 1992 after graduating as an engineer and following an apprenticeship in the aerospace industry.

In July 2013, Phil was appointed to the Board of WPD as Operations Director. In this role, he was responsible for the business' network services, design, logistics and safety and training activities. In November 2018, Phil was appointed as Chief Executive.

In July 2020 Phil supported the sale process of WPD. This completed successfully in June 2021 with the acquisition by National Grid plc. WPD was renamed and rebranded in mid 2022.

Phil left NGED at the end of March 2023.

External appointments:

Elenia Oy, Finland



Richard Manning
General Counsel and
Company Secretary.
Secretary to all committees

Committee membership:
Secretary to all committees

Date of appointment:
24/07/2018

Experience:

Richard joined Southern Water in July 2018 as General Counsel and Company Secretary and now has overall responsibility for leading the Risk and Compliance directorate alongside his legal and governance roles. He is a member of the Executive Committee and the Executive Leadership Team.

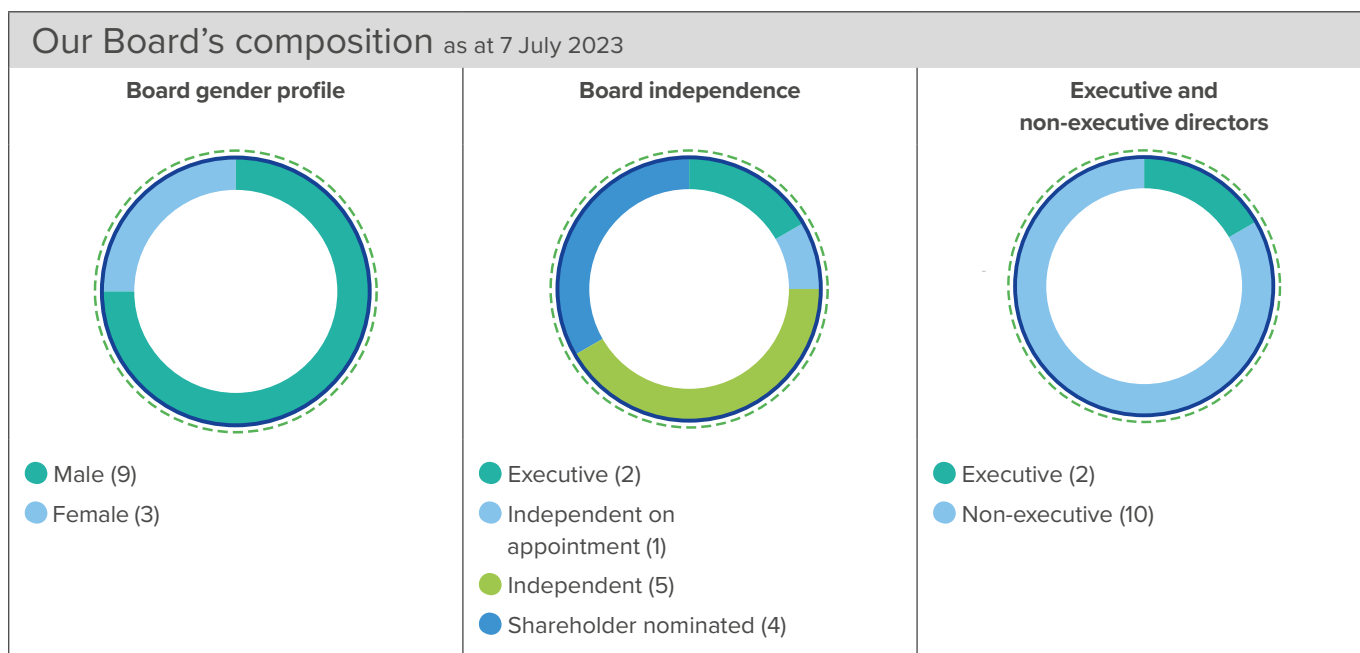
He has held similar roles in a number of listed and private companies including GCap Media plc, JJB Sports plc and Waterstones, and brings a wide experience of legal and governance matters.

Richard holds a law degree and an MBA and is a qualified solicitor.

External appointments:

None.

Board of directors continued



Board tenure

	Number of Board members				
	1	2	3	4	5
<One year					
One to three years					
Three to six years					
Six to nine years					

Governance at a glance

The year has seen **significant events** for the company and its Board.

What was on the Board's agenda this year

Operational performance

To deliver the next phase of the company's transformation plan and support the turnaround strategy.

Water quality

To deliver improved water quality and resilience at four key sites.

The environment

Developing solutions to reduce reliance on storm overflows.

Long-term plan submissions.

To deliver resilience through our Water for Life – Hampshire Programme, Water Resource Management Plans, Drainage and Wastewater Management Plans and Water Industry National Environment Programme.

Succession planning

Strengthening the Board with new members.

Price review 24

Planning for the next five-year business plan between 2025–30.

Committee highlights

Nomination Committee

Areas of focus this year:

- Recruitment of two new independent non-executive directors.
- Selecting candidates to replace the Chief Executive Officer and Chief Financial Officer.

Priorities for 2023–24

- Continued focus on Board succession planning.
- Board diversity.

Audit Committee

Areas of focus this year:

- Annual and interim financial statements.
- Assurance of regulatory submissions.

Priorities for 2023–24

- Assurance of our business plan for 2025–30.
- IT and internal financial controls.

Health and Safety and Operational Risk Committee

Areas of focus this year:

- Development of Health and Safety Transformation Programme.
- Safety as a fourth value.

Priorities for 2023–24

- Employee wellbeing.
- Measuring progress against the Health and Safety Transformation Programme.

Remuneration Committee

Areas of focus this year:

- Setting and reviewing executive remuneration, objectives and KPIs.
- Benchmarking executive pay.

Priorities for 2023–24

- Ensuring executive remuneration meets environmental and customer objectives.
- Incentivise executives to achieve the Turnaround Plan.

ESG Committee

Areas of focus this year:

- Defining our ESG priorities and outcomes against the company's overall strategy.
- ED&I and culture.
- Development of net zero plans.

Priorities for 2023–24

- Tracking progress against our gender action plan.

Corporate governance report

1

Competence and independence

Boards 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.

“Effective Boards must be comprised of individuals with diverse skillsets and experience, who exhibit independence of thought and judgment.”

Keith Lough

7 July 2023

Overview of the Board’s responsibilities

The Board’s role is to:

- establish the company’s purpose, strategy and values
- develop and promote the company’s purpose in consultation with a wide range of stakeholders
- determine overall strategic aims and direction consistent with the company’s purpose
- monitor and assess the company’s values and culture to ensure that behaviour throughout the business is aligned with the company’s purpose
- have full responsibility for all aspects of the company’s regulated business in the long term
- ensure that the company’s obligations to, and interests of, all its stakeholders, including customers, employees, key partners, contractors and regulators, are known and met appropriately
- provide effective leadership and collective responsibility for the long-term success of the company for the benefit of its members, taking into account the interests of a wide range of stakeholders, including customers, local communities, employees, suppliers and the company’s impact on the environment
- ensure that sufficient resources are available to the Chief Executive Officer and his team to operate, manage and develop the business appropriately to provide an essential public service to our customers
- ensure that appropriate and effective processes and controls are in place to assess and manage risk.

Greensands Holdings Board

The Shareholders’ Agreement of our parent company, Greensands Holdings Limited, reserves certain matters by exception to the board and shareholders of that company. This includes the company’s dividend policy, which can be found on page 110. While the policy governing dividends is subject to shareholder approval, the decision whether or not to recommend payment of a dividend from Southern Water Services Limited sits with the Southern Water Board. A schedule of those matters reserved to Greensands Holdings Limited is published at southernwater.co.uk/greensands-ownership-of-southern-water.

During the year 2022–23 a number of matters required the approval of the Board, the majority shareholder or shareholder of Greensands. These included approval of the company’s execution plan, financing – including that necessary to carry out the removal of the Cayman Islands entity – the investment for the four water quality strategic plans and the approvals required as a result of the major investment by funds managed by Macquarie Asset Management.

Corporate governance report continued

Shareholders

Greensands Holdings Limited Board of Directors

Certain key matters are reserved to the board of Greensands Holdings Limited and/or the shareholders.

Southern Water Services Limited Board of Directors

The Board of Southern Water is ultimately responsible for the company.

Executive Committee (ExCom)

Comprising the Chief Executive Officer, Chief Financial Officer, General Counsel and Company Secretary, Chief Operating Officer, Chief Customer Officer, Chief Information Officer, Chief People Officer and Director of Corporate Relations, it meets to agree areas of strategy and other matters critical to the company.

Executive Committees

The ExCom, alongside members of the company's senior leadership team, support the CEO in driving the implementation of strategy in the company. Comprised of the senior leaders of the functions and operational units, the executive committees meet regularly to:

- Consider performance and make decisions on operational matters;
- Oversee the company's transformation programme; and
- Consider health, safety, security and wellbeing, risk and compliance.

Corporate governance report continued

1. Competence and independence continued

The Board

The Board comprises the non-executive Chairman, two executives – the Chief Executive Officer and Chief Financial Officer – and nine non-executive directors, five of whom, making up the single largest group, are independent. It routinely determines the following matters:

- Business and financing strategy
- Business plans
- Approval of annual budgets
- Fixing of principal charges and schemes
- Approval of financial statements
- Key regulatory submissions
- Key customer and stakeholder publications
- Entering into significant contracts or commitments
- Approval of dividends
- Commencing new businesses
- Appointment or removal of the auditor, directors and company secretary
- Remuneration of independent non-executive directors.

During the year, the Board's agenda covered:

- The execution plan to deliver the company's business plan for 2020–25.
- Preparation and planning for the next five-year business plan for 2025–30.
- The development and approval of the water quality strategic plans.
- Strategic action plans to improve the company's resilience and performance and to support the turnaround strategy.
- Monitoring the company's environmental impact and the further development of the company's storm overflow reduction programme.
- Continuing to develop measures for monitoring of the company's culture, including the introduction of a new value, Working with Care.
- Reviewing and monitoring the company's progress against the undertakings given to Ofwat following the settlement in 2019–20.
- Risk appetite and risk monitoring.
- Development and approval of key regulatory submissions including the company's draft Water Resources Management Plan (WRMP),

Water Industry National Environment Programme (WINEP), Drainage and Wastewater Management Plan (DWMP), Water for Life – Hampshire (WfLH).

- Health and Safety Transformation Programme.
- Cost of living crisis and impact on customers.
- Water resources and the introduction of Temporary Use Bans.

Board committees

In line with both the Board leadership, transparency and governance principles published by Ofwat and the UK Corporate Governance Code as well as best practice, the Board has established a number of standing committees with specific responsibilities. These committees are:

Audit

Health and Safety and Operational Risk

ESG

Nomination

Remuneration

The committees assist the Board by monitoring and reviewing performance and issues within their respective scopes. Specific responsibilities have been delegated to these committees.

Each committee has written 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 terms of reference are reviewed at least annually.

In addition to the established committees, the Board constituted a Committee to oversee the Price Review 2024 (PR24) and other regulatory submissions, including our water resource and drainage and wastewater management plans.

Other committees are constituted if and when required for specific matters.

Formation of our ESG Committee

As reported last year, In February 2021, the Board approved the formation of an Environment, Social and Governance Committee to provide greater oversight and consideration of the material environmental, social and governance matters relevant to the company's activities, including environmental performance programmes and plans; social performance programmes, including employee engagement, equality, diversity and inclusion and community engagement; and governance matters relating to ethical and transparent business practice. The committee met for the first time in the reporting year.

Corporate governance report continued

1. Competence and independence continued

The Board

- Has full responsibility for the company's business over the long term.
- Establishes the company's purpose, values and culture and sets its strategy.

➔ Read more on pages 140 to 145

Audit Committee

- Monitors the integrity of the company's financial statements by challenging the basis of preparation and the judgments made.
- Monitors the integrity of non-financial information reported by the company.
- Keeps under review the company's internal controls and risk management systems.
- Reviews the company's overall risk appetite, tolerance and strategy and level of resilience.
- Oversees Internal Audit and the relationship with the external auditor.

➔ Read more on pages 172 to 176.

Health and Safety and Operational Risk Committee

- Monitors and advises on health, safety, security and wellbeing and makes appropriate recommendations to the Board.
- Reviews and monitors operational risks and related risk management systems.

➔ Read more on pages 177 to 178.

ESG Committee

- Reviews and provides oversight and consideration of the material environmental, social and governance matters relating to the company's activities.
- Monitors the company's culture including employee engagement, equality, diversity and inclusion and community engagement.
- Reviews governance matters relating to ethical and transparent business practice.
- Oversees the company's environmental plans.

➔ Read more on pages 179 to 180.

Nomination Committee

- Reviews the size, structure and composition of the Board.
- Evaluates the balance of independence, skills, experience and diversity on the Board.
- Leads the process for identifying and nominating candidates for approval by the Board.

➔ Read more on pages 168 to 170.

Remuneration Committee

- Sets remuneration policy for all executive directors and the Chair.
- Recommends and monitors remuneration for senior leaders.
- Approves the design of, and determines targets for, any performance-related pay schemes.
- Reviews the design of all long-term incentive plans.
- Oversees major changes to employee benefit structures.

➔ Read more on pages 184 to 201.

Corporate governance report continued

1. Competence and independence continued

Board meetings and attendance

A total of eight Board meetings were scheduled to take place during the year.

The attendance at scheduled Board meetings during the year was as follows:

Member	Attendance
Keith Lough	8/8
Ian McAulay ¹	2/2
Sebastiaan Boelen ²	3/3
Lawrence Gosden ³	6/6
Nadim Ahmad ⁴	2/2
Stuart Ledger ⁵	3/3
Paul Sheffield	7/7
Rosemary Boot	6/7
Mike Putnam ⁶	7/8 ⁶
Gillian Guy	6/8
Kevin McCullough ⁷	3/3
Malcolm Cooper	8/8
Mark Mathieson	8/8
Will Price	8/8
Martin Bradley ⁸	0/0
Steve Fraser ⁹	7/8

¹Ian McAulay resigned as a director on 30 June 2022.

²Sebastiaan Boelen resigned as a director on 31 July 2022.

³Lawrence Gosden was appointed a director on 1 July 2022.

⁴Nadim Ahmad was appointed a director on 31 July 2022 and resigned as a director on 3 January 2023.

⁵Stuart Ledger was appointed a director on 3 January 2023.

⁶Due to a date change for a Board meeting, Mike Putnam was unable to attend.

⁷Kevin McCullough resigned as a director on 31 July 2022.

⁸Martin Bradley resigned as a director on 1 May 2022. He remains a director of the company's ultimate holding company, Greensands Holdings Limited.

⁹Steve Fraser was appointed a director on 1 May 2022.

The agenda and papers are sent to Board members in advance of each meeting. A monthly performance report is distributed for the months when there is no scheduled meeting.

The Board usually holds its meetings at the company's head office in Worthing. The Board also endeavours to hold some meetings at an operational site during the year. In addition to the scheduled meetings, the Board holds a strategy day each year in order to provide an opportunity to discuss the company's future strategy and plans.

Where a director has a concern over any unresolved matter, they are entitled to require the Company Secretary to record that concern in the minutes of a meeting. Should the director later resign over the issue, the Chair would bring it to the attention of the Board.

All members of the Board were and are able to allocate the necessary time to the company in order to be able to discharge their responsibilities effectively.

Board composition

There have been a number of changes in the composition of the Board during the year. As reported last year, the then Chief Executive Officer (Ian McAulay) and Chief Financial Officer (Sebastiaan Boelen) announced their intention to retire in 2022–23. Nadim Ahmad served as interim Chief Financial Officer until the arrival of Stuart Ledger in January 2023. Kevin McCullough resigned as a director in July 2022, with Mark Mathieson assuming his role as workforce non-executive director. Lawrence Gosden was appointed CEO in July 2022.

Keith Lough has served as Chairman since 1 August 2019. Mark Mathieson and Will Price are also directors of the company's ultimate parent company, Greensands Holdings Limited.

As at 31 March 2023, women made up 18% of the Board (two out of 11 directors). During the year, the company's Nominations Committee has overseen the

recruitment of two new independent non-executive directors. As at 7 July 2023, women made up 25% of the Board (three out of 12 directors). The company is committed to having a diverse workforce that reflects the communities it operates in. The company publishes a Gender Pay Gap Report. Our report showed that the median pay gap remains in favour of female employees at -3.32%. In terms of the bonus gap, we have seen a further reduction from 16.1% to 14.95% in favour of male employees.

We are committed to supporting the aspirations of our talented female workforce and have implemented plans to address the gender pay gap. Read the full report at: southernwater.co.uk/gender-pay-gap.

In accordance with good governance practice, the roles of the Chair and Chief Executive Officer are separate.

Corporate governance report continued

1. Competence and independence continued

Board composition continued



Chair

The role of the Chair is to lead the Board in its shared responsibilities, to encourage and facilitate the contributions of its members and to ensure adherence to the governance principles and processes of the Board. Keith Lough has served as the company's Chair since 2019. In line with the Ofwat Board leadership, transparency and governance principles as well as the UK Corporate Governance Code, Keith was viewed as independent on appointment.

The Chair discusses and agrees Board meeting agendas with the Chief Executive Officer and Company Secretary, although any director may sponsor an item to be included on the agenda. The Chair has authority to act and speak for the Board between its meetings, which includes engaging with the Chief Executive Officer. The Chair reports to the Board, chairs of its committees and individual directors as appropriate on decisions and actions taken between Board meetings. The Chair also meets with the non-executive directors, without the executive directors present, to consider the performance of the executive directors and to provide feedback.

The Chair is not a member of the Greensands Holdings Limited (the company's ultimate parent company) board.



Chief Executive Officer

The Chief Executive Officer is a member of the Board and has all the responsibilities of a director of the company. Lawrence Gosden has served as the company's Chief Executive Officer since July 2022. In his executive role, responsibility has been delegated to him to deliver the company's strategy. He is empowered to take all decisions and actions that further the company's strategy and which, in his judgment, are reasonable within the Chief Executive Officer's limits set out in the company's internal controls and matters reserved to the Board. The non-executive directors, led by the Chair, appraise his performance annually.



Chief Financial Officer

The Chief Financial Officer is a member of the Board with all the responsibilities of a director of the company. Stuart Ledger was appointed as the company's Chief Financial Officer in January 2023. In his executive role and reporting to Lawrence Gosden, he has the responsibility for managing the company's financial affairs and assisting the Chief Executive Officer in the delivery of the company's strategy. His performance is reviewed annually by the Chief Executive Officer.



Senior independent non-executive officer

Paul Sheffield was the senior independent non-executive director for the reporting period. Paul chaired the Remuneration Committee and was also a member of the Nomination Committee.

As senior independent non-executive director, ordinarily Paul would chair Board meetings in the event that the Chair was unable to do so for any reason. In the capacity of senior independent non-executive director, he was available to discuss matters or concerns with investors as required.

Paul announced his intention to step down from the Board and he resigned as a director on 31 March 2023 and was replaced by Gillian Guy.

Corporate governance report continued

1. Competence and independence continued



Independent non-executive directors

The largest single group on the Board are the independent non-executive directors in accordance with the Ofwat Principles and as a matter of good governance practice. The number of independent non-executive directors is also in accordance with the company's licence conditions, which require at least three independent non-executive directors on the Board.

They provide independent advice and perspectives and review and challenge decisions and reporting on behalf of all stakeholders, including customers and the workforce. The independent non-executive directors have been appointed for their individual external expertise and experience in specific areas, such as customer service, the environment, operations, procurement, capital project delivery, regulation, transformation and for the range of their experience of general corporate management.

The non-executive directors also appraise the Chair's performance.

The standard terms and conditions for the appointments of independent non-executive directors can be viewed at: southernwater.co.uk/corporate-governance.



Shareholder representative non-executive directors

Under the terms of the Shareholders' Agreement, certain investors have a right to nominate for appointment non-executive directors to the Board of Southern Water. As a statutory director, such an individual has all the duties, obligations and rights of a director of Southern Water. As such, they act in accordance with the directors' duties set out in the Companies Act 2006, including those set out in section 172 to promote the success of the company for the benefit of its members as a whole, having regard to the long term and the interests of the company's stakeholders.

The funds managed by Macquarie Asset Management have nominated four directors – Mark Mathieson, Will Price, Steve Fraser (from 1 May 2022 when he replaced Martin Bradley) and, from 31 May 2023, Phil Swift – to act as shareholder representative non-executive directors. Please refer to pages 144 to 145 for details of the background and experience of the shareholder representative non-executive directors.

Neither Will Price nor Mark Mathieson receive any remuneration from Southern Water. In May 2023, Phil Swift was nominated to act as a shareholder representative non-executive director, with the intention that Mark Mathieson will leave the Board later in the year.



Company Secretary

All directors have access to the advice and services of the Company Secretary, Richard Manning, and the Company Secretariat team. The Company Secretary is responsible for ensuring that the Board operates in accordance with the adopted governance framework and that there are good information flows to the Board and its committees and between senior executives and the non-executive directors. The appointment and removal of the Company Secretary is a matter reserved to the Board.

Directors are also able to obtain appropriate independent professional advice in connection with the performance of their duties.

Corporate governance report continued

1. Competence and independence continued

Board independence

In accordance with the Board leadership, transparency and governance principles published by Ofwat, the majority of non-executive directors have been independent and independent non-executive directors were the largest single group on the Board throughout the year.

Following listed company best practice, the Board takes into account those matters listed in Provision 10 of the UK Corporate Governance Code, as well as any other relevant circumstances or considerations in forming its assessment of the independence of directors.

The Board considers that the independent non-executive directors were throughout the year, and continue to be, independent in character and judgment and persons of standing with relevant experience, collectively having connections with, and knowledge of, the company's area and understanding of the interests of our customers, communities, workforce, suppliers and the environment and how these can be respected and protected.

Conflicts or potential conflicts are governed by the Companies Act 2006. The Board does not have power to authorise conflicts under the company's Articles of Association. If a conflict should arise, the conflicted director takes no part in discussions and may not vote on that issue. During 2022–23, no director declared a material interest at any time during the year in any contract of significance with the company.

Balance of skills and experience of the Board (as at 7 July 2023)

The Board, as a whole, has an appropriate balance of skills, experience, independence and knowledge of the company, and the Board provides independent support and advice as well as new ideas and healthy challenge. The number of directors with significant and/or material skills, knowledge and experience related to the key areas necessary to deliver the company's strategy is summarised below. Details of the individual Board members' experience are on pages 140 to 145.

	1	2	3	4	5	6	7
Capital programmes							
Operations							
Customer							
Environment							
Governance							
Regulation							
Financing							
Transformation							
Utilities sector							
Digital and technology							

Moving towards creating a resilient water future for our customers

In order to be able to deliver for our customers and the communities we serve, the Board requires a diverse range of skills and experience. The table above shows the current Board members in terms of their primary skills and experience.

Corporate governance report continued

1. Competence and independence continued

Board Report

Introduction

The Board takes full responsibility for setting the company's strategy and holding the executive to account for performance. Specifically the Board's role is to:

- establish the company's purpose, strategy and values
- develop and promote the company's purpose in consultation with a wide range of stakeholders
- determine overall strategic aims and direction consistent with the company's purpose
- monitor and assess the company's values and culture to ensure that behaviour throughout the business is aligned with its purpose
- have full responsibility for all aspects of the company's regulated business in the long term
- ensure obligations to, and interests of, all company stakeholders are known and met appropriately
- provide effective leadership and collective responsibility for the long-term success of the company for the benefit of its members, taking into account the interests of a wide range of stakeholders, including customers, local communities, employees, suppliers and the company's impact on the environment
- ensure that sufficient resources are available to the CEO and his team to operate, manage and develop the business appropriately
- ensure that appropriate and effective processes and controls are in place to assess and appropriately manage risk.

The Board plays a critical role in setting the tone of the company and acting as an interface with key stakeholders – the company's customers and shareholders, communities, government, regulators.

The Board works through and with its committees to ensure proper oversight of the company's business. The role of committees is described on page 151. Each committee makes its own report setting out its responsibilities and the key areas it has addressed during the year. This report of the Board's activities sets out the areas where the Board has focused during the year.

Setting long-term strategy

A key focus for the Board in 2022–23 has been the development of the company's investment plan for the next Price Review period 2025–30. The Board met in February 2023 for a day dedicated to the company's strategic objectives, outcomes and priorities, informed by what is important to customers and stakeholders as well as taking account of current and future trends.

Aligning purpose, values and culture

The Board reaffirmed the company's purpose and vision, which remain:

Our purpose: To provide water for life to enhance health and wellbeing, protect and improve the environment and sustain the economy.

Our vision: To create a resilient water future for customers in the South East.

Last year's annual report set out in detail the steps the Board had taken to ensure that the company's values, culture and ethics were aligned with its purpose. The Board felt then – and continues to feel – that a robust and ethical culture is critical to avoiding negative behaviours of the past and is a crucial underpinning to the delivery of the company's purpose and vision. The Board has given its strong endorsement to the company's Code of Ethics. The Board continues to monitor key indicators of culture, whether directly or through its committees. A nominated Board member takes a specific interest in workforce engagement and reports to the Board on these matters.

During the year, management considered the company's existing company values and, in taking steps to improve the safety culture of the business, the company identified an absence of a specified safety core value. The Board was pleased to support and approve a fourth value: Working with Care. It supports the company's commitment to ensuring that everyone returns home safely and healthy at the end of the working day.

Corporate governance report continued

1. Competence and independence continued

Addressing performance issues

The Board has maintained focus on the company's performance, overseeing and supporting the development of programmes and plans to continue improvements to both short-term and long-term performance.

In March 2022, the Board welcomed Marcus Rink, Chief Inspector at the Drinking Water Inspectorate (DWI). Subsequent to an internal review, management developed a new planning process to better understand and manage the company's water quality risk and support long-term resilience at four of its critical water sites. The Board oversaw, supported, and approved submissions to the DWI, having previously approved the additional investment to deliver the improved performance required. The Board will continue to track performance against the plans to ensure timely delivery.

Throughout the year there has been increased scrutiny on all water companies on the operation of their storm overflows and management of discharges to the environment. The Board has ensured that it has received updates on the company's performance and endorsed and supported management's plans to continue to deliver performance improvements.

Within the reporting year, several significant operational incidents have occurred, impacting the supply of water to some of our customers. The Board ensures that it is kept up to date during these events, challenging and supporting management to ensure that key learnings are identified and acted upon, including the support provided to customers both during and after the event. Read more about the company's operational performance on pages 42 to 95.

Turnaround Plan

In April 2023, the company published its two-year delivery plan to rapidly improve performance. The Board has supported its development. It contains stretching performance targets that underpin business priorities to improve our service to customers and the environment. Alongside the plans, the CEO has strengthened his leadership team to maintain focus on driving delivery against the performance targets and building on improvements.

Long-term resilience

In addition to the company's plans for the next five-year investment period, the Board has overseen the company's water

resource management planning (WRMP), including the significant Water for Life – Hampshire programme (WfLH). The Board is committed to the development of water resource plans that include innovative solutions to continue to provide a resilient water supply to its customers while protecting the important river habitats within its region.

As well as overseeing significant programmes for water, the Board oversaw and approved the Drainage and Wastewater Management Plan (DWMP), the company's strategic long-term plan for the next 25 years that sets out the investment needs to manage and reduce risks, arising from the performance of our wastewater systems, to our customers and the environment.

Holding the company to account for performance

The Board dedicates considerable time to the monitoring of performance, keeping under review activities within its remit, as will be seen from individual committee reports. The Board carries out its monitoring and oversight role as follows:

- Each committee chair reports matters considered by the committee at Board meetings.
- At each meeting the Executive team presents a reporting suite, including the CEO and CFO reports, an operational performance report of key KPIs, and a report on health and safety.
- In addition to its core meetings, the Board conducts deep dives into specific topics, with matters considered in the year including – cyber security risk, water quality and public health, the cost of living crisis and the impact on customers, the company's Health and Safety Transformation Programme and pollutions.
- The Board conducts periodic site visits to enable it to get a first-hand feel for issues and to hear the views of Southern Water colleagues.

Where performance falls below levels expected the Board will always interrogate the facts and background to the issue and will seek to give firm support to the Executive team in ensuring appropriate remedies.

Sustainability

With the formation of the ESG Committee, the Board is ensuring that it is enhancing its oversight of sustainability and that it is a key component

Corporate governance report continued

1. Competence and independence continued

within the company's vision and purpose. In addition to the matters brought to the ESG Committee, see pages 179 to 180, the Board receives regular updates on ESG matters.

Other key matters considered during the year

- Environmental Performance, as measured through the Environment Agency's Environmental Performance Assessment.
- Deep dives on water quality and public health, cost of living crisis (customer), Health and Safety Transformation Programme, non-financial regulatory performance commitments, pollutions, storm spills.
- Leakage performance.
- Customer charges, including the enhancement of the company's social tariff offering.
- Section 19 compliance and monitoring report.
- Water quality (CRI) and delivery of Final Enforcement Orders (FEOs).
- Customer service improvement plan.
- Risk management.
- Code of Ethics review.

Board evaluation

The full results of the external evaluation, carried out by Korn Ferry, were received at the end of the 2021–22 year. The focus of the Board in 2022–23 has been on embedding the changes recommended by that review. Within the reporting year, the Chair and Board have undertaken an informal review, linked to the recruitment of new appointments to the Board.

Corporate governance report continued

2. Purpose, value and culture continued

2

Purpose, values and culture

The company Board establishes the company's purpose, strategy and values, and is satisfied that these and its culture reflect the needs of all those it serves.

"The company's purpose is why it exists. Its purpose should influence all of the company's actions and the company's strategy must fulfil its purpose."

Keith Lough

7 July 2023

Our purpose:

To provide water for life to enhance health and wellbeing, protect and improve the environment and sustain the economy.

Our vision:

To create a resilient water future for customers in the South East.

Establishing Southern Water's purpose

The Board is responsible for establishing Southern Water's purpose and for ensuring that its decisions in respect of its strategy enable it to deliver this purpose. The Board and the company must stay informed and take into account the interests of a wide array of stakeholders. It must ensure that its activities, which affect matters such as support for the vulnerable, infrastructure investment, measures to protect the environment and engagement with the public to reduce water consumption, support the company's purpose.

Alignment of Southern Water's purpose with values and culture

Values dictate how a company acts when delivering its purpose. The company's culture should align with those actions in order to deliver on its purpose.

One of the key expressions of the company's values is its Code of Ethics. The code sets out the behavioural expectations for colleagues and partners, as well as showing the values guiding how Southern Water conducts its business.

The Board plays a key role in setting the tone for the business, and has consistently supported the commitment to embedding ethical business practice throughout the organisation. All Board members have signed up to the Code of Ethics, and it has been personally endorsed by the Chair and Chief Executive Officer.

The Board has continued to monitor the company's culture, building on the steps taken to ensure that the unacceptable behaviours never happen again.

Corporate governance report continued

2. Purpose, value and culture continued

A key area of focus for the Board is to monitor culture

Monitoring and assessing our culture

As reported last year, a core component of the company's cultural change programme was the development of appropriate and informative measures. These can be used to inform the Board about the culture within the organisation and the progress made in terms of the attempts to change culture for the better.

Building on the company's cultural change programme, the development of the company's Turnaround Plan supports ethical working and the alignment of culture to business outcomes.

As the company's approach has matured, the measurement of culture has continued to evolve, to enable the Board to better understand the extent to which ethical business practices have been embedded within the organisation. This includes the monitoring of the company's and individuals' behaviours, compliance and enterprise risk actions and controls.

Culture Change Group

The Culture Change Group continued to meet throughout the reporting period, sharing ideas and best practice and monitoring progress against the culture measures and action plans, to further embed ethical business practice across the business.

3.89

Gallup survey score
out of 5

These results provide
valuable insight for the
Board.

Corporate governance report continued

2. Purpose, value and culture continued

The Board has continued to monitor the company’s culture and the effectiveness of the company’s **values to support ethical business practice** across the organisation

How the Board continued to monitor culture over the past year

Regular reports on Speak Up

Link to culture

The Audit Committee receives regular reports on the company’s Speak Up policy, including information in respect of the number and seriousness of the reports.

By monitoring concerns raised, often anonymously, the Board is afforded insight into the potential ethical culture within the business and can take steps accordingly.

Reviewing the results of employee engagement surveys

Link to culture

Both the all-employee GALLUP and targeted ‘pulse’ surveys provide valuable insight into the attitudes within the company.

By reviewing the high-level results, the Board is informed about the level of engagement across the business. Engagement, values and ethics have a positive correlation.

Reviewing progress against the company’s ED&I action plan

Link to culture

A series of activities has been developed to drive the company towards a leader-led organisation.

By reviewing progress against defined measures, the Board is able to fulfil its role in leading, enabling and governing inclusion in the organisation.

The Board has continued to review metrics to effectively monitor culture including:

- Employee engagement scores
- Gender hourly pay and bonus pay and gender distribution
- Near misses and employee sickness
- Pollution incidents and compliance
- Water Quality compliance
- Customer satisfaction (C-MeX) and complaints
- Speak Up (whistleblowing) reports.

Corporate governance report continued

2. Purpose, value and culture continued

Examples of ways that the Board monitors and assesses culture

Board member/group	Examples
Audit Committee	The committee receives regular reports on the company's Speak Up policy, including information in respect of the number and seriousness of the reports.
Health and Safety and Operational Risk Committee	The committee receives regular reports on health and safety matters, including the number of incidents/accidents and the culture of health and safety in the company, in particular trends with regard to 'near-miss' and hazard reporting.
ESG Committee	The committee receives regular reports on people and culture, including ED&I, employee engagement and development.
Workforce engagement non-executive director	The director meets regularly with employee forums and the company's HR team to enable him to understand the views within the organisation.

Stakeholder engagement

Throughout the year, the Board has been kept informed of the views of the company's stakeholders, including its regulators, suppliers, investors and government. The company's Chair and Chief Executive Officer regularly attend meetings with government bodies such as Ofwat, the Department for Environment, Food and Rural Affairs, the Environment Agency and Drinking Water Inspectorate.

The CEO also regularly attends meetings and other events with Water UK in respect of matters relevant to the water sector as a whole.

Further information about stakeholder engagement can be found on pages 33 to 41 and as part of the company's section 172(1) Statement on pages 96 to 99.

Employee engagement

In accordance with the UK Corporate Governance Code and in support of the Board's duty under section 172(1) to consider the interests of the company's workforce as well as part of the Board's role in its monitoring and assessing of culture, Mark Mathieson succeeded Kevin McCullough as the appointed non-executive Director with the remit of communicating the views of the company's workforce (as defined in the UK Corporate Governance Code) to the Board.

The scope of this role includes:

- Obtaining and communicating to the Board the views of the company's workforce in respect of matters, including pay and conditions; health, safety and wellbeing; working environment and culture. This enables the Board to give appropriate consideration of the interests of the workforce. Communication methods include: regular meetings with the company's workforce representatives, the HR Director, the Director of Corporate Relations and the Head of Health, Safety, Security and Wellbeing; attendance at workforce events; and visits to operational sites and offices.
- Providing regular reports to the Board.
- At least annually, meeting with the chair of the Remuneration Committee to enable the committee to take into account the conditions of the workforce when setting executive remuneration policy (in accordance with the UK Corporate Governance Code).

Following on from their success during 2022–23, during the year the Chief Executive Officer also carried out bi-monthly meetings via tele- and video-conferencing facilities with all employees invited to attend and ask any questions.

Corporate governance report continued

2. Purpose, value and culture continued

Board listening approach

Board listening channels	What this channel brings
Non-executive director for workforce engagement	This provides an opportunity for the Board to obtain information about the views of the workforce directly as opposed to via management.
Company Conversations	These provide an opportunity for all employees to directly ask questions of and communicate their concerns to the CEO.
All-employee surveys	The all-employee surveys give the Board an insight into the engagement and satisfaction levels of employees as well as insight into the culture and ethics of the organisation.

A letter from Mark Mathieson



Mark Mathieson
Non-executive Director

“My understanding of employee engagement and concerns reinforces my work on the Health and Safety and Operational Risk Committee, and the ESG Committee.”

Mark Mathieson
7 July 2023

➔ [Read more about employee engagement on pages 69 to 74.](#)

“Since the changes introduced by the UK Corporate Governance Code in 2018, one of the suggested methods for the Board to obtain a clearer understanding of the concerns of the workforce is to assign a non-executive director with the remit of engaging with the workforce and reporting to the Board. In 2022, I succeeded Kevin McCullough to the role to provide an important, potentially, alternative route for employees to raise concerns as well as provide a perspective on employee concerns and engagement, independent of management.











“As such, during the year, I have attended meetings with the company’s human resources management and the workforce representative groups. I am pleased to see that various matters brought to the Board are discussed and tested with our Employee Voice group and other employee forum, for example the fourth value, Working with Care, and the development of the Health and Safety Transformation Programme.

Corporate governance report continued

2. Purpose, value and culture continued

Board activities

During the year, the Board reviewed and considered a number of key matters as part of implementing the company's strategy.

Area	What was reviewed and considered?	Link to our strategy
Business strategy The company's plan to deliver over the 2020–25 period and beyond.	The Board considered the impact of changes to the company's design and delivery of capital projects to improve the resilience of its assets as well as a move toward more proactive maintenance. In addition, the Board has approved a Turnaround Plan to deliver the company's business objectives.	  
The environment The company's impact on the environment.	The Board oversaw the launch of the company's storm overflow reduction programme.	
Our customers The company's delivery for our customers.	The Board reviewed and monitored the steps taken by the company in response to the cost of living crisis, including customers in financial difficulty as well as those who are vulnerable. The company increased the minimum discount for eligible households on its social tariff from 20% to 45%.	 
Our finances The company's ability to continue to operate as a going concern and deliver its strategy.	The Board reviews the company's performance and its finances at every Board meeting. In the face of significant cost pressures over the last 18 months, including above inflation increases for energy, costs for the maintenance and upgrade of its network, as well as higher funding costs, to maintain its turnaround momentum, Southern Water has engaged with its shareholders to seek an additional £550 million of equity funding into the group. This process is expected to complete later in 2023.	  
Our people The health and safety and wellbeing of our workforce.	The Board reviewed the company's Health, and Safety Transformation Programme, which seeks to further embed a health and safety culture within the organisation. The Board approved the company's fourth value, Working with Care.	

Key:



Deliver great service



Protect and improve the environment



Use water wisely



Fit for the future

Corporate governance report continued

3. Effectiveness

3

Effectiveness

The regulated company has an effective board with full responsibility for all aspects of the regulated company's business for the long term.

"A Board must be effective if the company is to deliver its strategy and plans. In assessing its effectiveness, the Board must take steps to address areas identified for improvement."

Keith Lough

7 July 2023

An evaluation should consider the balance of skills, experience, independence and knowledge, and diversity.

Board evaluation

In line with the UK Corporate Governance Code and the Ofwat Principles, there is an annual evaluation of the Board in terms of its performance and effectiveness. Due to the major changes on the Board following the investment by funds managed by Macquarie Asset Management in 2021, it was agreed that a second successive annual external evaluation, facilitated by Korn Ferry, would take place at the beginning of 2022, notwithstanding that there was an external evaluation during 2020–21.

Typically, in accordance with listed company best practice, Southern Water conducts an externally-facilitated Board evaluation once every three years.

2020–21	External evaluation
2021–22	External evaluation
2022–23	Internal evaluation

Progress against last year's evaluation

The Board evaluation during 2022–23 was undertaken internally, and built on the external evaluation that took place in 2022.

Good progress has been made in all areas identified by the Board evaluation conducted in early 2022.

Corporate governance report continued

3. Effectiveness continued

Evaluation of the Board

The internal evaluation was based on a number of key areas to be assessed, which were defined in conjunction with senior management, and were addressed during interviews with each of the directors. These areas included: alignment with strategy and direction of the group; alignment on Board responsibilities; Board composition; directors' contributions; quality of discussions; delivery; quality of secretariat support; and effectiveness of Board committees.

Following the completion of the evaluation, the outcomes and suggested actions were presented to the Board by the Chair.

The Board also conducted an evaluation of the Chair, led by the senior independent non-executive director. The feedback from the review by the senior independent non-executive director and from the non-executive directors consulted as part of this process was positive.

Board development and training

The Board also has access to professional development provided by external bodies and by the company's professional advisers.

In the Chair's annual appraisal of the non-executive directors, he considered any specific training and development needs for the non-executive directors. The Board members individually also carry out their own training and development, such as by attending relevant seminars and workshops to ensure that their knowledge is kept up to date.

Corporate governance report continued

3. Effectiveness continued

Nomination Committee Report

Message from the Chair



It has been another full year for the Nomination Committee. There have been planned Board changes relating to the retirements of two long standing directors, Rosemary Boot and Paul Sheffield, whose terms came to an end.

The committee has been actively recruiting two new independent non-executive directors. This is in addition to the appointment of a new CEO and CFO, following the retirement of the incumbents. I reported last year that a priority of the Board for 2022–23 was to improve diversity and I am delighted that Kerensa Jennings and Christèle Delbé joined us in May 2023, alongside Phil Swift, a shareholder nominated non-executive director. All bring fresh perspectives and diversity of opinion and thought.

We have supported Lawrence Gosden in his continuing strengthening of the executive team, welcoming a new Chief People Officer, Usha Baidya, and Deborah Binks Moore as Interim Director of Corporate Relations in May 2023.

As I reported last year, an independent third-party effectiveness evaluation was undertaken towards the end of 2021–22 and we have focused on implementing the recommendations. As part of our recruitment processes, we have undertaken an informal review to ensure that the Board remains effective, while strengthening it in key areas. I have led that review, supported by Paul Sheffield as senior independent non-executive director.

Keith Lough

Chair of the Nomination Committee

7 July 2023

Committee membership



Keith Lough

Chair

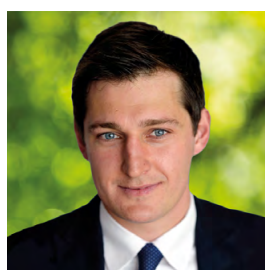
Attendance 2/2



Paul Sheffield

Committee member

Attendance 2/2



Will Price

Committee member

Attendance 2/2

Note: Following the retirement of Paul Sheffield on 31 March 2023, Gillian Guy was appointed to the Nomination Committee.

Areas of focus this year:

- Selection process and appointment of new Chief Financial Officer and Chief Executive.
- Board diversity.
- Implementing the recommendations of the externally facilitated Board review.
- Selection process for two new independent non-executive directors.

Priorities for 2022–23:

- Continued focus on Board succession planning.
- Supporting the continuing drive for diversity on the Board, and within the company.
- Supporting the strengthening of the Executive team.

Corporate governance report continued

3. Effectiveness continued

Our role is to ensure an effective Board

Introduction

The Nomination Committee is responsible for reviewing the structure, size and composition of the Board and, based on the results of this review, for assessing the balance in terms of independence, skills, experience, expertise and diversity on the Board and making appropriate recommendations based on this assessment. The committee leads the process for identifying and nominating candidates to fill independent non-executive director vacancies.

Board appointment process

The Nomination Committee leads the appointment process for a new independent non-executive director based on criteria for skills, experience and knowledge, determined as a result of the committee's review of the Board's composition. The committee, typically supported by an external search firm with no connection to the business, produces a role specification and then leads the search for appropriate candidates. The preferred candidate is selected through a series of meetings between Board members and the candidate(s).

When the committee is satisfied with its preferred choice, it then recommends the appointment to the Board for approval. The candidate is also required to meet with Ofwat under the provisions of the Board leadership, transparency and governance principles. Once the candidate has met with Ofwat and, subject to receipt of approvals by the Southern Water Board and under the terms of the Shareholders' Agreement between investors in Greensands Holdings Limited, the individual is appointed as a director according to the terms published at: southernwater.co.uk/our-story/our-governance/appointment-of-non-executive-directors.

The Board, as a whole, supported by the Nomination Committee, appoints those individuals nominated by investors under the terms of the Shareholders' Agreement. These candidates are, as with the independent non-executive directors, required to meet with Ofwat prior to appointment.

The current Chair would not chair the committee if it was considering his succession.

Director induction

On appointment to the Board, induction coverage is agreed with each appointee and then an appropriate comprehensive and individualised induction is provided. This will include access to, and time with members of the executive and other key staff, information on the company structure, the regulatory framework of our business, customer service and the operation of assets, strategic plans, financial reports, business plans and our governance framework and holding group structure. In addition, the appointee will meet with the company's external advisers as appropriate. The appointee will also be afforded the opportunity to visit the company's sites.

Board diversity

Diversity of views and opinions in a decision-making body ensure that proposals face sufficient scrutiny and challenge, and that decisions are made based on a broad range of perspectives.

Diversity and different perspectives facilitate innovation, which is of great importance for any business. Therefore, the composition of the Board is made up of individuals from a diverse range of backgrounds, industries and professions to encourage a diverse range of perspectives. Furthermore, a Board must also reflect the communities and other stakeholders served by that business and there should be representation of different genders and of different ages, ethnic and social groups.

The Board continues to be supportive of greater representation of those historically underrepresented in senior leadership positions and seeks to, as a minimum, aim to meet the expectation applicable to listed companies that at least 25% of Board members are female. Women made up 18% of the Board (two out of 11 directors) as at 31 March 2023, and 25% of the Board (three out of 12 directors) as at 7 July 2023.

Corporate governance report continued

3. Effectiveness continued

Approach to succession planning

A considered and thorough assessment of the skills and expertise on the Board and what will be required in the future is of great importance for the long-term resilience of an organisation. The Board, assisted by the Nomination Committee, has reviewed its current array of skills and expertise as well as what is required in order to ensure that the Board continues to be effective.

Conflicts of interest and time commitments

As a matter of law as well as being able to function effectively, directors must be free of conflicts between the interests of the company and their own interests, or, where such conflicts are unavoidable, appropriate mitigations must be in place. Directors are required to declare any external interests that they or persons closely connected to them might have which could, reasonably, conflict with the interests of Southern Water. Under its Articles of Association, the Board of Southern Water is not permitted to authorise conflicts of interest.

The Board is aware of the potential for conflicts of interest in respect of the directors nominated by the investors and closely monitors this. As statutory directors, these individuals must manage any conflicts arising from their position in accordance with the provisions of the Companies Act 2006.

It is accepted that most directors will also have appointments on other boards (or similar bodies) or, in the case of non-executives, potentially also have full-time executive positions in other companies.

This is viewed positively, as it allows for a breadth of experience and enables Southern Water to take advantage of perspectives and expertise from other industries and sectors. However, the director must be able to devote sufficient time to their role at Southern Water and be able to discharge their duties effectively. Therefore, the number of external appointments of each director is kept under review. Under their terms of appointment, independent non-executive directors are expected to devote at least 24 days per year to their role.

The Board is satisfied that all directors were able to devote sufficient time and attention to their role at Southern Water throughout the year.

Corporate governance report continued

4. Transparency and accountability



4

Transparency and accountability

The Board's leadership and approach to transparency and governance engenders trust in the regulated company and ensures accountability for their actions.

"The role of the Board is to ensure the transparency and accuracy of all information published by the company. This is vital in order to build trust and confidence."

Malcolm Cooper

7 July 2023

The Board is there to make sure that the company reports transparently about its performance to markets and key stakeholders such as its regulators and customers.

The publication of financial statements and other documents is a core element of ensuring transparency and accountability on the part of the company. These disclosures must be correct and accurate, otherwise they cannot be relied upon by their respective audiences. The Audit Committee plays a key role in this process.

The committee is supported in its work by both internal and external auditors who can give independent assurance of the information presented by management.

Companies must also be transparent about the market and environment in which they operate, including the risks faced and what risks the company is willing to accept as well as its strategies for mitigation of these. Accordingly, companies need to clearly understand the risk landscape in which they operate and the Board needs to agree what level and type of risk is acceptable.

Corporate governance report continued

4. Transparency and accountability continued

Audit Committee Report

Message from the Chair



The Audit Committee has had a full agenda this year. In addition to focusing on both financial and non-financial reporting for the annual and interim financial statements, the committee has overseen the assurance for key regulatory submissions throughout the year.

The committee has continued to monitor the company's culture programme through regular updates on the Speak Up service, as well as progress against the obligations, commitments and undertakings of the company to its regulators.

Management reported the status of its IT and internal financial controls to the committee, identifying actions to address identified areas for improvement.

Malcolm Cooper

Chair of the Audit Committee

7 July 2023

Committee membership



Malcolm Cooper

Chair

Attendance 4/4



Rosemary Boot

Committee member

Attendance 3/4



Will Price

Committee member

Attendance 4/4

Note: Following the retirement of Rosemary Boot, Kerensa Jennings was appointed to the Audit Committee on 31 May 2023.

Areas of focus this year:

- Annual and interim financial statements.
- Non-financial assurance.
- Progress on undertakings and commitments given to our regulators.
- Assurance for the Price Review 2024, our Drainage and Wastewater Management Plan, Water Resource Management Plan, our submission to the Water Industry National Environment Programme and our Water for Life – Hampshire programme.
- Compliance and controls.
- Ongoing investigations and the associated accounting treatment.

Priorities for 2023–24:

- Assurance of our business plan for the period 2025–30.
- IT and internal financial controls.

Corporate governance report continued

4. Transparency and accountability continued

Introduction

The Audit Committee focuses on the monitoring and review of the company's internal controls in respect of its financial and non-financial data, as well as the controls put in place to address risk within the business in areas such as legal and regulatory compliance, and information governance and information security. The committee also oversees the relationship with the company's external auditors and oversees the work of the company's internal audit function. As reported last year, responsibility for monitoring and reviewing risk appetite and 'strategic' risks moved to the Audit Committee from the then Risk Committee. The Health and Safety and Operational Risk Committee continues to have responsibility for the monitoring of operational risk.

A primary area of focus is the company's annual and interim financial statements, including reviewing, assessing and recommending to the Board related areas including any relevant judgments and accounting treatments, going concern and long-term viability statement and 'fair, balanced and understandable' assessments, as well as reviewing and assessing the company's non-financial reports such as the Annual Performance Report.

Throughout 2022–23, the committee received regular reports from the Head of Group Accounts, Group Treasurer, Head of Internal Audit and the company's external financial and non-financial assurers and auditors. The Chief Executive Officer, Chief Financial Officer, and the company's external financial and non-financial audit partners are all regular attendees at meetings of the Audit Committee. The committee also has access, as appropriate, to external professional advisers.

The committee is comprised of a majority of independent non-executive directors. No executive directors or the Chairman of the Board may be members of the committee, and at least one member of the committee must have recent and relevant financial experience, and at least one member must also have competence in accounting and/or auditing. The Chair of the Audit Committee is also a member of the Health and Safety and Operational Risk Committee.

Work of the Audit Committee during the year

Throughout the year, the committee received regular updates on financial reporting, risk, internal audit and the company's regulatory framework.

An area of focus continues to be the company's performance in improving its internal controls and reporting in respect of non-financial information.

During the year the work of the Audit Committee focused on the following key areas:

- The company's annual and interim financial statements and going concern and viability statements.
- Non-financial regulatory reporting and improvements in processes and controls, including oversight of external assurance.
- Internal controls – including financial and IT.
- Corporate governance matters.
- Condition P.
- Annual review of Licence.
- Internal audit reports and plans.
- Oversight of internal and external audit, including an assessment of the effectiveness of the external auditor.
- Compliance with the company's legal and regulatory obligations in relation to financial and non-financial reporting.
- Water and wastewater regulatory compliance.
- Speak Up.
- The undertakings given to Ofwat as part of the regulatory settlement.
- The assurance for regulatory submissions.
- The ongoing investigations by the Environment Agency and Ofwat and the associated accounting considerations.
- The level of non-audit fees paid to the external audit firm.

Financial statements

The Audit Committee received and reviewed the financial statements, including the key areas of judgment and estimation uncertainty set out in note 2, and the external audit report from Deloitte regarding the year-end financial statements, considering any items of significant judgment that have been made and comments on the control environment. There were no significant issues raised by Deloitte. The company continues to take steps to address the matters, including the fact that Deloitte were unable to rely on IT controls, raised by Deloitte's audit and the committee will monitor progress.

Corporate governance report continued

4. Transparency and accountability continued

Unbilled revenue

There were no changes to treatment of revenue recognition in the year, nor to the underlying system for estimating the measured income accrual.

How this issue was addressed

Non-household revenues recovered further during the year, which was expected following the lifting of COVID-19 restrictions in the prior year. In total, actual billing was £7.9 million lower than the accrual made at March 2022 reflecting the fact that customer usage patterns have been harder to predict following the pandemic.

Impairment of trade receivables

The company's policy for providing for bad debt based on customer segments and the age of outstanding debt has not changed in the year and the methodology used last year was applied, on a consistent basis, to calculate the base underlying provision charge for the full year accounts.

How this issue was addressed

At March 2022, an additional provision charge of £10.3 million recognised as a judgment for the impact of the pressure on household finances from high inflation and the wider economy.

Across 2022–23 we did not experience a significant change to customer payment behaviour. However, given that the pressure on household finances is continuing the Committee agreed with managements decision to retain an amount for this issue within the provision.

We applied a consistent approach to the prior year to estimate the value for the provision to carry for this, ranking our customer segments as high, medium or low risk and generating a provision based on this. This is a significant judgment for these accounts and has resulted in a provision charge of £9.6 million being retained at March 2023.

Provisions and contingent liabilities

The investigation by the Environment Agency (EA) into wastewater sampling compliance and the separate industry wide investigations by Ofwat and the EA wastewater treatment works are ongoing.

How this issue was addressed

The Audit Committee has considered the status of these investigations along with advice from internal and external legal advisors in order to assess whether it would be appropriate to make a provision or disclose the matters as a contingent liability. Given the status of the investigations, the Committee concluded that it was appropriate to disclose them as a contingent liability, see note 33 to these accounts.

Going concern

The committee considered the going concern assessment for the company with specific consideration of whether the company should disclose a material uncertainty in its going concern statement.

How this issue was addressed

The committee reviewed the current financial projections of the company for the going concern period and the progress made and likely timing of new equity. It noted that the company only has sufficient liquidity to support its plans for part of the year and is reliant on the injection of new equity to fully support its financial projections. As a result, the committee concluded that it would be appropriate to disclose a material uncertainty in the going concern statement.

Viability statement

We have continued to use the period through to 2030 for the viability assessment.

How this issue was addressed

The committee reviewed the company's viability assessment and agreed for this to be made for the period to 2030 for this year. Please see pages 133 to 136 for our statement.

Corporate governance report continued

4. Transparency and accountability continued

Our Ofwat performance commitments

The company has an external non-financial assurer to independently assure its non-financial reporting to Ofwat and that there is a robust system of internal controls in place for non-financial regulatory reporting, such that information in the Annual Performance Report fairly represents the company's progress and delivery of its promises. The assurer attends meetings of the Audit Committee and reports formally the results of its assurance.

Section 19 Undertakings

As part of the regulatory settlement reached with Ofwat in 2019–20, the company agreed to certain undertakings to implement improvements in the business in areas such as culture and robustness of non-financial reporting, as well as to recompense current and former customers. The Audit Committee is responsible for monitoring and reviewing the controls and assurance put in place by management in respect of these undertakings and receives regular reports from management about the progress against the agreed action plans and from the company's external assurers in respect of such progress.

Internal controls

The committee keeps under review the internal financial controls systems of the company that identify, assess, manage and monitor financial risks along with other internal control and risk management systems and, accordingly, receives regular reports from both Internal Audit, external audit and any external assurers appointed by the company to review any particular areas of concern.

The committee receives a regular report of any incidents of fraud or bribery, including the actions taken to investigate and respond to the incidents and information on potential incidents of wrongdoing under investigation.

The committee is provided with updates on matters identified via the company's Speak Up policy. There were no material incidents reported via Speak Up during the year.

The committee is also aware of the need to ensure that the group complies with sanctions placed on individuals and organisations in Belarus and Russia following the invasion of Ukraine.

Oversight of internal audit and external audit

The Audit Committee is responsible for overseeing both the work of the Internal Audit function and for the management of the relationship with the external auditor and external non-financial assurer. The committee reviews the performance of external auditors on an annual basis to ensure that they remain effective.

In accordance with best practice, the committee held discussions with both the internal and external auditors and the external non-financial assurers in the absence of management and the Audit Committee will continue this practice.

Internal audit

The Lead Audit Manager and the team report on a day-to-day basis to management on the effectiveness of the company's systems of internal controls and the adequacy of these systems to manage business risk and to safeguard the company's assets and resources.

The committee received regular reports throughout the year from Internal Audit in respect of its work during the year in accordance with the internal audit plan agreed with the committee at the beginning of the year. The reports from Internal Audit are a material element of the assurance received by the committee on the company's controls. If changes are required to internal audit action dates for medium and high actions, the action owners are required to attend the committee and explain why such changes are required and to seek the committee's approval.

The committee reviews, at least annually, the level of resources and the budget of the Internal Audit function. The Head of Internal Audit is able to raise any issues with the committee or its Chair at any time during the year.

Corporate governance report continued

4. Transparency and accountability continued

Fair, balanced and understandable

At the request of the Board, the committee has considered whether, in its opinion, this Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable and whether it provides the information necessary for shareholders to assess the company's position, performance, business model and strategy.

Step 1 – Developing key themes

The initial themes and structure for the Annual Report are developed, taking into account feedback from Ofwat and other stakeholders as well as a 'best practice' review.



Step 2 – Drafting content

Subject matter experts are identified to provide the detailed information used to draft the content for each section of the Annual Report.



Step 3 – Review

The draft content is reviewed by the subject matter experts, the project team, legal team and members of the Executive team.



Step 4 – Assessment

The content of the report is reviewed to determine which statements are 'positive' and which are 'negative'. These are then extracted and provided to the Audit Committee organised by section and/or subject for it to review the key areas of the report for fairness, balance and understandability.



Step 5 – Decision

Based on the content provided to it as well as their own reading of the draft Annual Report, the Audit Committee members make their decision whether or not to advise the Board that the Annual Report, taken as a whole, is fair, balanced and understandable.

Risk

During the year, the Audit Committee was responsible for supporting the Health and Safety and Operational Risk Committee's work in overseeing and challenging the effectiveness of Southern Water's approach to risk management. This included responsibility for monitoring the effectiveness of the company's systems of internal controls and for endorsing an internal audit plan that is informed by principal risk exposures, including overseeing targeted reviews of key risk and control areas. Following the changes to the committee remit in February 2022, the Audit Committee is now responsible for monitoring and reviewing the company's risk appetite and tolerance and for more 'strategic' risks.

The committee is also responsible for maintaining an assurance landscape that has integrity, independence and reliability.

External auditor

As reported last year, a tendering exercise was carried out in 2020–21 with Deloitte LLP being re-appointed as the external auditor. During 2022–23 the audit partner, Delyth Jones, was replaced by Lucy Openshaw.

The Audit Committee reviews the external auditor's effectiveness each year, seeking views from the committee and management via a questionnaire, and would report to the Board any concerns over the continuation of the appointment.

The committee undertakes an annual review of the external auditor's independence and objectivity within the context of the applicable regulatory requirements and professional standards. This includes an assessment of the impact of any non-audit work carried out by the audit firm on the auditor's independence and objectivity. In the committee's view the external auditor met these criteria. The committee also monitored the ratio of audit fees to non-audit fees and approved non-audit services and fees paid to Deloitte during 2022–23.

Details of the amounts paid to Deloitte for these services are provided in note 6 to the financial statements.

In accordance with listed company practice, the external audit contract will be put to tender at least every 10 years. A tender process would also be initiated if there were any concerns about the quality of the audit or the independence and objectivity of the auditor. There are no contractual obligations that act to restrict the Board's choice of external auditor, although the Board is mindful of non-audit services currently being undertaken by other potential external audit providers.

Corporate governance report continued

4. Transparency and accountability continued

Health and Safety and Operational Risk Committee Report



A key area of focus for the Health and Safety and Operational Risk Committee (HS&ORC) has been oversight of the development of the company's Health and Safety Transformation Programme, together with tracking progress throughout the year.

The committee regularly received updates on accelerating and emerging risks as well as key risks impacting business performance. The committee reviewed the company's principal risks.

A number of deep dives were also performed into areas of the business, including water resources and drought, water quality and pollutions, winter readiness and cyber security.

Management presented its business readiness for the 2022–23 winter, with mitigation actions drawn from the impact of the storms of 2018 (Beast from the East) and 2022 (Storm Eunice).

Mike Putnam

Chair of the Health and Safety and Operational Risk Committee

7 July 2023

Committee membership



Mike Putnam

Chair

Attendance 4/4



Kevin McCullough

Committee member

Attendance 1/1



Malcolm Cooper

Committee member

Attendance 1/2



Mark Mathieson

Committee member

Attendance 4/4

Note: Kevin McCullough resigned from the Board and the committee on 31 July 2022. Phil Swift was appointed to the committee on 31 May 2023.

Areas of focus this year:

- Development of the company's Health and Safety Transformation Programme
- The company's plans for winter readiness
- Cyber security
- Water quality risk pollutions.

Priorities for 2023–24:

- Progress against the Health and Safety Transformation Programme
- Health and Safety Culture.

Corporate governance report continued

4. Transparency and accountability continued

Introduction

The Health and Safety and Operational Risk Committee has responsibility for monitoring and advising on day to day operational risks, together with reviewing and monitoring health, safety, security and wellbeing, and continuing to provide appropriate advice and recommendations to the Board in this area. The Chief Executive Officer, Chief Operating Officer, Director of Health, Safety, Security and Wellbeing and Head of Risk and Assurance are all regular attendees at meetings of the committee. The committee also has access, as appropriate to external professional advisers.

The committee is comprised of a majority of independent non-executive directors. The Chair of the Audit Committee is also a member of the Health and Safety and Operational Risk Committee to ensure there are no gaps in the remits of the two committees.

Health, safety, security and wellbeing

In addition to receiving updates on the company's health and safety performance, the committee oversaw the development of the company's Health and Safety Transformation Programme. This programme was developed by management having regard to the findings of the review undertaken by a third-party advisory firm and the outcome of an Ambition Workshop held with 40 colleagues from across the organisation. The committee received regular updates on progress of the programme.

The committee received an update on the company's Gold, Silver and Bronze award scheme to set and raise site standards and celebrate success, together with a demonstration of software to support point of work risk assessments.

In taking steps to improve the safety culture of the business, the company identified an absence of a specified safety core value. A fourth value, Working with Care, was developed to support the company's commitment to ensuring that everyone returns home safe and healthy at the end of the working day. The new value was piloted through the company's Employee Voice group and presented to the committee for their consideration before approval was sought from the Board.

Operational Risk

During the year the committee received reports from management to enable it to monitor and review the company's operational risks and relevant risk management systems. Updates included winter preparedness, water quality risk, IT controls, security and cyber security. A risk management update is presented at each meeting, providing the committee with details of the company's Enterprise Risk Management (ERM) framework and practice within Southern Water. The committee received updates on the enterprise risk profile, and the current risk position and emerging risk. The Full Enterprise Risk Report is provided to the Audit Committee.

Operational risk deep dives on key areas were presented to the committee, including the deep dives on water quality, flow and pollutions.

Corporate governance report continued

4. Transparency and accountability continued

ESG Committee Report

Message from the Chair



As reported last year, the Board approved the formation of an Environmental, Social and Governance Committee, tasked with supporting the Board in defining the company's strategy and reviewing priorities and initiatives relating to ESG matters.

The committee met for the first time within the reporting year, chaired by Rosemary Boot. With Rosemary's resignation from the Board, I am pleased to present, as both a member and now Chair of the committee, this report.

Throughout the year, the committee has reviewed and challenged the effectiveness of the company's ESG strategies, priorities and initiatives. An assessment of ESG confirmed management's view that the company is at differing levels of maturity and ambition across the ESG universe. Management is focused on prioritising ESG strategic ambitions and tactical activities and to develop maturity in aspects most closely aligned with the company's long-term goals and stakeholders' expectations.

The committee received updates from management, including on the company's progress against its Equality, Diversity and Inclusion (ED&I) action plan, covering the development of a gender action plan to improve both recruitment and retention of women across the organisation.

The committee was pleased to hear from the Chair of the company's Independent Climate and Environment Group (ICEG) and a representative of the Customer Challenge Group, sharing viewpoints from the company's customers and stakeholders.

Gillian Guy

Chair of the ESG Committee
7 July 2023

Committee membership



Rosemary Boot

Chair

Attendance 4/4



Gillian Guy

Committee member

Attendance 1/4*



Mark Mathieson

Committee member

Attendance 4/4

Note: Following Rosemary Boot's retirement from the Board and the committee on 31 March 2023, Gillian Guy was appointed chair. On 31 May 2023 Christèle Delbé and Kerensa Jennings were appointed to the committee.

* Meeting schedule clashed with previously agreed commitments.

Areas of focus this year:

- Development of the ESG strategy.
- Net zero plans.
- Diversity targets and gender action plan.

Priorities for 2023–24:

- Climate-related risks and opportunities.
- Monitoring diversity and inclusion activities and outcomes.
- Review of ESG-related reporting.

Corporate governance report continued

4. Transparency and accountability continued

Introduction

In its first year, the ESG Committee has received updates on a broad spectrum of ESG-related topics, challenging and supporting management on the development of the company's plans. The committee received an update on the status of the company's published ESG policies and ESG-related reports.

Environment

The committee received updates on the work of the Environment Steering Group and the company's climate change action plan, and heard directly from the Chair of the Independent Climate and Environment Group. It also reviewed the company's net zero plans and considered strategy in this area. Read more about the company's approach to climate change on pages 75 to 95.

Culture

Building on the work of the Board in prioritising the monitoring of culture across the organisation, the Committee received an update on the results of the annual employee engagement survey. Overall satisfaction returned to the 2021 level, with 'My manager cares about my wellbeing' seeing the strongest result.

Plans to address the gender imbalance at senior management levels have been developed and a deep dive on the company's ED&I vision and ambition was presented to the committee. Progress against the company's People plan, which is an enabler to the overall turnaround plan, is reported to the committee.

Customer

Hearing the views of our customers and the impact the company's operations have on them is important to the committee. A representative of the company's Customer Challenge Group attended the committee to provide insight into customer and stakeholder views. In addition, an update on customer insights was presented, explaining how the company ensures it understands the views of its customers, communities and key stakeholders.

The committee received an update from management on operational incidents that had impacted customers in the year, including customer feedback and the company's response and recommendations for improvement.

The committee heard about the approach to engaging customers and communities when commencing large capital projects, including understand the impact such schemes have.

Our approach to governance

Ofwat principles

In 2019 Ofwat published its Board leadership, transparency and governance principles and, subsequently, in July 2019, amended the licences of water and wastewater companies to require such companies to meet the objectives set out in the Ofwat Principles.

The Ofwat Principles represented a major update of the previous principles published in 2014 and include many of the principles and provisions of the Financial Reporting Council's (FRC) UK Corporate Governance Code. Accordingly, Southern Water seeks to apply both the Ofwat Principles and the relevant principles and provisions of the UK Corporate Governance Code in terms of its approach to corporate governance.

The Ofwat Principles are based around four objectives (set out below), each of which is supported by a number of provisions designed to assist companies in demonstrating that they are meeting the relevant objective.

1 Competence and independence

Boards 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.

Objective/provision	Compliant	Page(s)
Boards and their committees are competent, well run, and have sufficient independent membership, ensuring they can make high-quality decisions addressing stakeholder needs.	Yes	140, 146, 148-153, 156
i. i. Boards and board committees have the appropriate balance of skills, experience, independence and knowledge of the company. Boards identify what customer and stakeholder expertise is needed in the boardroom and how this need is addressed.	Yes	140-145, 154-155, 168-170
ii. Independent non-executive directors are the largest single group on the board.	Yes	146, 156
iii. The chair is independent of managers and investors on appointment and demonstrates objective judgment throughout their tenure. There is an explicit division of responsibilities between running the board and executive responsibility for running the business.	Yes	149, 153-155
iv. There is an annual evaluation of the performance of the board. This considers the balance of skills, experience, independence and knowledge, its diversity, how stakeholder needs are addressed and how the overarching objectives are met. The approach is reported in the annual report and any weaknesses are acted on and explained.	Yes	166, 168-170
v. There is a formal, rigorous and transparent procedure for new appointments which is led by the Nomination Committee and supports the overarching objective.	Yes	168-170
vi. To ensure there is a clear understanding of the responsibilities attached to being a non-executive director in this sector, companies arrange for the proposed, final candidate for new non-executive appointments to the regulated company board to meet Ofwat ahead of a formal appointment being made.	Yes	169
vii. There is a majority of independent members on the Audit, Nomination and Remuneration Committees and the Audit and Remuneration Committees are independently led.	Yes ¹	168, 172, 186

¹The membership of the Nomination and Remuneration committees is: the Chair, one independent non-executive director and one non-executive director. The Chair, while not independent under the UK Corporate Governance Code is independent of management and the shareholders, and was independent on appointment.

Our approach to governance continued

2 Purpose, values and culture

The regulated company board establishes the company's purpose, strategy and values, and is satisfied that these and its culture reflect the needs of all those it serves.

Objective/provision	Compliant	Page(s)
The regulated company board establishes the company's purpose, strategy and values, and is satisfied that these and its culture reflect the needs of all those it serves.	Yes	162-165
i. The board develops and promotes the company's purpose in consultation with a wide range of stakeholders and reflecting its role as a provider of an essential public service.	Yes	162-163
ii. The board makes sure that the company's strategy, values and culture are consistent with its purpose.	Yes	162-165, 178-180
iii. The board monitors and assesses values and culture to satisfy itself that behaviour throughout the business is aligned with the company's purpose. Where it finds misalignment it takes corrective action.	Yes	160-165, 179-180
iv. Companies' annual reporting explains the board's activities and any corrective action taken. It also includes an annual statement from the board focusing on how the company has set its aspirations and performed for all those it serves.	Yes	138-139, 148, 160-161, 165

3 Effectiveness

The regulated company has an effective board with full responsibility for all aspects of the regulated company's business for the long term.

Objective/provision	Compliant	Page(s)
The regulated company has an effective board with full responsibility for all aspects of the regulated company's business for the long term.	Yes	140-146, 148-159, 166-167, 168-170
i. The regulated company sets out any matters that are reserved for shareholders or parent companies (where applicable), and explains how these are consistent with the board of the regulated company having full responsibility for all aspects of the regulated company's business, including the freedom to set, and accountability for, all aspects of the company's strategy.	Yes	116, 148-149
ii. Board committees, including but not limited to Audit, Remuneration and Nomination Committees, report into the board of the regulated company, with final decisions made at the level of the regulated company.	Yes	151, 158
iii. The board of the regulated company is fully focused on the activities of the regulated company; takes action to identify and manage conflicts of interest, including those resulting from significant shareholdings; and ensures that the influence of third parties does not compromise or override independent judgment.	Yes	148-150, 156, 169-170

Our approach to governance continued

4 Transparency and accountability

The board's leadership and approach to transparency and governance engenders trust in the regulated company and ensures accountability for their actions.

Objective/provision	Compliant	Page(s)
The board's leadership and approach to transparency and governance engenders trust in the regulated company and ensures accountability for their actions.	Yes	148, 171-176
Regulated companies publish the following information in a form and level of detail that is accessible and clear for customers and stakeholders:		
i. An explanation of group structure;	Yes	116-119
ii. An explanation of dividend policies and dividends paid, and how these take account of delivery for customers and other obligations (including to employees);	Yes	110
iii. An explanation of the principal risks to the future success of the business, and how these risks have been considered and addressed;	Yes	120-132
iv. The annual report includes details of board and committee membership, number of times met, attendance at each meeting and where relevant, the outcome of votes cast; and	Yes	140-145, 168, 172, 177, 179, 186
v. An explanation of the company's executive pay policy and how the criteria for awarding short and long-term performance-related elements are substantially linked to stretching delivery for customers and are rigorously applied. Where directors' responsibilities are substantially focused on the regulated company and they receive remuneration for these responsibilities from elsewhere in the group, policies relating to this pay are fully disclosed at the regulated company level.	Yes	186-201

➔ Find more information at [ofwat.gov.uk](https://www.ofwat.gov.uk)

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

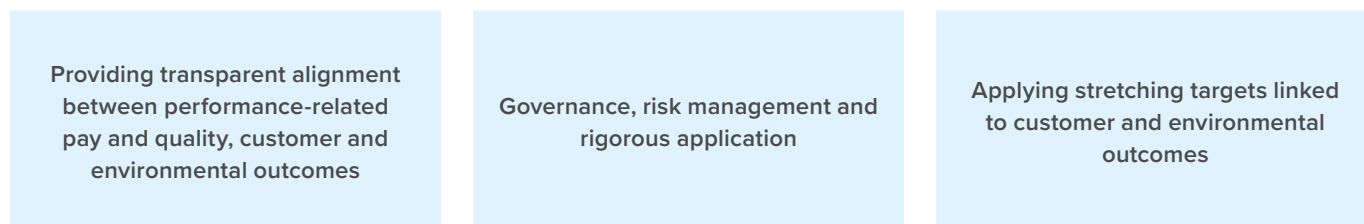
Note: Following Paul Sheffield's retirement from the Board and the committee, Malcolm Cooper and Christèle Delbé were appointed to the committee on 1 May 2023 and 31 May 2023 respectively, Malcolm as chair.

Directors' Remuneration Report continued

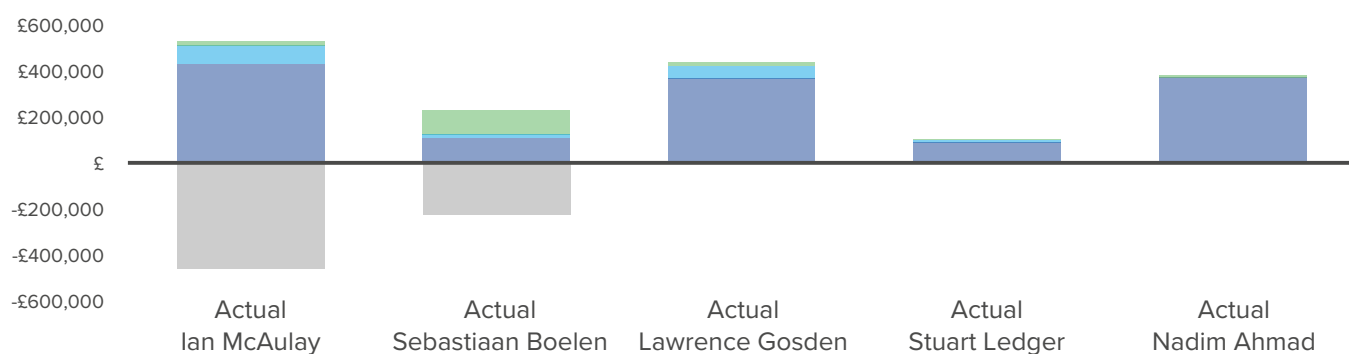
Remuneration Committee Report continued

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>Fixed</p> <ul style="list-style-type: none"> ● Base Salary ● Pension and other benefits <p>Performance linked</p> <ul style="list-style-type: none"> ● Annual bonus 	<p>2022–23</p> <p>100%</p> <p>82%</p> <p>18%</p> <p>0%</p> <p>0%</p>	<p>2021–22</p> <p>55%</p> <p>45%</p> <p>10%</p> <p>45%</p> <p>45%</p>
<p>Sebastiaan Boelen 2022–23</p>	<p>2021–22</p>	<p>Fixed</p> <ul style="list-style-type: none"> ● Base Salary ● Pension and other benefits <p>Performance-linked</p> <ul style="list-style-type: none"> ● Annual bonus 	<p>2022–23</p> <p>100%</p> <p>47%</p> <p>53%</p> <p>0%</p> <p>0%</p>	<p>2021–22</p> <p>61%</p> <p>51%</p> <p>10%</p> <p>39%</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>Fixed</p> <ul style="list-style-type: none"> ● Base Salary ● Pension and other benefits <p>Performance-linked</p> <ul style="list-style-type: none"> ● Annual bonus 	<p>2022–23</p> <p>100%</p> <p>84%</p> <p>16%</p> <p>0%</p> <p>0%</p>	
<p>Stuart Ledger 2022–23</p>		<p>Fixed</p> <ul style="list-style-type: none"> ● Base Salary ● Pension and other benefits <p>Performance-linked</p> <ul style="list-style-type: none"> ● Annual bonus 	<p>2022–23</p> <p>100%</p> <p>51%</p> <p>49%</p> <p>0%</p> <p>0%</p>	
<p>Nadim Ahmad 2022–23</p>		<p>Fixed</p> <ul style="list-style-type: none"> ● Base Salary ● Pension and other benefits <p>Performance-linked</p> <ul style="list-style-type: none"> ● Annual bonus 	<p>2022–23</p> <p>100%</p> <p>97%</p> <p>3%</p> <p>0%</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
Base salary	<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"> • Reviewed annually with changes effective from 1 July, if applicable (1 April with effect from 2023–24 reporting year). • Consideration given to individual and company performance. • General pay increases to all employees taken into consideration. • 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. • Referenced against UK companies of a similar size, utility companies and other water companies. 	Base salary increases are applied in line with the annual review.
Annual Bonus Plan	Drives and rewards performance against stretching financial, customer and operational KPIs, which are directly linked to business strategy.	<ul style="list-style-type: none"> • Details of the operation of the plan are shown on page 192. • 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. • 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. • The committee has discretion to amend or withdraw payments based on the consideration of other factors which could significantly affect business performance. • Plan awards are disclosed on pages 194 to 195. 	150% of salary for the CEO and CFO
Pension	Defined contribution scheme minimises the risk to the company associated with defined benefit pension plans.	<ul style="list-style-type: none"> • A company contribution into a defined contribution scheme, and/or • A cash allowance in lieu of pension. 	<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"> • Car allowance • Health cover • Disturbance or relocation allowances. 	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)
Sebastiaan 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 ¹	Incentive and Retention Plan ²	Incentive and Retention Plan withheld ²	Investment transaction incentive ³	Total	Pension related benefit	Total including pension
Lawrence Gosden ⁴	2022–23	360.0	13.7	–	–	–	–	373.7	54.0	427.7
	2021–22	–	–	–	–	–	–	–	–	–
Stuart Ledger ⁵	2022–23	87.5	73.0	–	–	–	–	160.5	9.6	170.1
	2021–22	–	–	–	–	–	–	–	–	–
Ian McAulay ⁶	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 ⁷	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 ⁸	2022–23	371.3	10.0	–	–	–	–	381.3	–	381.3
	2021–22	–	–	–	–	–	–	–	–	–

¹ 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.

² 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.

³ 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.

⁴ 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.

⁵ 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.

⁶ 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.

⁷ 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 ⁷	2022–23	–	43.9	159.8	203.7	24.0	227.7

⁸ 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% ¹	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 ¹	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% ²	22.5%	11.25%
Total						150.0%	26.25%
Adjustments ³							-4.18%
Total awarded							22.07%

¹ 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.

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

³ 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
Keith Lough (Chair)	286.3	10.1	296.4	275.0	3.9	278.9
Paul Sheffield (Senior independent non-executive director) (Retired 31 March 2023)	73.8	2.1	75.9	70.0	0.6	70.6
Rosemary Boot (Independent non-executive director) (Retired 31 March 2023)	62.9	1.4	64.3	50.0	1.1	51.1
Mike Putnam (Independent non-executive director)	63.8	2.1	65.9	60.0	0.6	60.6
Dame Gillian Guy DBE (Independent non-executive director)	53.8	2.2	56.0	50.0	0.3	50.3
Kevin McCullough (Independent non-executive director) (Retired 31 July 2022)	22.1	0.3	22.4	65.0	0.7	65.7
Malcolm Cooper (Independent non-executive director)	68.8	0.6	69.4	65.0	0.7	65.7
Steve Fraser (Investor-nominated non-executive director) (from 1 May 2022)	49.6	3.8	53.4	n/a	n/a	n/a
Marykay Fuller (Greensands Board-nominated non-executive director) (to 8 September 2021)	n/a	n/a	n/a	26.3	0.1	26.4
Martin Bradley (Investor-nominated non-executive director) (from 8 September 2021 to 1 May 2022)	–	–	–	–	–	–
Will Price (Investor-nominated non-executive director) (from 8 September 2021)	–	–	–	–	–	–
Mark Mathieson (Investor-nominated non-executive director) (from 8 September 2021)	–	–	–	–	–	–
Sara Sulaiman (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.

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.

Directors' report

for the year ended 31 March 2023

The Directors of Southern Water Services Limited (registered no. 02366670) present their report and the audited financial statements for the year ended 31 March 2023.

Principal activities

The principal activities of Southern Water Services Limited, herein after referred to as 'the company', also referred to as SWS, are the provision of water supply and wastewater services in the South East of England. The company is regulated by the Water Services Regulation Authority (Ofwat) and supplies water to over 2.7 million people and provides wastewater services to over 4.7 million people.

Strategic Report

The information that fulfils the requirement of the Strategic Report can be found in our Annual Report on pages 15 to 136 including the Section 172 (1) Statement on pages 96 to 99.

Future developments

The information regarding future developments of the company can be found in our Annual Report on pages 17, 50, 56, 64 and 72.

Post balance sheet events

On 7 July 2023 Fitch announced its decision to downgrade the Class A Unwrapped Debt of the Company to BBB (negative outlook) from BBB+ (negative outlook). As a consequence of the Fitch credit rating action, a credit rating downgrade Trigger Event has occurred. Further details regarding the implications of a Trigger Event can be found on page 113.

Results and dividends

The income statement on page 210 shows the company's results and loss for the year. Further details are also available in the Annual Report on pages 104 to 109.

No ordinary interim dividends were paid during the year (2022: £nil). No final dividend has been declared or paid for the year ended 31 March 2023.

Directors and their interests

Directors during the year ended 31 March 2023 and up to the date of signing the financial statements, were as follows (details on pages 140 to 145):

Keith Lough

Chair

Lawrence Gosden

(Executive director – Chief Executive Officer)
(Appointed 1 July 2022)

Ian McAulay

(Executive director – Chief Executive Officer)
(Resigned 30 June 2022)

Stuart Ledger

(Executive director – Chief Financial Officer)
(Appointed 3 January 2023)

Nadim Ahmad

(Executive director – Interim Chief Financial Officer)
(Appointed 31 July 2022, Resigned 3 January 2023)

Sebastiaan Boelen

(Executive director – Chief Financial Officer)
(Resigned 31 July 2022)

Paul Sheffield

(Senior independent non-executive director)
(Resigned 31 March 2023)

Rosemary Boot

(Independent non-executive director)
(Resigned 31 March 2023)

Malcolm Cooper

(Independent non-executive director)

Gillian Guy

(Independent non-executive director)

Kevin McCullough

(Independent non-executive director)
(Resigned 31 July 2022)

Michael Putnam

(Independent non-executive director)

Christèle Delbé

(Independent non-executive director)
(Appointed 31 May 2023)

Kerensa Jennings

(Independent non-executive director)
(Appointed 31 May 2023)

Phil Swift

(Independent non-executive director)
(Appointed 31 May 2023)

Directors' report

for the year ended 31 March 2023 continued

Martin Bradley

(Investor-nominated non-executive director)
(Appointed 8 September 2021,
resigned 1 May 2022)

Will Price

(Investor-nominated non-executive director)
(Appointed 8 September 2021)

Mark Mathieson

(Investor-nominated non-executive director)
(Appointed 8 September 2021)

Stephen Fraser

(Investor-nominated non-executive director)
(Appointed 1 May 2022)

None of the directors who held office during the financial year had any disclosable interests in the shares of the company or the group.

Research and development

Improvement of existing services and processes, together with the identification and development of new technology and solutions, are important aspects of the company's strategy to enhance the quality of service to customers and improve ways of working. Research and development expenditure charged to the income statement for the year amounted to £0.6 million (2022: £0.8 million).

Financial risk management

The Financial Risk Management Policy is included in the Strategic Report which can be found in the Annual Report on page 128.

Corporate governance

A description of the company's corporate governance arrangements for the purposes of Part 8 of Schedule 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as introduced by regulation 14 of the Companies (Miscellaneous Reporting) Regulations 2018 can be found in the Annual Report on pages 147 to 183.

Employees

The company recognises the importance of its employees and is committed to effective two-way communication and consultation.

The company re-established an Employee Voice group during 2020–21 to facilitate meaningful consultation between company management and employees through elected employee representatives. The group meets regularly at both a functional and company-wide level.

In 2017, the company introduced the Gallup employee survey, which has continued to be undertaken every six months to help develop management action plans and provide insight into the views of employees. The company also conducts further surveys throughout the year on specific matters, the results of which are reported to management and/or the Board as appropriate.

The company recognises the rights of every employee to join a trade union and participate in its activities. Southern Water has a single union agreement with Unison.

General information is posted on the company intranet and regular team briefing sessions are also held. The information in these publications and briefings covers a wide range of subjects that affect the business, including progress on business and capital projects, the impact of regulatory issues and wider financial and economic issues.

The company's Executive directors and Executive Committee members as well as, occasionally, individual non-executive directors hold monthly 'Company Conversations', using video conferencing, to inform and engage with the company's employees about the company's priorities, purpose and values. These sessions afford employees an opportunity to put questions to the executive directors and senior leadership about anything regarding the business.

In line with the UK Corporate Governance Code, one of the company's independent non-executive directors, Mark Mathieson, has been given the remit of communicating the views of the company's workforce to the Board.

Further details of the company's employees and the company's engagement activities, as well as how the directors have had regard to employee interests, can be found in the Strategic Report on pages 69 to 74.

Equal opportunity: The company's policy is to promote equality of opportunity in recruitment, employment continuity, training and career development. It takes full account of the needs of people with disabilities and follows set policies and procedures to support reasonable adjustments.

Directors' report

for the year ended 31 March 2023 continued

Health, safety, security and wellbeing: The health, safety, security and wellbeing of our people is our priority and colleagues are encouraged to challenge anything they believe may be wrong or potentially dangerous. Empowerment forms a crucial part of our safety strategy as does making safety the first thing we consider when conducting any activity. Our June 2023 Policy Statement reaffirms our position and provides clear direction from the CEO on how we approach health, safety, security and wellbeing within the business.

Our focus on prioritising safety is linked to the delivery of our Health and Safety Transformation Programme, progress against which is discussed at monthly Safety Executive Committees and with members of the Executive at monthly programme boards. This seeks to deliver a step change in our approach by embedding cultural, behavioural, process and system improvements. We are on track to deliver in 2023 and regularly review our position, ambitions and initiatives through quarterly external audits.

We continue to ensure that every employee receives training, instruction and supervision to deliver their role, proportionate to the specific level of risk. These requirements are frequently reviewed with the delivery of accredited NEBOSH and IOSH Health and Safety training, and the development of modern site safety instructions and supply chain training courses are recent examples of this.

Our well-established forums, including Employee Voice and our Speak Up line, are used to share safety information and we distribute regular safety cascades and immediate safety alerts to ensure our colleagues are appraised of incidents and mitigations. We are moving to an online Safety Reporting System in 2023 that should make this passage of information even better.

The company provides an internal occupational health service for employees, including the provision of physiotherapy and support through the Employee Assistance line. In 2023, we will deliver strategic review of Wellbeing and security to ensure our people remain well supported.

Disabled employees: Applications for employment by disabled persons are always fully considered, bearing in mind the abilities of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the company continues and that appropriate training is arranged. It is the policy of the company that the training, career

development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Speak Up: Employees are actively encouraged to Speak Up if they see things that are not quite right. This helps us work better as a company and fosters a culture where we ensure that we are always doing the right thing for each other, our customers, the environment and other stakeholders.

Engagement with customers, suppliers and others

The company recognises the importance of its suppliers to ensure the company's ability to continue to deliver an essential public service. Further details of the company's engagement with its suppliers during the year can be found on pages 69 to 74.

Due to the nature of its business and the regulatory framework in which the company operates, engagement with its customers is of key importance. The company undertakes extensive customer engagement activities throughout the year. Further details can be found on pages 33 to 39.

As a private limited company, Southern Water Services Limited is not required to hold an annual general meeting.

The company, its senior executives and Board regularly engage with the company's regulators, with local and national government as well as with relevant industry groups through meetings and other events.

The company's statement explaining how the directors have had regard to the matters set out in section 172(1)(a) to (f) of the Companies Act 2006, and which provides further detail in respect of how the directors have taken into account the interests of the company's employees, suppliers, customers and others during the year, can be found on pages 96 to 99.

Environmental issues

The company is committed to meeting or improving upon legislative and regulatory environmental requirements and codes of practice and aims to contain the environmental impact of its activities to a practicable minimum.

The company is subject to ongoing investigations by the Environment Agency regarding wastewater performance and further details are disclosed in note 33 to the accounts.

Directors' report

for the year ended 31 March 2023 continued

The company's environmental performance for 2022–23 is reported on pages 59 to 68. The company recognises its responsibility to operate within a framework that supports sustainable development and has established, where possible, indicator targets which are measurable. Performance against these targets is monitored and reported regularly.

Streamlined Energy and Carbon Report (SECR)

The Streamlined Energy and Carbon Report is included within the TCFD section of the Strategic Report on pages 93 to 95.

Political donations

No political donations were made.

Land and buildings

In the opinion of the directors, the market value of land is significantly more than its book value. However, it would not be practicable to quantify the difference precisely.

Going concern

The directors believe, after due and careful enquiry, that it is appropriate to adopt the going concern basis in preparing the financial statements to 31 March 2023 notwithstanding the material uncertainty discussed below.

The company incurred an operating loss of £18.4 million (2022: profit of £16.1 million) in 2023. As of 31 March 2023, it had cash on hand of £115.8 million (31 March 2022: £157.4 million) and undrawn bank facilities of £435.0 million (2022: £375.0 million). The company also has borrowings totalling £4,221.0 million (31 March 2022: £4,017.7 million), for which the earliest repayment is £400 million in March 2025. In 2022–23 borrowings attracted a total monthly cash interest charge of circa £6.1 million.

The borrowings are subject to financial ratio covenants measured annually in March, as well as the covenants relating to credit rating of debt issued by the company and its subsidiaries. A breach of these covenants can result in either a Trigger Event or a Default Event.

A Trigger Event is a structural buffer intended to protect the company and its finance creditors from a Default Event. If a Default Event were to occur, all lenders' claims are frozen, and they have the right to exercise their security of a charge over the share capital of the parent company of SWS (see

how the company is financed on page 119); The main consequence of a Trigger Event is that the company is prevented from making distributions. It is also required to prepare a plan to recover from a Trigger Event.

Should a Default Event occur, the business enters a 'standstill period'. Committed and undrawn reserves of £190 million are available to finance the business during this period, but there would however be restrictions on the company's operations, including the cessation of capital investment expenditure.

In assessing the going concern position of the company, the directors considered the forecast cash flows over the 12 months to July 2024, and the capital structure of the company and financing needs for the period. The directors have considered a base case and various sensitivities in establishing that in order to meet the company's commitments over and above its obligations under PR19 price determination, it is necessary to raise additional capital as set out below.

Base case – forecast cash flows

The company has a significant level of planned expenditure over at least the next twelve months to continue to enhance its assets and improve operational performance. The company is also facing the effect of high inflation, particularly on costs such as energy, chemicals, and materials. As a result, the company has forecast net cash outflows for every month throughout the going concern assessment period of 12 months to July 2024.

In preparing the forecasts, management has considered:

- The company's business activities, together with the factors likely to affect its future development, performance, and position. In particular, the company has considered the significant level of expenditure we have committed to in addition to that allowed at the PR19 price determination.
- The financial position of the company, its forecast monthly cash flows, liquidity position, covenants and borrowing facilities.
- The effects of the operational incidents in 2022–23 (see page 106) on the ongoing cost base of the company.
- The effects of current high levels of inflation on costs such as energy, chemicals, and materials.

Directors' report

for the year ended 31 March 2023 continued

- Investment needed to improve operational performance and reduce the impact on the environment from the treatment and processing of water and wastewater, and mitigate the effects of climate change.
- The company operates in an industry that is largely subject to economic regulation rather than market competition. Ofwat, the economic regulator, has a statutory obligation to set price limits that it believes will enable the water companies to finance their activities.

Base case – financing needs

In planning for the future financing needs of the company, the directors have also considered the following information:

- The committed undrawn revolving credit facility was increased from £330 million to £350 million on 31 October 2022 and renewed for a further five years. This facility is expected to be partially utilised for part of 2023–24.
- Borrowings are generally at fixed interest rates but include certain inflation-linked loans and derivatives. The inflation-linked instruments are subject to inflation risk which is expected to be offset by inflation movement of the RCV and revenues (see note 22).

To assist in financing of the planned expenditure the company expects to receive £375 million of new equity (“the Equity Raise”), with cash expected to be received by the end of October 2023. The directors anticipate receiving the equity, based on a history of successful fundraising in the past (most recently £529.9 million received from the shareholders in 2021) and on discussions with the major shareholder, who has indicated their support for the company. We understand that the shareholders are at an advanced stage of the equity raising process, but the equity has not been committed at the date of signing the accounts.

Base case – covenant compliance

- The company's credit rating as at 31 March 2023 was Baa3/BBB+/BBB+, and in July 2023 has been downgraded to Baa3/BBB+/BBB as a result of pressure on financial ratios from the planned level of expenditure, plus operational performance challenges which are being addressed by the company turnaround plan. This has resulted in a credit rating Trigger Event, as well as being expected to adversely affect the cost of the additional finance planned to be raised, albeit the company still retains three investment-grade credit ratings.

- The adjusted interest cover ratio is expected to have negative headroom until at least March 2025 and therefore the company is expected to continue to be in a Trigger Event to at least that date.
- The company obtained a waiver from its lenders in February 2021 which allows full use of available borrowing facilities, plus the raising of new finance, during a Trigger Event related to either a credit rating downgrade or a breach of a financial ratio. This waiver is in place to March 2025, and the company anticipates being able to extend the waiver as part of the new equity process to extend the period of permitting full use of available liquidity to 2035 and increasing the associated debt/RCV limit to 75% while in a Trigger Event.

There is positive financial headroom across all Default debt covenant ratios for the going concern period in the base case, although there is limited financial headroom against the post maintenance interest cover ratio for 2023–24, and the debt/RCV ratio of 74%. A breach of this ratio will occur if any further financial indebtedness is incurred; as noted above, management expects to vary this covenant as part of the equity raise process.

Sensitivities

- **Liquidity:** Downside sensitivities to the cash flows to check that the company can operate within its current facilities and covenants, which have identified that there is limited liquidity headroom to accommodate any overspend or one-off costs. If total expenditure is 12% over plan, the company will not have sufficient liquidity for the going concern period.
- **Financing:** Should the equity raise not succeed and £375 million not be received, the company will not have sufficient liquidity for the going concern period, with headroom reduced to nil in February 2024.
- **Covenants:** The post maintenance interest cover ratio covenant would be breached if net cash flow from operating activities less capital maintenance expenditure were to exceed plan by £41 million; the consequences of this would be Default Event.

Additional financing

Following the equity raise, additional new debt finance of £825 million is planned for the current financial year to 31 March 2024. This is not included in the base case as it is not committed and the timing is uncertain. Proceeds from the new debt finance will be used to repay the £400 million debt due in March 2025 and further finance the planned expenditure in the period beyond the going concern period. The directors anticipate receiving the additional debt financing based on the company's history of being able to do so in the past.

Conclusion

If the £375 million Equity Raise is successful, then the Directors believe that the company will have sufficient liquidity over the going concern period to execute its business plan, to finance the significant level of expenditure in addition to that allowed at the PR19 price determination, and to meet its regulatory obligations and financial commitments as they fall due.

If the £375 million Equity Raise does not proceed by the end of October 2023, the company will need to develop a new plan and will not be able to finance the full amount of planned expenditure in addition to that allowed at the PR19 price determination.

The Directors are of the opinion that the Equity Raise will be received but given it has not been committed at the date of the financial statements and its commitment is not within the Directors' control, believe that the risk that the equity is not received constitutes a material uncertainty that may cast significant doubt about the company's ability to continue as a going concern such that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

Long-term viability statement

In accordance with Provision 31 of the UK Code and Ofwat's Information Notice IN 19/07, the Board has assessed the prospects of the company over a longer period than the 12 months required by the 'Going Concern' provision. Details of its assessment and the associated viability statement can be found on pages 133 to 136 of this report.

Qualifying third party indemnity

Following shareholder approval, the company has also provided an indemnity for its directors and the Company Secretary, which is a qualifying third-party indemnity provision for the purposes of the

Companies Act 2006.

Directors' responsibilities statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS101 'Reduced Disclosure Framework'. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company
- the Strategic Report includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties that it faces.

Statement of disclosure of information to auditor

Each of the persons who is a director at the date of approval of this report confirms that:

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

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Auditor

Deloitte LLP has indicated its willingness to continue in office.

Approved by the Board of Directors and signed by order of the Board.

Richard Manning

General Counsel and Company Secretary

7 July 2023