

SES Water
Minutes of a Meeting of the Board
Wednesday 12 February 2020
To be held at Nutfield Priory Hotel, Nutfield Road, Redhill RH1 4EL
commencing at 9.30am

Present:	J Pelczer	JP	(Chairman)
	M Legg	ML	
	D Shemmans	DS	
	J Woods	JW	
	S Kitajima	SK	
	K Oida	KO	
	A Ferrar	AF	
	P Kerr	PK	
	I Cain	IC	

In attendance:	N Houlahan	NH	
	T Kelly	TK	
	E Prince	EP	(Item 8 only)
	H Stock	HS	(Item 9.1 only)
	D Lamb	DL	(Item 10 & 11 only)
	T Redmond (CCW)	TR	(Item 10 only)

2020 1. Board Changes

JP opening the meeting by confirming the Nomination Committee's (NomCo) approval and recommendation to the SESW Board of Ian Cain's appointment as Group CEO. The Board approved this appointment.

PK noted that the required submissions to Companies' House would now be completed, with AF resignation forms to be submitted on 28 February 2020 following his retirement and resignation from the Board.

2020 2. Declaration of Interests

JP reminded the Board to continue to update PK of any changes to the register of directors' interests. No further updates were noted to the current register as attached in the papers for this meeting. PK noted that IC's interests would be added following his formal appointment to the Board.

2020 3. Minutes of Previous Meetings

The minutes of the meeting held on 20 November 2019 were agreed and signed by the Chairman, with the summarised Board minutes (which PK noted had commercially sensitive material removed) approved for publication on website.

2020 4. Matters Arising

PK reviewed with the Board the status of the matters arising, noting in particular:

- **Prior actions** - PK said that the action referring to potentially incorporating public interest matters into the Company's Articles of Association would be closed off but considered as part of the overall Governance initiatives (separately tracked), and would depend on the relative perceived effectiveness of such an action given the other governance initiatives.
- **Item 87** - TK noted that inauguration of the Environmental Scrutiny Panel (ESP) was progressing, with the draft terms of reference completed, a chair appointed (Alison Thompson) and the first meeting scheduled for July 2020. The Board noted

the relevant action points arising from the recent Board Strategy Day (BSD) with respect to further TK and IC discussions to finalise the terms of reference and participants of the ESP, in addition to clarifying timings relative to the Customer Scrutiny Panel (CSP). AF also noted that Alison Thompson would be invited annually to the Board, similar to the chair of the CSP.

- **Item 87** - TK noted the completion of the health and safety actions related to the recent matters at Woodmansterne Treatment Works..
- **Item 91** - PK noted the successful completion and issuance of the recent water and developer services tariff work following ML's review, and that the regulatory team would now proceed with the final New Appointees and Variations (NAVs) 2020/21 tariff work.
- **Item 92** - TK said that the Board's review of energy purchasing policy was on today's agenda.
- **Item 102** - Finally, TK noted that takeover testing on the Woodmansterne Treatment Works was nearing completion.

2020 5. Board Committee Reports

Report from the Nomination Committee

JP summarised the key points discussed at the 12 February 2020 Nomination Committee (Nomco):

- As noted above, the Nomco reviewed and approved IC's appointment as the Group CEO.
- With respect to the Board during the transition process, it was confirmed that AF would formally resign on 28 February. AF confirmed he had spoken to Ofwat (Jenny Block, General Counsel), who had confirmed that for the short transition period, there was no concern with the Board functioning with 3 executive directors and 3 independent non-executive directors. The Board agreed and approved this current status and the relevant appointment and resignation dates, and PK noted that the new website had been appropriately updated to reflect the new positions.
- The Nomco approved and recommended to the Board that DS's tenure as an INED, whose second terms currently finishes on 31 August 2020, be extended for a 3rd and final 3-year term to 31 August 2023..
- JP noted that the Nomco also discussed the current extension of the CSP chair (Graham Hanson) to the end of September 2020..

Finally, JP emphasised that the above appointments were carefully considered by the Nomco in the light of the current lack of diversity on the Company's Board and Committees. The Nomco was cognisant that such appointments did not address the current lack of diversity in such forums, and the Nomco continued to focus on this imbalance when considering future candidates, as it would do when considering the replacement of JP as Board Chair in March 2022.

Report from the Remuneration Committee

DS summarised the key points discussed at the 12 February 2020 Remuneration Committee (Remco):

- The ongoing discussion with the JNCC on the new pay deal was noted, with it being acknowledged that this matter was close to finalisation, and directors' fees, together with SMT and executive pay rises, would be considered based on the outcome of this new pay deal.
- An updated executive pay policy (including bonus and LTIP matters) was discussed, with a focus on the balance of customer pledges and shareholder interests.

2020 6. Feedback from the Board Strategy Day (BSD)

AF led a review of the recent BSD on 11 February 2020, with the Board noting that the right topics were discussed during the day, and that receiving the papers well in advance considerably helped.

2020 7. PR19 update

PK proceeded to summarise the recent Board calls on the Company's deliberations over Ofwat's Final Determination (FD), presenting the set of summarised minutes for these meetings. The Board approved such minutes, and approved a letter to be issued by JP to Ofwat on 13 February which notified the regulator of SESW's decision not to request Ofwat to refer the Company's FD to the Competition and Markets' Authority.

2020 8. 2020/21 Budget

EP joined the meeting and reviewed the 2020/21 proposed budget with the Board, noting in particular:

- The key assumptions underpinning the budget, and the adherence with the required financial covenant and regulatory ratios delivered through the budget.
- The draft funding requirements for 2020/21 within the proposed budget.
- EP closed by providing an overview on the Yr 1 capex programme (with TK noting key areas of focus), and reviewed the risk and opportunities schedule and forecast covenant and regulatory compliance matters with the Board.
- Finally, PK provided a verbal update to the Board on the budgeted headcount for 2020/21.

The shareholders noted their prior review of the budget..

The Board approved the 2020/21 budget and thanked EP for her work. EP then left the meeting.

2020 9. Reputational update

AF reviewed his reputation paper with the Board, noting the following key points:

- The recent letter to Rachel Fletcher (RF) on the Board's actions with respect to the Southern Water investigations, which were now being separately tracked via PK's governance updates.
- The on-going discussions at Water UK in the light of recent political matters, noting that with the de-escalation of the Nationalisation threat, a refocus on the water companies' PIC efforts was underway.
- AF's summarised his recent meeting with RF on 20 January, noting in particular Ofwat's intent to focus on piloting its new performance monitoring with certain companies, for which AF said that SESW would be happy to volunteer

9.1 PIC - Energy and Carbon Update

HS joined the meeting and provided the Board with a deepdive on the net carbon zero PIC she was leading for the company. HS recapped the Company's overall energy strategy, together with definition of net carbon zero, the variability in measuring emissions and the potential decarbonisation roadmap available to the Company. The Board noted the potential options available, including large scale site solar and a corporate purchase price agreement, and requested that HS work with the Energy Strategy Committee to review the recommended next steps for the Board.

HS then left the meeting.

2020 10. Lunch with Sir Tony Redmond

TR and DL then joined the Board for a discussion on the recent Consumer Council for Water (CCW) activity. TR thanked the Board for the invitation, and proceeded to highlight the following areas of CCW focus:

- PR19 - TR noted that CCW are focused on the consequences for PR24 from the recent PR19 Final Determination, particularly with respect to the impact for customers on the long-term resilience of companies' plans. TR noted the CCW would be carefully monitoring performance under the final PR19 business plans and in certain areas - such as supporting the most vulnerable customers via the Priority Services Register - CCW will be requiring companies to perform beyond planned target levels.
- Performance Commitments - TR highlighted the particular challenges under PR19 that companies face with respect to Per Capita Consumption (PCC) and leakage, with companies facing a credibility as well as an operational challenge in these areas. CCW remain keen for service improvements for customers in both these areas, cognisant of the balance required between bills and investment.
- Complaints - TR acknowledged the recent improvements by SESW in reducing its complaints, noting that generally issues on bills remains the key complaint focus.
- Other matters - TR closed by discussing CCW's interest in other matters, such as the drive for universal metering, a closer focus on Non-Household Retail (in terms of long unread meters, data issues and water efficiency) and water resource management, citing the excellent engagement recently with the Water Resources South East group.

JP, on behalf of the Board, thanked TR for his insights. JP highlighted the ongoing concern from SESW on the balance between long-term investment and short-term bill affordability as evidenced through the recent price review, and noted that, for the benefit of SESW's customers, that balance needs to be addressed amongst all stakeholders within the PR24 process. JP also noted the need to ensure consistency of messaging on a regional and national basis from CCW in this regard, and that SESW would work with both CCW and Ofwat in the coming months and years to address this matter.

TR reminded the board of the next CCW regional public meeting on 19 March, stating that the agenda would focus on water resource management plans and PR19.

TR then left the meeting.

2020 11. Customer Transformation Programme

DL provided the board with an update from the Customer Programme Board, focusing on progress with the Digital and CRM/Billing project.

With respect to the Digital project, DL highlighted the recent successful launch of the Company's new website, noting the positive external comments received to date.

DL then left the meeting.

2020 12. Governance Update

PK proceeded to review his Governance paper with the Board, noting that the update was timely even though the Governance Committee would not meet until 25 March 2020 given the recent high level of activity in this area. PK highlighted in particular:

- SESW's actions arising from Ofwat's recent report on companies' progress on their Board Governance. PK said that certain SESW initiatives - such as the "Keeping it Clear" document and publishing of Board minutes had been noted as best practice with Ofwat.
- The Company's actions in response to Southern Water matters, noting his recent presentation at the "lessons learned" session initiated by the Southern Water compliance team. PK stated that certain key actions would be implemented in the

coming months, including scheduling of further opportunities for the Board to interact with staff to ensure Board members continue to be immersed in the “culture” of the Company.

- PK updated the Board on management’s process for monitoring and updating key companies’ policies, and the Board provided comment on potential additional policies for review (such as an annual update of the employee handbook and use of the mandatory read function on the website) which PK noted would be considered.
- Finally, PK noted the on-going work with respect to the Company’s Board effectiveness actions points, noting the involvement of IC on these items going forward.

2020 13. Board and Committee proposed dates for 2021 & 2022

PK reviewed the proposed Board, Committee and Panel dates for the above periods. The Board requested that the dates be diarised and that any potential clashes be dealt with as needed. The Board would consider further external invites prior to the upcoming meetings.

2020 14. Monthly Reports (November and December 2019)

The Board proceeded to review and discuss with management the latest monthly performance report, with the following items noted:

- TK provided an operational update, noting the continued forecast achievement of key final year performance commitments.
- AF noted that the Company was expected to receive Silver status with respect to its Investors In People review, which – given the rigorous nature of the review and level of changes facing the business – the Company would be very proud of achieving.
- NH provided the Board with the proposed updated AMP 7 reporting of softening performance, which provides data per site against PR19 target levels.
- The Board inquired as to the Company’s plan with respect to the recent Coronavirus issues. NH noted that communications had been issued around in the business in line with the Public Health England guidelines, but that communications were being stepped up with external stakeholders. NH noted she would update the Board of next steps with respect to the latter.
- PK summarised the recent success with respect to ensuring that the Company was compliant for “Making tax digital” with the HMRC.

14.1 Health and Safety Update – action from external review

JP noted management’s progress of the action points raised from the recent external health and safety review, and requested that this be a standing item for future Board agendas, to be led by IC.

2020 15. Shareholder Update

No further comments were noted from the shareholders.

JP reiterated the huge debt of gratitude from the Board and Company to AF for his work over his tenure as MD, and noted the Board’s best wishes for a long and happy retirement.

2020 16. Date of Next Meeting

Wednesday 25 March 2020 at Redhill

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(Chairman)