

SES Water
Minutes of a Meeting of the Board
held on Wednesday 27 March 2019
in the Boardroom, Redhill
commencing at 12.00pm

Present:

J Pelczer	JP	(Chairman)
M Legg	ML	
D Shemmans	DS	
R Nishida	RN	
S Kitajima	SK	
A Ferrar	AF	(Managing Director)
P Kerr	PK	

In attendance:

N Houlahan	NH	
T Kelly	TK	
From DWI –		
Marcus Rink (MR),		
Milo Purcell (MP),		
Laura Moss (LM)		(for Item 26 only)
J Campbell; C Holland	JC, CH	(for Item 27 only)
D Lamb	DL	(from Item 28 onwards)
I Adams, A Welch	IA, AW	(for Item 29 only)

Apologies for absence:

J Woods	JW
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2019 15. Declaration of Interests

JP noted various updates to the Declaration of Interests register

2019 16. Minutes of Previous Meetings

The minutes of the meetings held on 6 February 2019 were agreed and signed by the Chairman,

2019 17. Matters Arising

PK noted that majority of Matters Arising had been addressed, stating the items highlighted in amber were on-going and would be carried forward to next Board meeting (all within deadlines). PK did highlight the following with respect to certain items:

- The Board Effectiveness review would be initiated in April 2019 by Independent Audit
- Members of the Customer Scrutiny Panel were invited to the July 2019 Board meeting

2019 18. Report from the Nomination Committee

JP summarised the Nomination Committee meeting for the Board, noting in particular the pending appointment of RN's replacement, Kenji Oida, following his pre-appointment interview with Ofwat on 15 April 2019. JP also took the opportunity to thank RN for his significant contribution to the Board and Company during his tenure.

JP also noted the receipt of a letter from ML, as senior independent director, to extend JP's Board chairmanship for a third three-year and final

term. JP also noted the Nomination Committee's general discussion on succession planning.

2019 19. Report from the Remuneration Committee

DS summarised the Remuneration Committee's review of the executive pay review process and merit awards, which were all approved by the Committee.

2019 20. Report from the Pension Risk Management Committee (PRMC)

ML summarised the PRMC discussions, including papers on closure of the Company's Section of the Water Companies Pension Scheme (the "Section"), year-end pension accounting matters and longer-term strategic pension options with respect to the Section.

2019 21. Report from the PR19 Financing Committee

ML summarised the Financing Committee discussions, noting the focus in the next year by the Company on matters such as long-term bond sinking fund options, PR19 capex funding and revolving credit facility (RCF) renewals, with a further update to be provided in June 2019.

2019 22. Report from the Audit Committee

ML reviewed the topics discussed at the Audit Committee meeting, including preparation for the year-end, early review of accounting technical and judgement papers, and KPMG's year-end audit plans and PwC's plan for transition. ML also noted the updates on Cyber Security, including the recent assessment submitted to the DWI.

In addition, ML noted the resolution of the recent auditor appointment matters.

ML reconfirmed the communications by the Audit Committee to the Board in line with the Companies Act requirements (CA S485A (5)) in its recommendation of PwC – that the choice of PwC was articulated by the Committee in the 21 November 2018 Audit Committee meeting, was free from influence by a third party and that no restrictive contractual terms of the nature articulated in the Companies Act had been imposed upon the Company.

The Board noted the update from ML on this matter, and re-confirmed its approval for the appointment of PwC as the Company's external financial auditor for the year-ending 31 March 2020.

2019 23. Update on DWI matters

NH proceeded to provide an update on DWI related matters (as documented in the accompanying paper) ahead of the DWI representatives joining the Board meeting over lunch.

NH also updated the Board of her recent meeting with the DWI on the turbidity incident at Woodmansterne Treatment Works in July 2018. The Chief Inspector will now consider the evidence gathered under the investigation and will decide on the most appropriate action, taking in to account public interest factors.

NH concluded by reviewing with the Board the overall excellent status of the Company's water quality record, explaining the reasons why no specific water quality programme had been submitted in the PR19 Business Plan,

given the view that dealing with lead pipes was considered as business as usual for the Company.

2019 24. Governance update

PK proceeded to review the Governance update paper with the Board, noting the recent progress on closing out several key governance initiatives, and the positive comments received from Rachel Fletcher recently with respect to the Company's work with Ofwat on implementation of the Board Leadership, Governance and Transparency (BGTL) objectives. After review, the Board provided their indicative consent to be issued to Ofwat on incorporation of the BGTL principles within the licence, with PK noting that a formal consultation would follow from Ofwat on this matter.

2019 25. Summary of Board Strategy Day (BSD) and Actions

AF/PK reviewed the status of the BSD action points.

2019 26. DWI representatives' discussion

Marcus Rink, the Chief Inspector of DWI and his two senior colleagues - Milo Purcell and Laura Moss - joined the Board meeting for an interactive discussion on key topics on the DWI agenda.

MR, MP and LP participated from the DWI, discussing various topics including:

- Overall lead challenge being faced by the industry
- Focus on Brexit
- Regulatory matters - MR commented that while SESW faced very few water quality events relative to other companies, which from a DWI perspective was extremely pleasing, he recommended greater education for customers and the general public about the work being done to manage this performance, particularly with respect to the significant work performed to maintain water quality standards. MR noted the ongoing work with the DWI in respect of Woodmansterne and thanked the Company for its support to date. In addition, he noted the ongoing work on the Cyber Assessment Framework submission by the Company to the DWI

The Board thanked the DWI representatives for their input and discussion, after which the DWI representatives left the Board meeting

2019 27. PR19 – Initial Assessment of Plans (IAP) resubmission approval

PK updated the Board on the final proposals for the PR19 IAP resubmission, following recent Board meetings and calls on the resubmission process.

From review of the accompanying papers by the Board, it was noted that:

- All requirements for final resubmission - including chapters for resubmission, appendices and data tables - were in hand and ready to be resubmitted prior to 1 April 2019
- Comments had been received from all Board members upon review of the documents, and PK proceeded to review key changes and amendments with the Board utilising the accompanying tracking documents. All final changes were noted and approved by the Board
- An updated executive summary was also reviewed by the Board - final comments were received and updated as appropriate

PK also reviewed the final Customer Scrutiny Panel (CSP) report with the Board, who noted and commented that the report provided overall support for the positions taken by the Company on the resubmission.

The Board therefore approved the IAP resubmission document.

PK concluded by noting that Ofwat's Q&A process will now commence following the resubmission, and the Board would be updated accordingly. In addition, a Board call to discuss the results of the draft determination (due 18 July) would be diarised for 19 July.

2019 28. Customer Transformation Programme

DL and AF proceeded to provide an update on the Customer Transformation Programme as detailed in the accompanying papers, noting in particular the recent progress in signing the digital transformation contract, and the imminent signing of the CRM/Billing contract.

2019 29. Programme 20 Update (including Deep Dives)

IA and AW joined the meeting to review specific aspects of the Programme 20 Transformation plan, in terms of chemical optimisation and first-time reinstatement. The Board reviewed the accompanying papers in these areas, noting the positive progress being made and approving recommended next steps as detailed in the papers.

2019 30. Monthly Reports (January and February 2019)

The monthly performance reports were taken as read, and the Board challenged management in the following areas:

- Ensure softening ODI met at year-end - TK responded that with the recent positive progress at Woodmansterne, the softening target of less than 80 mg/l had been met
- JP reminded TK that any cumulative savings from lower than expected softening levels due to short term operational reasons should all be captured and presented at the 4 June board for subsequent utilisation to community projects to ensure the Company does not profit from such savings in costs.
- Leakage - TK confirmed that leakage target would be met for the year, the 20th year running
- Water resources remained in a satisfactory position
- Resilience ODI was also met with the completion of the Woodmansterne to Purley main
- PK reviewed the forecast profit after tax (PAT) for full year with the Board, as noted in the finance waterfalls in the Board packs.

AF concluded the Board performance review by discussing latest position on the industry social contract, adding that he would circulate the recent customer research and the latest draft document from Water UK to the Board.

Finally, the Board noted positively the improvement made to the monthly performance packs in terms of content and performance focus.

2019 31. Wholesale Service expenditure approvals

JP noted that the Board had reviewed in advance the capex approval forms submitted by TNK, and subsequently approved the proposals.

2019 32. Shareholder Update

There was no further update from the shareholders.

2019 33. Date of Next Meeting

The next meeting will be held on Tuesday 4 June 2019.

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(Chairman)