

## SES Water

### Minutes of a Meeting of the Board held in the Boardroom, Redhill on Wednesday 21 November 2018 at 11.30am

**Present:**

J Pelczer	JP	(Chairman)
M Legg	ML	
D Shemmans	DS	
J Woods	JW	
R Nishida	RN	
Y Sakai	YS	
A Ferrar	AF	(Managing Director)
P Kerr	PK	

**In attendance:**

N Houlahan	NH	
T Kelly	TK	
K Reid	KR	(Item 98 only)
D Lamb	DL	(Item 101 only)
D Woodworth	DW	(item 102 only)
M Colledge	MC	(Item 104 only)
A Murphy	AM	(Item 109 only)

- |             |            |  | <b>Action Points</b> |
|-------------|------------|--|----------------------|
| <b>2018</b> | <b>90.</b> | <b>Board Changes – Report from the Nomination Committee</b><br><br>JP noted the paper from AF confirming the process for the formal resignation of YS from the Board and the appointment of Mr Seiji Kitajima. PK confirmed that the meeting with Ofwat and Mr Kitajima had been arranged for 7 Jan 2019. JP confirmed that the Nomination Committee had met earlier today and recommended to the Board the changes as outlined in the paper. JP thanked YS for his significant contribution to the Board over recent years and offered him, on behalf of the Board, best wishes for his next appointment within the Sumitomo Group. |                      |
| <b>2018</b> | <b>91.</b> | <b>Declaration of Interests</b><br><br>JP reminded colleagues to advise PK of any changes in their Interests for inclusion in the Register of Directors' Interests.  | <b>All</b>           |
| <b>2018</b> | <b>92.</b> | <b>Minutes of Previous Meetings</b><br><br>The minutes of the meetings held on 28 September 2018 were agreed and signed by the Chairman.   |                      |
| <b>2018</b> | <b>93.</b> | <b>Matters Arising</b><br><br>The Chairman noted that all actions arising from the previous meeting had been completed or were in hand.<br><br>PK noted that an update on external Board effectiveness review and summarised Board minutes for publishing would be provided under Item 11 of the agenda today (Governance update)  |                      |

- 2018 94. Report from the Remuneration Committee**
- DS noted that the Remuneration Committee had reviewed progress on the updated LTIP plans for executive directors for the next three-year period, and the imminent finalisation of the associated letters. DS also noted the Remuneration Committee's review of executive management pension schemes had been completed.
- 2018 95. Report from the Audit Committee**
- ML summarised the Audit Committee discussions, noting in particular the recommendation to the Board of PwC as the Company's external financial auditors for the year-ending 31 March 2020 (subsequently approved by the Board), management actions to address the outstanding internal audit and compliance matters, KPMG's controls update and the recommendation on financial control matters to be addressed.
- ML also recommended to the Board approval of the Company's interim statement and results following review and approval by the Audit Committee. The Board approved the Chairman's interim statement and results for publishing, pending final edits as recommended by the Audit Committee. **PK**
- 2018 96. Report from the Pension Risk Management Committee**
- ML reported on the Committee's review of the finalisation of the WCPS pension consultation and communication to members. This was noted by the Board.
- 2018 97. Report from the Energy Risk Management Committee**
- ML updated the Board of the recent Energy Risk Management Committee discussions, noting the Committee's approval and recommendation of the appointment of Haven as the half-hourly electricity supplier following a competitive tender process. In addition, the Committee's approval of the instalment of solar panels on the Redhill garage site was noted.
- 2018 98. Annual Health, Safety and Wellbeing (HSW) Presentation**
- KR joined the meeting and presented the annual HSW update to the Board, highlighting safety performance over the last year, root cause analyses, key Company and industry learnings and the recent HSW day. The Board noted the considerable progress made by the Company in this area recently, while pointing out several key areas of focus going forward, such general assessments on traffic safety with the advent of electric vehicle purchases, focusing in future presentations of examples of HSW assessment at a specific operational sites and input from the upcoming employee engagement survey. KR noted that the 2019 plan would be updated to address these matters, and the Board thanked KR for his presentation. **KR**
- 2018 99. Governance Update**
- PK reviewed the Governance update paper with the Board, noting in particular that no response had yet been issued by Ofwat on their "Board Leadership, Transparency and Governance principles" consultation.
- PK noted the progress that had been made to date though by the Company, including the imminent release of the Company's first "Keeping it Clear" document on financial and governance transparency, which will be published on the Company's website and sent to interested parties.

PK also noted the paper's appendix containing the September 2018 Board minutes for publishing on the website, as part of the wider transparency agenda.

PK also noted that a final recommendation of the provider of the external Board Effectiveness review was imminent, with two proposed providers being considered after review with the AC chair.

**2018 100. PR19**

PK summarised to the Board the latest update on PR19 matters, noting the completion of the de-gearing process (with the increased equity and debt reduction resulting in reduced regulatory gearing levels to c60% at present) and the latest views on Initial Assessment of Business Plans from Ofwat

**2018 101. Customer Transformation Programme**

DL joined the meeting and, in conjunction with AF, reviewed both the latest SIM results and progress on the Retail transformation programme. The Board noted the positive progress on SIM matters, particularly in relation to the Billing SIM results, which DL emphasised was primarily the result for focus on people and training, as opposed to the (yet-to-be-implemented) system enhancements.

**2018 102. Programme20**

TK reviewed the P20 paper (associated with business transformation projects) with the Board, noting in particular the focus on Oneserve delivery, and the work being performed on leak detection optimisation. DW joined the meeting to provide the Board with an update of the initiatives on network health and targeted main renewals. DW noted in particular the condition-based assessments underway, and the potential benefits in terms of reduced costs, leaking savings and lower bursts and interruptions. The Board noted and agreed with this approach.

**2018 103. Ordinary Dividend**

PK discussed with the Board the basis for the proposed interim dividend, reviewing the year-to-date financial and operational results and also explaining the impact of the preference shares conversion on the dividends calculation.

The Board discussed the operational and financial performance of the Company in the year-to-date, noting in particular the effect of the significant burst events earlier in the year, and the focus required in the second half of the year to continue to improve health and safety and SIM metrics. The positive water quality results in the first half of the year, maintenance of covenant compliance and progress of the Company's customer service initiatives and environmental education programme were also noted. The Board agreed that while operational and financial performance contained both successes and on-going challenges in the year-to-date, there were no significant matters noted to preclude payment of the proposed interim dividend. The Board approved the interim dividend payment of £1.884m.

**2018 104. Softening Obligations**

The Board reviewed an ex-employee's concern regarding the Company's softening approach and discussed the on-going softening

work being performed by the Company, particularly with respect to completion of the upcoming Woodmansterne project

**2018 105. Monthly Reports (September and October 2018)**

The monthly Board reports with taken as read, and the Board invited to comment on any matters noted in the papers. DS requested an update on the progress of the Woodmansterne project from a contractors' standpoint. TK reported that Thorne were now no longer onsite, and the Company were continuing to work with Doosan to complete the planned work ahead of beneficial use in early 2019.

**2018 106. Shareholder Update**

The shareholders had no matters to be drawn to the attention of the Board.

**2018 107. Any Other Business**

The Board approved the next 6 months' programme for main replacement as detailed in the paper.

In addition, AF requested feedback from the Board on the proposed Board Strategy Day agenda provided.

**ALL**

**2018 108. Date of Next Meeting**

The next meeting will be held on Wednesday 6 February 2019.

**2018 109. Drought Plan – Director Training**

AM joined the meeting and provided training to the Directors on SESW's drought preparation planning, including the overall timetable for the SES Drought Management Group, and related sector wide considerations. Specific matters for discussion included the Company's external communications plans (such as 'Wrap up for Winter' and messaging in bills) and continued interaction with neighbouring water companies in preparation for winter. The status of SESW's current resource level – through consideration of Bough Beech reservoir and various borehole levels – was reviewed and noted as in line with expectations (pending a 'normal' winter) The Board noted and agreed with the recommended action plan for the next 4 months and thanked AM for her detailed and informative presentation.

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(Chairman)