

SES Water
Minutes of a Meeting of the Board Meeting
Wednesday 25 November 2020

To be held at SES Water, 66-74 London Road, Redhill RH1 1LJ and via MS Teams commencing at 12noon

Present:

J Pelczer	JP	(Chairman)
M Legg	ML	
J Woods	JW	
S Kitajima	SK	
K Oida	KO	
I Cain	IC	
P Kerr	PK	
D Shemmans	DS	(from Item 83 onwards)

In attendance:

N Houlahan	NH	
T Kelly	TK	
K Thornton	KT	
J Gilbert	JG	
D Lamb	DL	(Item 82 onwards)
M Mackintosh (Echo)	MM	(Item 82 only)
A Reynolds	AR	(Item 82 only)

2020 76. Declaration of Interests

JP reminded the Board to continue to update PK of any changes to the register of directors' interests.

2020 77. Minutes of Previous Meetings (including website and AGM minutes)

The minutes of the meetings held on 24 September 2020 were agreed and signed by the Chairman, with summarised Board minutes approved for publication on website (following requested edit to clarify status of recent external review recommendations at Godstone Water Treatment Works).

2020 78. Matters Arising and rolling board agendas

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

Social mobility pledge – IC noted that while communications still continued with Justine Greening's team on this matter, the Company would be pursuing key actions in this area internally going forward, led by KT's team.

DWI status – NH directed the Board to the summary of DWI outstanding matters as provided in Board packs, which detailed the current compliance sample failures, reported events and technical audit work, with noted completion dates and items due for submission to the DWI. With respect to the February Cheam disinfection event, NH noted that the DWI had accepted the submission of our run-to-waste feasibility report on 24 November and now considered all recommendations in respect of this event closed.

Godstone and Redhill consent matters – TK noted that the recommendations arising from the recent external review of Godstone treatment works were in progress, and that TK would be updating the Environment Agency (EA) at his next regular meeting on 2 December

2020. TK noted that the effluent discharge consent matters continued to be reviewed with no significant issues arising.

WINEP – TK confirmed with JP that an update on progress on the WINEP AMP 7 plans would be provided as part of the February 2021 strategy day – with further deepdives across the summer available as needed for the Board.

PK noted that the remaining matters arising were addressed in the accompanying Board papers.

2020 79. Board Committee Reports

Prior to the Committee review, JP acknowledged the Board's recognition of the current stress the Company is under, as evidenced in recent employee matters, operational performance and ultimately financial results being adverse to budget.

JP was keen to ensure that the Board did not just dive into the Board papers but took an "up periscope" moment to reflect. JP was also keen to recognize the immense effort and commitment of the whole workforce on trying to manage through the difficulties experienced through the Covid-19 pandemic and its impact on SES Water. The added bench strength of the leadership team through the recruitment of John Gilbert as CIO and Kate Thornton as CCO is very welcome and encouraging. IC's drive on longer term purpose, vision and a customer centric culture allied to improved business resilience were strongly supported by the Board who at the same time are cognisant of the shorter-term impacts of Covid-19, and the Board will continue to be both challenging but supportive of management in these difficult times.

Report from the Nomination Committee

JP provided a report from the Nomination Committee, noting the following key items:

- The annual review on succession planning as presented by IC, with certain process improvements and a deeper dive on talent management to be addressed in the future.
- That the progress on the Head of Production senior role was discussed, and the status of the candidate long list in this regard.
- Confirmation that Graham Hanson would remain in place until the successor to the Customer Scrutiny Panel chair has been appointed.

JP also took the opportunity to request that the Board formally approve DS to chair a Health and Safety Committee of the Board going forward, based on recent discussions at the Nomination and Governance Committees. The Board approved this appointment, and NH/IC were requested to proceed with logistics, terms of reference etc. for next set of Health and Safety Committee meetings.

Report from the Energy Strategy Committee (ESC)

ML reported on the recent ESC, noting the key points of discussion included:

- The status of energy purchasing for the AMP, with the final two years yet to be purchased given the illiquidity of the markets in these outer years.
- The draft net zero carbon roadmap – as attached to board packs – and the linkage to Water UK's sector wide plans. TK noted he would ensure Water UK position was circulated to the Board, adding that at the end

of May 2021 SESW would publish its own roadmap, which would form part of the ESP discussion in January 2021. The net zero carbon plan, and the financial consequences of this, will also be covered at the board strategy session in February 2021.

- KO added that the ESC would also continue a focus on funding for energy related projects going forward.

Report from the Governance Committee

ML reported on the Governance Committee, noting that:

- There was no feedback from Ofwat as yet on its consideration of the Company and sector progress on Board leadership, transparency and governance matters following publication of the sectors' 2019/20 Annual Performance Reports.
- ML noted the review and approval of the Independent Audit external Board effectiveness review for 2020/21.
- ML also noted the positive steps taken to formalise Board training for the year (which was circulated by PK following the board meeting), and the continuation of other well-received governance initiatives from the prior year, including DS's annual attendance at the JNCC meeting.

Report from the Financing Committee

ML reports that the Financing Committee was provided an update of the progress made to date with the Sinking Fund attached to the long-dated bond, and a further update on available options would be provided at the 10 February 2021 meeting.

Report from the Audit Committee

ML reported on the Audit Committee meeting, noting:

- The Committee's review, approval and recommendation to the Board of the Company interims – inclusive of the Chairman's statement and interim financial statements. The Board approved these interim statements for issuance on 30 November 2020.
- The Committee's review, approval and recommendation to the Board of the latest edition of the Company's "Keeping it clear" document. The Board approved this document for issuance on 30 November 2020.
- The Committee's review, approval and recommendation to the Board of the Company's Company Monitoring Framework (CMF) documents – namely the draft risk, strengths and weaknesses statement and draft assurance plan. The Board approved this document for issuance on 30 November 2020.
- The request that the Board delegate authority to ML, IC and PK to complete the 2021/22 water, developer services and new appointments and variations tariffs work. This delegated authority was provided by the Board.
- ML noted the other aspects covered in the Committee meeting, including the judgement on measured income accrual and bad debt, the focus by PwC on controls associated with the Aptumo implementation and the work to be performed by management to address the actions raised in the Mott MacDonald report with respect to performance commitment documentation.
- ML also noted the Committee's approval of the interim risk register as presented by NH, and the update on internal audit and compliance matters. ML concluded by noting the positive work that continues to be performed by the Company in the area of Cyber Security, although the results of the recent penetration testing was still to be received.

2020 80. Ordinary Dividend

PK reviewed with the Board the accompanying paper on interim dividends, noting the recommendation to the Board that – given the current economic uncertainty as presented by Covid-19 – the interim dividend be deferred and revisited at the 10 February 2021 Board meeting.

The Board discussed the salient points as documented in the paper, noting the Company's ability to pay dividends from a financial resource standpoint, but agreed that it was prudent that the dividends be deferred at this point in time. ML added that this it was a fine balance and that – in February – performance would still need to be considered in the round to allow payment of dividends in conjunction with the Company's published dividend policy. JP agreed, noting that underpinning performance and liquidity would be considered for dividend payment at that point in time, and any potential further "lockdown" in itself would not be the trigger for further dividend deferral.

The Board therefore approved management's recommendation to defer the interim dividend until consideration at the 10 February 2021 meeting.

2020 81. Regulatory update

PK proceeded to review with the Board the accompanying regulatory update paper, noting:

- The anticipated announcement from Ofwat on PR24 plans and associated consultations.
- The recent interactions with Jonson Cox and Rachel Fletcher by JP and IC respectively, with IC noting the positive relationship developed to date with RF and the openness of recent discussions. JP noted his upcoming meeting with JC in early 2021, for which he would request input from the Board prior to the meeting.
- The deferral of the final findings from the Competition and Markets Authority (CMA) into February 2021.
- The plans for reforecasting of the AMP 7 business plan ahead of the 9 February 2021 Board strategy day. This will include consideration of the latest views on regulatory "adjustments" in the light of Covid-19 and the impact on future allowed revenues for the remainder of the AMP, inclusive of the results of any Company and sector wide "appeals" re Covid-19 impacts.

2020 82. Customer update

DL, AR and MM joined the meeting.

JP took the opportunity to welcome KT and JG – as the latest members of executive management – to the Board meeting.

CRM/Billing Programme

DL reviewed with the Board the accompanying Aptumo paper, noting the current status of the programme, including the successful build of the systems' core functionality, the setting of the go/no-go criteria, the programme's risks and levels of contingency, the core data migration activity already completed and the significant progress on transfer of customer accounts and associated debt balance testing.

The Board noted the above status of the programme, and thanked DL, MM and the joint teams for the continued work in this area.

MM then left the meeting.

C-MEX

AR provided an update on the C-MEX programme as detailed in her accompanying papers, noting the progress in the 7 key initiatives including listening to customers, C-MEX insights sharing and the recent focus on complaints handling and system generated letters. The Board noted the above matters, in addition to some of the recent positives noted from the latest set of C-MEX scores, but cautioned on ensuring that such initiatives continue to receive significant focus given the amount of work to be performed in this area (for example in handling of recent reinstatement complaints as noted by ML).

AR then left the meeting.

Wholesale and Developer Services (including D-MEX)

TK provided the Board with an update in above area as detailed in his accompanying paper, which included an update of the action plan developed in response to Rachel Fletcher's recent letter on the role of incumbent wholesalers in the retail market. TK noted the recent progress on recruitment of experienced personnel into his team, and the recent development services tariffs consultation work, with support from PK and CEPA. The Board noted the progress in this area, and requested that the action plan continue to be a standing item on the Board agenda.

2020 83. Monthly Reports (September and October 2020)

IC opened by providing the Board a summary of the performance in the year-to-date, noting:

- The strong progress made in several areas, despite Covid-19 matters – such as organizational enhancements (e.g. finance restructuring, compliance manager recruitment and the latest additions to the executive), progress on Aptumo, strengthening of financial resilience via the extended debt facilities, and the other steps taken on governance matters.
- The impact on performance commitments (as expanded on by TK) where resilience targets will not be achieved Year 1 (due to planning approval at the relevant site not being provided by the local authorities) but will now be met in Year 3, the water quality compliance failures and the ongoing implementation of improvements in this area, the current focus on leakage to ensure the year-end target is met and the widened focus on reshaping the business plan for the rest of the AMP.

DS noted the above matters, acknowledging the impacts on current performance, but also asked that management revisit the status of underlying asset health, citing recent examples where that health may not be as stable as initially believed – emphasising that “transforming while performing” was an imperative for the business. TK and IC noted that the focus on where capital expenditure would be spent across the remainder of the AMP would be covered in the 9 February Board strategy meeting.

In response to ML's request, IC confirmed management would schedule a discussion on employee mental health matters, with Sarah Brown leading activity on this matter.

Covid-19 update

TK provided a brief update on Covid-19 matters, citing the continued senior management briefings three times a week, the latest demobilisation plans

and the continued focus on the health and wellbeing of the Company's employees through this crisis.

External Health & Safety status update

NH reviewed the Health and Safety paper with the Committee, noting the recent progress to enhance the maturity of this part of the business as detailed in the slide, and recent initiatives including the "On any other given day" posters being utilised across the business. DS commented favorably on these communications, albeit noted that the Company should not step away from using more direct language to reinforce these key messages when required.

Capex Approvals

TK reviewed with the Board the two capex approvals contained in the Board papers – for Bough Beech WTW Phase 3 upgrade and Elmer WTW upgrade.

2020 84. Shareholder Update

SK also welcomed KT and JG to the Company, adding that the shareholder looked forward to their contribution to enhancing the customer and digital capabilities of the Company.

2020 85. Any Other Business

No other business was noted.

2020 86. Date of Next Meeting

9 and 10 February 2021 (including Board Strategy Day).

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(Chairman)