

A long-term approach is the key to sustained success



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Jeremy Pelczer
Chairman



Each year we produce our Annual Report which summarises our performance and activity for the given time period. However, every report is just a snapshot of progress against our longer term strategy to ensure our customers – both present and future – are supplied with high quality water for many years to come. The key to achieving this is resilience in all its forms – operational, financial and people – and we take our responsibility of ensuring appropriate investment in all these areas over the years very seriously.

Our Business Plan for 2020 to 2025, submitted to our regulator Ofwat in September 2018, sets out the investment we will make to improve our services and deliver more of what matters to our customers as part of a longer term investment programme, which will benefit future generations. For instance, by 2025 we want every single customer to be connected to more than one water treatment works, which means that the risk of interrupted supplies, even if there are issues like power cuts or drought, are significantly reduced. Delivering on this commitment is only possible thanks to our consistent network resilience strategy and accompanying investment that started nearly ten years ago.

We have a strong track record in making the right decisions for the long-term which means our customers today benefit from a more robust service. A great example is that over the last 30 years since privatisation of the sector, we have invested around £220 million in ongoing improvements to our network including a programme to replace aging pipes. This ongoing investment programme served our customers well during the large swings in temperature last year. On 8 July 2018 we saw the greatest demand of the year with an extra 40 million litres of water put into supply which is 35% more than the average summer weekend. Companies across the country battled to keep up with demand and we were no exception with our teams busy working behind the scenes. We were able to move water around our pipe network and make use of more plentiful resources and as a result, there were no significant issues.

This targeted investment approach has provided customer benefits over a number of years too: reductions in leakage, burst rates, water quality failures, taste and discolouration contacts and supply interruptions. On each of these we have been either the best performer or in the upper quartile of the industry for the last few years.

This year has seen other successes too. In 2015 we set ourselves the target of helping 5,000 customers by 2020 through our Water Support Scheme which provides a 50 per cent bill reduction. We achieved that number very quickly and now over 10,000 customers facing financial hardship are benefitting. The additional numbers being helped meant we had a gap in funding which shareholders are bearing, demonstrating their commitment to our priorities too.

Our strong track record on performance was recognised by Ofwat in their initial assessment of our Business Plan. Nevertheless, along with the majority of the industry, our submission achieved 'slow track' status which means there were challenges in some areas, in particular cost efficiency and the need to better evidence how we concluded on some of our investment and expenditure decisions. Whilst we were pleased with the quality of the plan we submitted in September 2018, we have since engaged further with Ofwat and our Customer Scrutiny Panel to address those areas highlighted by Ofwat as worthy of additional information in our re-submission, which we did ahead of the 1 April 2019 re-submission deadline. Later in July 2019 following the publication of this Annual Report, we will hear back from Ofwat with their 'draft determination' of our plan – the service levels we must provide and the cost of customer bills – and their final determination comes in December, ahead of starting to deliver our plan from April 2020.

Planning water resources is a long-term business too. Our Water Resources Management Plan, submitted to the Government (Defra) in September 2018, looks ahead 60 years and considers a range of factors we need to be ready for. The first five years will be delivered through our Business Plan for 2020 to 2025 which forecasts an adequate supply/demand balance without needing to develop new water sources, despite

Our focus

Delivering today

Planning for tomorrow



Transparency



We supply **160 million litres** of high quality drinking water to homes and business in our area every day

our modelling projecting a 40% increase in the population of our supply area by 2080. This is achieved through a combination of the historic development of a broad range of raw water sources providing choice, new technologies to reduce demand and leakage and finally, being relatively less impacted than other companies by the effects of predicted climate change due to our mix and timing of surface and groundwater abstraction. Despite this, we are still very much committed to minimising the effects of our operations on the environment. The water industry is largely dependent on temperate weather as severe cold causes ground movement that can crack pipes and heatwaves can lead to drought and soaring water use, so we must do all we can to minimise our impact on the environment and protect our water sources. In June 2018, we took a major step forward in drastically reducing our carbon footprint by switching to renewable electricity for all our treatment works, pumping stations and offices. Each day we use enough electricity to power 13,000 homes so this relatively simple change is the equivalent of taking 4,000 cars off the road. Other green initiatives this year included generating more of our own power through installing solar panels at our head office and switching ten of our diesel vans to new electric vehicles.

One aspect of our long-term resilience that will be less visible to our customers is how the Company is financed. In light of concerns from Ofwat about highly geared companies, we proactively set out, with support from our shareholders, to achieve a better balance between our levels of net debt and equity. In fact, despite having been financially resilient for many years, in our Business Plan submission in September 2018 we lowered our regulatory gearing level. Given the importance the regulator attached to all water companies' financial structures we decided not to wait until 2020 to do this either – in August 2018 we converted £12.4 million of preference shares into ordinary shares and in October 2018 we paid back a £30 million bank loan following an issue of ordinary shares, which means we have now reduced our regulatory gearing to c.61%, down from c.77% in March 2018.

Although matters like these are not at the forefront of our customers minds when they think about their water supply, that does not mean that we

should not take steps to better explain it to them, along with other corporate subjects like dividends and executive pay. That was the aim of publishing 'Keeping it clear' in November, as we were very keen to have a customer-friendly guide to how we are owned, run and financed. This, and other actions such as adding summary Board minutes to our website, shows our support of Ofwat's legitimacy agenda and we remain committed to increasing the transparency of what we do and how we do it, reflecting the importance of earning public trust and being a respected corporate citizen. I am delighted that 'Keeping it clear' has been met with resounding positive feedback from our customers and other stakeholders, demonstrating their appetite for more information in an understandable format that uses language that is relevant for them. If you would like to read a copy it is available on our website.

Meeting our targets for the consistently high level of service we expect to provide when customers need to contact us has again been a challenge at times this year but we are taking a long-term approach by significantly investing in new technology and this is beginning to bear fruit. The second quarter Service Incentive Mechanism (SIM) survey undertaken for Ofwat saw us achieve our highest ever billing score but we recognise there is always more to do to sustain and improve but the trend in our performance is moving in the right direction. The coming year will see us completely overhaul our digital-based offering to include a brand new billing system and website, giving our customers more tailored information about their water use and management of their own online account in a way that suits them. We stand by our vision to continue to be an outstanding water company delivering service excellence and welcome the introduction of Ofwat's new measure of customer satisfaction, C-MeX, from April 2020.

Our financial performance remained healthy this year. Revenue increased to £66.8 million (2018: £65.0 million). Operating costs increased to £48.4 million (2018: £45.1 million). Operating profits increased by £0.2 million to £20.1 million (2018: £19.9 million). Interest charges decreased by 9% to £11.0 million (2018: £12.1 million) driven by the conversion of preference shares

to ordinary shares and paying off our £30 million loan, both part of our de-gearing strategy. Interest receivable and similar charges generated £0.7 million (2018: £0.7 million). Profit before tax fell by £0.8 million to £9.7 million (2018: £10.5 million) with 2018 benefitting from a one-off gain on the sale of the non-household customer accounts. Our accounting tax charge for the year was £2.2 million (2018: £1.1 million).

There has been a change in shareholder nominated non-executive directors on the Board this year. In February 2019 Yoichi Sakai was replaced by Seiji Kitajima who was previously a Board member between 2015 and 2016. In May 2019 Ryuichi Nishida stepped down and was succeeded by Kenji Oida. I am pleased to take this opportunity to thank Yoichi and Ryuichi for their valued contribution and to welcome Seiji and Kenji who between them bring a wealth of experience in water, telecommunications, energy and transport.

In May, Managing director Anthony Ferrar informed the Board of his intention to retire later this year after 11 years of service with the Company. During his time SES Water has gone from strength to strength, evident in our position as a responsible local company, playing an active role in the area we are privileged to serve. On a personal basis I have greatly valued his open and constructive leadership style and the rest of the Board and I wish Anthony a long and happy retirement.

Finally, it is very important I take this opportunity to pay tribute to our hard-working employees whose skill and commitment has been vital throughout the demanding year and with their continued support I am confident in the future too. They have stepped up to meet many challenges and you can read more about their achievements throughout this report. I had the pleasure of joining some of them at our long service awards in December 2018 where they celebrated a combined total of 221 years of dedication – there is no better example of long-term success than that.

Jeremy Pelczer
Chairman
15 July 2019