

Directors' remuneration report at a glance



Dave Shemmans
Chairman of the
Remuneration Committee

Statement by the Chairman of the Remuneration Committee

During 2018/19 the Committee has continued to focus on the effectiveness of the incentive schemes for executives, senior management and all employees introduced prior to 1 April 2015. Full details of the achievements against the targets shared by all employees – and the consequent bonuses payable to executive directors – are set out in this report.

In particular, this year, the Committee has considered the recent conclusions from Ofwat's consultation on Board leadership, transparency and governance matters with respect to performance related pay for 2020 to 2025, and this report contains further information about how our proposals, as documented in our recent PRI9 Business Plan submissions, demonstrate our commitments to the expectations of Ofwat's 'Putting the sector in balance' for performance-related executive pay.

The Committee oversaw remuneration arrangements for senior executives and managers joining the Company and was pleased to see that the existing policy framework continues to prove effective in attracting talent that will be well suited to contributing to the success of the Company for many years to come.

As a Company, I continue to believe that we do not discriminate on gender pay and provide equal opportunities for progression within our business. However, we published our second

gender pay gap report in March this year, which showed that the difference in mean average pay is 12.1% (2018: 15.8%), which is lower than the national average but still too high. The gap is caused by having fewer women in senior roles which is not uncommon in the water industry. The Committee has agreed a number of measures to help the Company fulfil its commitment to creating a diverse and gender-balanced workforce which ensures equal opportunities for all employees and reflects the customers we serve.

Going forward, the Committee is very much focused on developing the Company's remuneration policies further, including improving the linkage between executive performance and pay, oversight of workforce policies and practices and an expanded remit for the Committee which will determine if any changes to the Committee's responsibilities, activities or policies are required, especially in advance of implementing our updated performance-related executive pay policy effective from April 2020.

The review of the effectiveness of the Board and its committees, which this year included an externally facilitated review, concluded that the Remuneration Committee continued to fulfil its objectives appropriately.

Dave Shemmans
Chairman of the Remuneration
Committee
15 July 2019

Purpose of the Remuneration Committee

To determine all elements of the remuneration of senior executives and ensure they are fairly rewarded for their individual and collective contributions to the performance of the Company.

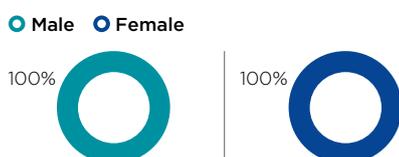
Key activities during the year

- Gender pay gap reporting and associated actions
- Reviewing and agreeing proposed changes to the long-term incentive plan
- Reviewing and agreeing changes to the employee bonus scheme from 1 April 2019
- Agreeing executive bonus structure and payments
- Annual salary review for senior executives and non-executive directors

Gender pay

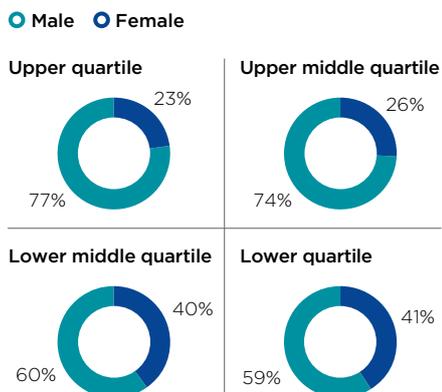
At SES Water we believe that men and women are paid equally for doing equivalent jobs, regardless of gender.

Proportion of employees eligible to receive a bonus in 2018 (%)



Pay quartiles

The below chart illustrates the gender distribution across SES Water in four equally sized quartiles.



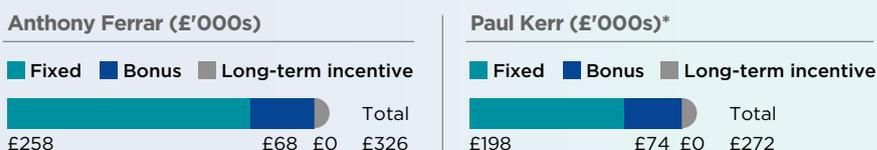
Implementation of directors' remuneration policy in 2018/19

The table below summarises the implementation of the directors' remuneration policy for executive directors in 2018/19.

Key element	What it means
Base salary	Core element of a fixed amount, reflecting the size and scope of the role
Benefits	Appropriate and sufficient level of benefits based on individual circumstances. Includes car allowance and private medical insurance for example
Retirement benefits	Executive directors are eligible to participate in the Company's defined contribution pension scheme (or such other pension plan as may be deemed appropriate, noting that in the year the defined benefit scheme closed to future contributions)
Annual bonus	Rewards performance against annual targets which support the strategic direction of the Company
Long-term incentive plan	Rewards performance against targets set by the Board for financial performance over three years

Single total figure of remuneration for executive directors for 2018/19

Fixed pay comprises base salary, benefits and pension. Further information on the single total figure of remuneration can be seen on page 59.



Annual bonus and long-term incentive plan (LTIP) outcomes

The charts below show the relative split of remuneration between the fixed pay (base salary, benefits and pensions), annual bonus and long-term incentive elements for each executive director under the three scenarios described on page 58.



* Paul Kerr's 2019 salary and benefit were prorated to his contract start date of 14 April 2018, including a payment of £33,000 for mitigation of loss of bonus and LTIP payments earned from his previous employment.

Remuneration Committee report

continued

Membership	Responsibilities
Dave Shemmans Jeremy Pelczer Murray Legg Jon Woods	<ul style="list-style-type: none">• Making recommendations to the Board on the framework for remuneration of the managing director, chairman and other members of the senior management team• Approving the design of and determining targets for the Company's performance-related pay schemes and approving total annual payments under such schemes• Determining the total individual remuneration package of each executive director including, where appropriate, bonuses and incentive payments• Determining policy for and scope of pension arrangements and service agreements for executive directors and designated senior executives• Ensuring that disclosures of remuneration comply with the relevant regulations and obligations applicable to the Company
<i>Attendees:</i>	<i>Terms of reference:</i>
The managing director attends meetings for all business other than any business relating to his own remuneration. The company secretary or his nominee acts as secretary to the Committee.	The Committee's full terms of reference as approved by the Board can be found in the corporate governance section of the Company's website.

Remuneration policy report

The Company's remuneration policy is designed to attract and retain good quality senior executives having regard to other UK-based businesses. It provides for a remuneration package, the variable element of which reflects the Company's performance against stretching customer service, operational and financial objectives. The Board considers that the performance element of the remuneration package is appropriate given the main activities of the Company. Full details of each component of directors' remuneration applicable for the 12 months commencing 1 April 2018 are shown in tabular format below.

The Board fully agrees with Ofwat's expectations with respect to companies being transparent about how executives are remunerated and especially how any performance-related element is linked to performance for customers and the measures are stretching in nature. The Board is committed to ensuring this transparency is provided to all stakeholders, and is committed to publishing our executive pay policy for 2020 to 2025 in our Annual Reports, together with performance results and associated pay awarded through this policy.

Since September 2018, our Remuneration Committee has continued to develop an enhanced and updated executive pay policy, reviewing specific step changes ahead of finalising it in advance of April 2020. In particular, these discussions have focused on strengthening the link between executive pay and delivery for customers, including service performance, cost savings and wider customer interests. The Board is considering various factors in adopting the expectations:

- Redefining corporate KPIs as customer pledges
- Redefining financial performance as financial resilience – in recognition that financial resilience is far broader than good financial performance
- A greater emphasis and weighting on the delivery of the customer service components
- Clearer criteria on what constitutes exceptional delivery for customers
- Retaining personal targets to allow the Board to include specific targets for individuals.

To ensure that the policy and associated targets are sufficiently stretching, the Board will ensure any outperformance is only payable if the Company is earning a net reward for the delivery of the customer pledges in any one year. This will be particularly demanding given our targets for 2020 to 2025 are typically in the industry upper quartile.

In addition, introducing financial resilience as opposed to simply financial performance will ensure that executives have a responsibility to ensure the long-term financial sustainability of the Company and this will be assessed using a set of measurements such as bond ratios, totex efficiency and credit ratings.

Through our Remuneration Committee, we are committed to continuously reviewing executive pay policies over time and, where they develop and change, we will explain the reasons in our Annual Report and signal changes to stakeholders.

We commit to publishing our updated executive pay policy by April 2020.

Base salary	
Purpose and link to strategy	Core element of fixed remuneration, reflecting the size and scope of the role. Purpose is to recruit and retain directors of the calibre required for the business to drive success and deliver for customers in line with the top quartile of the industry.
Operation	<p>Reviewed annually and normally fixed for 12 months commencing 1 April. Whilst executive directors are contractually entitled to an annual review of their salary, there is no entitlement to an increase as a result of this review.</p> <p>Salary levels are determined by the Committee taking into account a range of factors including:</p> <ul style="list-style-type: none"> • Role, experience and performance • Prevailing market conditions • External benchmarks for similar roles at comparable companies • Award levels of the rest of the business
Opportunity	<p>Increases in base salaries are reviewed in the context of salary increases across the Company as a whole. The Committee considers any reasons why increases should diverge from this benchmark, including:</p> <ul style="list-style-type: none"> • Increase in scope, complexity or responsibility of the role • Increase on promotion to executive director • A salary falling significantly below market positioning
Performance metrics	Not applicable, although contribution and overall performance in the role are taken into account in determining whether any increase in base salary should be awarded, and if so, at what level.

Benefits	
Purpose and link to strategy	<ul style="list-style-type: none"> • Ensures the overall package is competitive • Purpose is to recruit and retain directors of the calibre required for the business
Operation	<ul style="list-style-type: none"> • Executive directors receive benefits in line with market practice, which include a car allowance, private medical insurance and life assurance. Other benefits may be provided based on the role and individual circumstances. These may include, for example, relocation and travel allowances
Opportunity	<ul style="list-style-type: none"> • Set at a level which the Committee considers appropriate against the market and provides a sufficient level of benefit based on individual circumstances
Performance metrics	<ul style="list-style-type: none"> • Not applicable

Retirement benefits	
Purpose and link to strategy	<ul style="list-style-type: none"> • Purpose is to recruit and retain directors of the calibre required for the business • Provides market-competitive post-employment benefits
Operation	<ul style="list-style-type: none"> • Executive directors are eligible to participate in the Company's defined contribution pension scheme (or such other pension plan as may be deemed appropriate) and, if a member before closure of the scheme, the Company's defined benefit scheme • The defined benefit scheme was closed to new entrants from 1 May 2002. Any executive director who is a member of the closed scheme can continue to receive benefits in accordance with the terms of the scheme. Neither executive director is a member of the defined benefit scheme
Opportunity	<ul style="list-style-type: none"> • The executive directors have personal pension plans
Performance metrics	<ul style="list-style-type: none"> • Not applicable

Remuneration policy report continued

Annual bonus

Purpose and link to strategy	Rewards performance against annual targets which support the strategic direction of the Company.														
Operation	Annual targets include shared corporate targets for the levels of service to customers and other aspects of operational performance, financial performance, and individual targets for the achievement of personal goals. Targets are set by the Board (advised by the Remuneration Committee) before the start of each financial year and are assessed following audit of the Company's financial statements and independent assurance of the levels of service achieved, prior to publication of the Company's Annual Report and signature of the Risk and Compliance Statement (as published on page 95). As with all bonuses, they remain discretionary and can be adjusted or removed at the Company's discretion, which is exercised by the Remuneration Committee on behalf of the Board.														
Opportunity	Maximum bonus opportunities are: <ul style="list-style-type: none"> • Managing director – 55% • Finance and regulation director – 35% 														
Performance metrics	The weighting of annual targets across the three main categories described above are: <table border="1" style="width: 100%; margin-top: 10px;"> <thead> <tr> <th></th> <th style="text-align: center;">Managing director</th> <th style="text-align: center;">Finance and regulation director</th> </tr> </thead> <tbody> <tr> <td>Customer service and operational performance</td> <td style="text-align: center;">10%</td> <td style="text-align: center;">10%</td> </tr> <tr> <td>Financial performance</td> <td style="text-align: center;">20%</td> <td style="text-align: center;">7.5%</td> </tr> <tr> <td>Personal targets</td> <td style="text-align: center;">25%</td> <td style="text-align: center;">17.5%</td> </tr> </tbody> </table> <p>Customer service and operational performance targets comprise a weighted basket of measures (shared with all employees), with awards for achievement of between 90% and 105% of annual targets for each measure. Financial targets are based on the Company's budget for the year. Outperformance of budget only attracts award if overall customer service and operational targets have also been achieved in full. Personal targets reflect a combination of project, developmental and behavioural measures designed to support delivery of the Company's strategic objectives.</p>				Managing director	Finance and regulation director	Customer service and operational performance	10%	10%	Financial performance	20%	7.5%	Personal targets	25%	17.5%
	Managing director	Finance and regulation director													
Customer service and operational performance	10%	10%													
Financial performance	20%	7.5%													
Personal targets	25%	17.5%													

Explanation of performance metrics applicable to the annual bonus

Performance metrics are selected to align with the Company's strategy. The targets set are designed to be stretching and require year-on-year improvements in overall business performance. In setting stretching performance targets, the Committee takes into account a range of factors, including the Company's medium-term business plans, commitments to customers, regulatory and other obligations, and shareholder expectations.

Customer service and operational performance targets reflect the high standards of customer service, drinking water quality, reliability of supply, asset stewardship and health and safety that our customers and other stakeholders tell us are important to them. Annual targets include the Outcome Delivery Incentives accepted by the Company as part of the PR14 Final Determination from Ofwat, and in certain cases exceed the regulatory commitment. Failure to achieve the overall operational and customer service target acts as a bar to any reward for financial performance above target.

Financial performance targets are based on achievement of the Company's annual budget, which is designed to ensure that resources are in place to deliver operational and customer service priorities as well as regulatory and other obligations and provide returns to debt and equity investors consistent with reasonable expectations. Compliance with the financial covenants associated with the Company's principal external borrowings is assumed.

Personal targets focus upon critical areas of business development, including process and service enhancements, demonstration of the Company's values, and employee leadership and development.

Long-term incentive plan

Purpose and link to strategy	Rewards performance against longer term financial targets which support the strategic direction and value of the Company and the Group of which it is a part. In addition, this plan provides an incentive for executives to remain in the business, which provides stability and continuity of key individuals in a competitive marketplace, allowing full focus on achieving customer objectives.	
Operation	Targets for financial performance over three years for the Company and the Group of which it is a part are set by the Board (as advised by the Remuneration Committee) annually before the start of the three-year performance period. Rewards only crystallise if the shared corporate targets for the levels of service to customers and other aspects of operational performance (as applicable under the annual bonus) are achieved. Performance is assessed annually following audit of the Company's financial statements and independent assurance of the levels of service achieved, prior to publication of the Company's Annual Report and signature of the risk and compliance statement (as published on page 95). Rewards only become payable at the end of the three-year performance period, when performance over the three-year period as a whole is assessed. Payments under the plan will be funded by shareholders from Group funds. As with all bonuses, they remain discretionary and can be adjusted or removed at the Company's discretion, which is exercised by the Remuneration Committee on behalf of the Board.	
Opportunity	Incentive payments for the three-year period vary from on-target performance to maximum opportunities as shown below:	
		On target Maximum available
	Managing director	35% 70%
	Finance and regulation director	30% 60%
Performance metrics	Performance targets are for profit before tax and take into account forecast revenues for the appointed business (reflecting allowed revenues under Ofwat's PR14 Final Determination) and growth targets for the other businesses in the Group. The balance of targets between the Company and the other businesses in the Group will be determined by the Board on an annual basis.	

Remuneration policy report continued

Remuneration scenarios for executive directors

	Fixed pay	Annual bonus	Long-term incentive
Minimum performance	Fixed elements of remuneration are base salary, benefits and pension.	No bonus.	No reward earned.
Median performance	Base salary and the value of benefits are those included in the single figure calculation on page 53.	50% of potential annual bonus achieved.	On target reward earned.
Maximum performance	Not applicable.	100% of potential annual bonus achieved for delivering at or above the highest performance against the respective bonus targets.	Maximum reward earned.

Non-executive director fees

Non-executive directors receive only a fee, which is set at a level that reflects market conditions and is sufficient to attract individuals with appropriate knowledge, skills and experience. Fees are based on the level of fees paid to non-executive directors serving on the Boards of comparable companies and the time commitment and contribution expected for the role. Fees comprise a basic fee plus enhancements for additional responsibilities including chairing committees. Non-executive directors representing shareholders receive no fees from the Company.

Fees are reviewed every two years and amended to reflect market positioning and any change in responsibilities. The Committee and Managing director recommend the remuneration of the Chairman to the Board. The Chairman, Managing director and Company secretary recommend the remuneration of other non-executive directors to the Board. Non-executive directors do not receive annual bonuses nor do they receive any benefits or pension contributions.

Pay and conditions for other employees

The Company aims to provide an overall remuneration package for all its employees that not only complies with any statutory requirements but is competitive with remuneration for equivalent skills offered by other comparable employers. Remuneration is applied fairly and equitably across all employees. In particular, the Company applies the same core principles to all employees, whether executive directors or the most junior members of staff, namely:

- Employees will be remunerated in a manner that underpins the long-term stability of the business
- Each role will be remunerated fairly and consistently with due regard to market conditions, internal consistency and the Company's ability to pay.

Many elements of fixed pay, benefits and pension arrangements are common to all employees. In particular, employees all have the same rights to participate in the Company's defined contribution pension scheme (and for those employees joining before 1 May 2002, the Company's defined benefit pension scheme), the cash health plan introduced in 2014 and the employee annual bonus scheme introduced in 2015.

As a Company, we continue to believe that we do not discriminate on gender pay and provide equal opportunities for progression within our business.

However, we published our second gender pay gap report in March this year, which showed that the difference in mean average pay is 12.1% (2018: 15.8%), which is lower than the national average but still too high. The gap is caused by having fewer women in senior roles which is not uncommon in the water industry, as the STEM (science, technology, engineering and maths) fields have been predominantly male occupations with historically low participation among women. In fact, just 23% of the core STEM workforce in the UK are women (WISE UK statistics 2017) and the UK has the lowest percentage of female engineering professionals in Europe.

Although our gap is lower than the national average, the challenge for us – and all employers – is to eliminate any gap. At SES Water we believe in creating a diverse and gender-balanced workforce which ensures equal opportunities for all employees and reflects the customers we serve. Some of the actions we are taking to ensure we continually challenge ourselves to be more inclusive include reviewing our recruitment process and evaluating our appraisal system to ensure that capable employees, regardless of gender, can progress. We also ensure that – when we recruit for senior roles – we have a gender balanced objective and task our search consultants to provide a long list of candidates for both genders, and we do not select or bias on gender in the final selection.

Annual pay awards for most employees are negotiated with employee representatives taking into account the Company's ability to pay, comparable awards in other businesses, and increases in the cost of living for employees. Agreed awards are effective from 1 April each year. In the early part of 2015, agreement was reached with employee representatives for pay awards for the five years commencing 1 April 2015 comprising:

- A 2.2% increase in basic pay and associated allowances for the year beginning 1 April 2015
- Increases in basic pay and associated allowances linked to the annual increase in the retail prices index (RPI) to the previous November (to which the majority of the Company's income is linked) for 2016/17 to 2019/20
- A guaranteed increase of 1% p.a. for 2016/17 and 2017/18, and 0.5% p.a. for 2018/19 and 2019/20
- The opportunity to earn an employee bonus upon achievement of Company customer service, health, safety, quality, environmental and financial targets. From 1 April 2017 the maximum bonus payable for achievement of all targets was £550 per annum.

The Remuneration Committee takes into account the annual pay award for employees – along with the factors outlined above – when considering any basic pay award for executive directors. Senior employees who are eligible for an annual bonus award share the same customer service, operational, financial and behavioural targets as the executive directors and also have personal targets set in the same manner and consistent with those of the executive directors.

Recruitment remuneration policy

When hiring a new executive director, the Committee will seek to use the policy detailed in the tables above to determine an appropriate ongoing remuneration package. If necessary, to facilitate the hiring of an executive of appropriate calibre, the Committee may exercise discretion to include any other remuneration component or award outside this policy agreed with the Board. Appropriate costs and support will be covered if the recruitment requires the individual to relocate.

Service contracts

The service contracts for executive directors are subject to 12 months' notice when terminated by the Company and six months' notice when terminated by the employee. The executive directors' contracts commenced on the following dates:

- Anthony Ferrar 1 May 2008
- Paul Kerr 14 April 2018
- John Chadwick 10 August 2009 (resigned 27 September 2018)

The non-executive directors, including the chairman, do not have service contracts and their appointments, whilst for a term of three years, may be terminated without compensation at any time. The chairman and the independent non-executive directors have letters of appointment. The appointments of the current non-executive directors commenced on the following dates:

- Jeremy Pelczer 1 April 2013
- Dave Shemmans 1 September 2014
- Murray Legg 1 October 2015
- Jon Woods 1 March 2016
- Seiji Kitajima 6 February 2019
- Ryuichi Nishida 1 April 2015 (resigned 1 May 2019)
- Yoichi Sakai 1 November 2016 (resigned 6 February 2019)
- Kenji Oida 1 May 2019

Single total figure of remuneration (audited information)

The table below shows the total remuneration earned by each director in 2018/19.

£000	Base salary and fees	Taxable benefits	Annual bonus	Long-term incentive	Pension related benefits	Total
Anthony Ferrar	184	21	68	-	53	326
Paul Kerr¹	153	13	74	-	32	272
John Chadwick	76	3	25	-	14	118
Jeremy Pelczer	65	-	-	-	-	65
Murray Legg	38	-	-	-	-	38
David Shemmans	35	-	-	-	-	35
Jon Woods	32	-	-	-	-	32
Total 2019	583	37	167	-	99	886
Total 2018	468	32	89	36	80	705

1. Paul Kerr's 2019 salary and benefit were prorated to his contract start date of 14 April 2018, including a payment of £33,000 mitigation of loss for bonus and LTIP payments earned from his previous employment.

Underlying base salaries increased broadly in line with salary increases for other Company employees. Annual bonuses were determined in accordance with the policy described on page 56, reflecting performance against the targets shown on page 60.

Anthony Ferrar, Paul Kerr and John Chadwick have personal pension plans, to which the Company made contributions. Pension-related benefits for these directors amounted to £99,000 (2018: £80,000), including £43,000 (2018: £43,000) of payments in lieu of pension contributions.

Anthony Ferrar and Paul Kerr participated in the 2018 LTIP, which covers the performance period from 2018 to 2021, and is designed to pay out in 2021. Therefore there was no payment this year under scheme rules.

Fees for the independent non-executive directors have been set in accordance with the policy disclosed on page 58. The Chairman also acts as Chairman of East Surrey Holdings Ltd, which remunerates him accordingly.

None of the other non-executive directors received any remunerations from the Company.

Remuneration Committee report

continued

Percentage change in remuneration for the managing director

The table below shows the percentage change in remuneration between the years ended 31 March 2019 and 31 March 2018 for the managing director and for all employees.

	Salaries and fees	Taxable benefits	Annual incentive
Managing director	4%	6%	-6%
Average for all employees	4.5%	6%	0%

Relevant details of the annual bonus scheme

The targets shown below are common to all employees, including executive directors and senior management:

Topic	Target/limit	Achievement
Overall drinking water quality (%)	99.96	99.97
Service Incentive Mechanism (ranking)	Industry top half	Lower quartile
Interruptions to supply >3 hours (hours per total number of properties)	0.20	0.268
Leakage (megalitres per day)	23.7	24.1*
Health and safety – number of incidents	3	4
Potential Hazard Early Warnings (PHEWs)	Close out actions in 30 days	Achieved
ISO 14001 Environmental action plans	Non-conformances closed out or clear mitigations in place within 30 days	Not achieved
ISO 9001 Quality action plans	Non-conformances closed out or clear mitigations in place within 30 days	Not achieved
Financial	Achieve budget	Achieved

Executive directors and senior management also share two additional targets:

Topic	Target	Achievement
Number of customer contacts on taste, odour and discolouration of water	350	388
Number of meters installed at properties for first time	7,707	10,144

* Although the lower internal leakage target was not met this year, the regulatory target of 24.1 was achieved, as shown on page 22.

The weightings applied to the combined set of targets for the executive directors are shown on page 56.

Relative importance of employment costs

The table below shows the total cost of all of the Company's employees compared to interest paid and capital expenditure.

£000	2019	2018	% change
Employee costs	13,686	14,005	-0.02%
Interest paid	11,021	12,077	-0.09%
Capital expenditure	25,325	26,028	-0.03%