

Chairman's Statement

Another busy and challenging year with some notable milestones



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Jeremy Pelczer
Chairman

After 20 years as Sutton and East Surrey Water, this year we took the big step of changing our trading name to SES Water. The process started back in 2015 at the same time as we started preparing for the opening of the retail market for businesses in April this year. This is a significant change for the industry and although we take pride in being a local company with a long heritage, at the same time we need to look forward to ensure we have long-term sustainable plans and relentlessly pursue our vision to be an outstanding water company. The name SES Water references our historic roots but the new brand is fresh, modern and a real milestone for the Company. Consultations with all of our stakeholders convinced us that there was a clear appetite for change but it hasn't altered who we are, what we do nor our goal to achieve our vision. The cost of the re-brand has been entirely met by our shareholders and customer feedback has generally been really positive about our new look.

The market opening for over 1.2 million eligible businesses, public sector organisations and charities was a major priority for the whole year. This means those business customers can choose who they wish to do business with for their water and wastewater retail services. SES Water will continue to provide high quality water supplies to all domestic household customers in the existing supply area, but has decided to 'exit' this retail market. On 1 April 2017 the Company sold its right to trade with eligible business customers to an associated company, trading as SES Business Water. The Company will strive to serve all retailers to the best of our abilities within the new arrangements.

Achieving Investors in People Gold recognition in February 2017, within a year of being awarded Silver, was a superb achievement. Gold awards are not given out lightly - achieving this outstanding award on only our second assessment endorses how we invest in our employees and the enduring effort that goes into making the Company a better place to work. I would like to congratulate all involved and feel confident that the standard will be maintained in two years' time when we are reassessed to ensure we have maintained the required standards to justify the Gold award.

This financial year was the second in the current five-year regulatory period and we have remained focused on delivery of the promises we made to our customers in our 2015-2020 business plan. The plan was the culmination of the most extensive consultation process ever undertaken by the Company and commits to delivering on five key aims which are based on customer priorities. To achieve each aim, progress is measured against 23 performance measures and you can read more about our results in the Performance Report starting on page 10.

Between 2015 and 2020 we have committed to investing £117 million in reinforcing, extending and replacing our underground mains network, upgrading our treatment works and replacing essential equipment. One of the most visible projects, upgrading our water treatment works at Woodmansterne to increase output by 50 per cent and achieve consistent levels of softening, has continued apace and is due for completion next year. Investing in our supply network is key to being able to deliver our promises to customers and

is an important aspect of our stewardship duties to ensure all our assets are maintained and improved over time.

A significant challenge this year has been our performance against the Service Incentive Mechanism (SIM). SIM was introduced by Ofwat in 2011 to allow customer service comparisons across water companies, with good performers being rewarded and the poor performers receiving penalties. Despite more than meeting our other customer satisfaction targets, and improving on this compared to last year, this is the second year running where the SIM score is well below where we want it to be. A number of actions and initiatives have been put in place as we strive to better serve our customers and we anticipate these will yield improvements in the coming year. The Board remains committed to ensuring we deliver substantial improvements and will continue to monitor progress closely.

The scale and complexity of supplying 160 million litres of water every day was emphasised in February when Elmer Treatment Works had to be temporarily shut down due to an operational incident inside the site. There was no consequential impact to the public or local residents and the skill and dedication of our employees enabled the works to be brought back into use before supplies to customers were affected. Actions taken subsequently have reduced the risk of any similar incident occurring again. Remedial works on site will take some months and only on their completion will the site be fully functioning again, including softening the water to the previous levels.

In November Yoichi Sakai joined the Board as a shareholder nominated non-executive director, replacing

New branding

Sutton and
East Surrey
Water



 Read more on page 20



Seiji Kitajima who, after three years as Director of Corporate Co-ordination and Planning, left in October to return to Tokyo. We welcome Yoichi who is the Unit General Manager, Infrastructure Business Unit of Sumitomo Corporation Europe Group and thank Seiji for his invaluable contribution and, in particular, for building the mutually supportive relationship with Sumitomo.

Our financial performance remained healthy this year. Turnover increased to £64.7 million (2016: £63.0 million). Operating cost increases were restricted to 1.4% totalling £43.5 million (2016: £42.9 million). Operating profits therefore increased by £1.1 million to £21.2 million (2016: £20.1 million). Interest charges increased by 16% to £9.2 million (2016: £7.9 million) largely as a result of higher inflation increasing the indexation charge on our £100 million index-linked bond. Interest receivable and similar charges generated £0.9 million (2016: £0.7 million). As a result, profit before tax fell by £1.4 million to £12.9 million (2016: £14.3 million). Further reductions in future rates of corporation tax reduced the provisions we need to make for tax payable in future years, and restricted our accounting tax charge for the year to £0.4 million (2016: a credit of £0.4 million).

The water industry, like many others, is facing uncertainty as Britain prepares to leave the European Union. Questions around funding for infrastructure, investment in research and environmental regulation cannot yet be answered. Our business plan for 2020-2025 will need to take account of any changes and we will respond to issues and challenges as required to ensure the best outcome for our customers.

My sincere thanks go to all of our employees for everything they have achieved this year. We regularly give awards to those who clearly live up to our vision and values and this year has been no different with many stories of people going the extra mile. Each year I have the privilege to attend a thank you lunch to all employees that celebrate at least 25 years service with the Company and with some celebrating as long as 40 years. Their dedication and professionalism inspire all of us at SES Water and the pride they show in a job well done lies at the heart of everything that is good about the Company.

Jeremy Pelczer
Chairman
6 July 2017