WESSEX WATER SERVICES LIMITED

Annual Report and Financial Statements
30 June 2022

Registered in England and Wales No. 02366648

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Chairman's foreword

YTL have been the proud owners of Wessex Water for 20 years, ever since our acquisition of the company prompted The Telegraph headline of "Who the Hell are YTL?". We are long-term investors with strong moral, ethical and Christian values, committed to long-term stewardship of important public service assets, such as Wessex Water. We take our responsibilities to customers, communities and the environment extremely seriously.

When we acquired Wessex Water, we set management the challenge of becoming the best UK water and sewerage company and I have been delighted that the results over many years demonstrate that this has been achieved.

We resisted the siren voices encouraging us to increase gearing (the ratio of debt to asset value) through special dividends and complex financial structures and have consistently maintained a conservative approach, with a dividend policy that keeps gearing around 70%. I believe we have been good owners and have met the expectations of our regulators. So over recent months, I have been concerned to see the reputation of the industry being so challenged. We believe our flagship investment, Wessex Water, must be the exemplar of what a privately owned company, with a responsible investment policy, can achieve in the public interest.

We fully recognise the legitimate concerns about storm overflows, flow compliance and river water quality, particularly given the growing and welcome interest in water based recreation. As a result of global warming, we are now seeing more intense rainfall storms and more impermeable areas are being connected to sewers. Water companies must raise their game, both to address the new societal expectations and to transition to a position of environmental leadership. The Board of Wessex Water has prioritised tackling these issues, both through our own investment programmes and by leading partnerships with those who contribute to the problem. We have recently published our plan for dealing with storm overflows, which can be viewed at https://www.wessexwater.co.uk /services/sewerage/storm-overflows.

In my introduction to the Company's 2021 annual review summary, I urged the water sector – industry, government and regulators – to work together to develop a new model of delivery that could help arrest the degradation of the natural environment we are witnessing, and the associated societal harm. Specifically, I called for a model that encourages nature-based solutions, flexibility, partnership working, innovation and competition, driven by simple incentives geared towards efficiency and long-term outcomes.

Since then, evidence of the need for such a change has grown. Last year we had COP26 – the assembly of global leaders in Glasgow endeavouring to hammer out a plan for mitigating and adapting to climate change. In February this year, the latest report of the Intergovernmental Panel on Climate Change gave a stark warning about the consequences of inaction.

Since our 2020/21 annual review, Wessex Water has stepped up to share clear thinking on what a new water delivery model should entail. In a paper published in November 2021 (www.wessexwater.co.uk/corporate/strategy-and-reports/performance/ober-report), we set out how outcome-based environmental regulation (OBER) could enable society to pay less for more environmental improvements, empowering the water sector to make its contribution to the government's 25 Year Environment Plan.

The premise is for regulators to set outcome-based targets at catchment scale, allowing companies to deliver solutions that provide the biggest environmental benefits at the lowest costs. Achieving this requires a package at the 2024 price review (PR24) that creates a level playing field for all delivery options and incentivises low carbon, nature-based solutions whenever possible.

There have been many encouraging comments and support for this approach, but still the substance of regulatory proposals for PR24 continues to rely on narrowly defined output targets that are not cost effective and will create perverse consequences for other outcomes, such as carbon emissions.

There is no need to continue down the traditional path. OBER does not require legislative change, just a willingness to be brave and do things differently, at a whole system level. A strong monitoring framework would provide the necessary trust and assurance. This now needs to happen urgently if we are to see any benefit before 2030.

On a more positive note, I am proud to report that Wessex Water has had another successful year. We continue to lead the industry on both the customer and environmental outcomes that are so important for the communities we serve and the natural world on which we rely. We remain robustly financed despite the challenging economic and trading environment, and continue to invest in and champion our people.

As always, I am incredibly grateful to everyone who has made these achievements possible – our colleagues and partners, and our customers and communities who have a growing role to play in delivery. I also thank the Lord Jesus for His constant grace and guidance, and we pray that we will be able to work together to unlock the changes our planet desperately needs.

Tan Sri Francis Yeoh KBE
Chairman

21 September 2022

Chief Executive's review

Stepping up for rivers

This year Wessex Water continued to perform highly on outcomes for customers, communities and the environment. For instance, in 2021/22, we were 100% compliant with the quality of our wastewater discharges and 97% compliant with the licences that control how much water we can take from the environment. We take our environmental responsibilities very seriously and always endeavour to protect and improve the natural world across our region.

But we know that we must do more, particularly with the growing interest in water based recreation. The year has been characterised by a surge of comment on the poor state of water quality in UK rivers and, in particular, the contribution from water company storm overflow discharges. Overflows were built into sewer networks constructed prior to the 1960s to prevent property flooding during heavy rain. While their impact on river water quality is very limited, we share the view that in the 21st century, any such discharge into a watercourse is unacceptable.

So, while this has been uncomfortable, we welcome the spotlight now being thrown on river water quality and will rise to the challenge of making changes that meet society's expectations.

We will progressively eliminate storm overflows, starting with those that discharge most frequently and those that have any environmental impact. Eight of the 444 rivers, lakes and seas in our region currently fall short of the standards required, due to the operation of storm overflows and we are currently investing more than £3 million every month to address this. Nature-based solutions and separating surface water before it enters the sewerage network must be our first choice, given the cost, carbon footprint and disruption associated with engineering solutions. We need government support for this in the form of powers for water companies to stop new developments being connected to combined sewers and for us to disconnect surface water where possible.

More generally, we are committed to improving the environmental status of all rivers within our region in line with the government's 25 Year Environment Plan and the Environment Act. We will also support others to reduce the impacts they have, by acting as a convener and leader of catchment partnerships and markets, helping different parties to work together to the greatest effect.

Navigating through a perfect storm

While rivers dominated the agenda in 2021, there are many other urgent challenges that we face including the current drought being experienced across the UK. Many of these derive from the climate and nature emergencies that threaten our way of life, including the need to decarbonise, build resilience to more extreme weather conditions, and support biodiversity recovery and renewal. Others relate to rising customer expectations of essential service providers, evolving best practice on sustainable finance and what it means to be a responsible business and employer.

Alongside all of this, we have a cost of living crisis. The skyrocketing price of energy and increased costs of many other essentials is compounding the impact of Covid 19 for households and businesses, creating a very difficult and stressful financial position for many. Wessex Water believes that water and sewerage services should be affordable by everyone. For most customers our charges are a small part of their household expenditure, but some customers find it difficult and with the growing cost of living, this is becoming increasingly acute.

Over the years, working with special debt advice agencies, we have developed a range of financial support packages to help customers who struggle to pay their bills. Customers on the lowest incomes benefit from discounts of as much as 90% on their bill.

Currently, over 54,000 households benefit and we are in the process of adding a further 32,000 customers. Because of the affordability crisis, we will now fast track a further 83,000 customers onto our affordability schemes. This includes us pressing government to enable us to auto-enrol low income pensioners onto our 20% discount scheme.

In March, we published a new Strategic Direction Statement, setting out our pledges for people and places through to 2050. We committed to deliver eight stretching outcomes for customers, communities and the environment, including zero water poverty, net zero carbon (by 2040), river water quality restoration and doubling our contribution to the region's biodiversity.

In that statement, we also called for economic and environmental regulatory reform, backed by government support and direction, to enable us to deliver more for less. We recommended Outcome Based Environmental Regulation, under which regulators would set outcome-based targets at catchment level and empower us to choose solutions that deliver the biggest environmental benefits, at the lowest costs.

This system-based approach to identifying solutions would boost the attractiveness of nature-based solutions and sustainable drainage options, and reduce the attractiveness of carbon-intensive built solutions.

If we do not take this opportunity, we will lock over-priced, under-performing solutions into the water sector until at least 2030, and lose the chance to deliver more environmental value at lower cost – for everyone's benefit.

Serving people and places

We have had a very positive 2021-22; here are a few of the highlights.

Safe, healthy drinking water is a top customer priority, so I am delighted to report that our compliance with drinking water standards was the best it has ever been with a score of 0.37.

We also delivered very reliable water services to our customers. The length of time to deal with unplanned interruptions to supply fell to less than half the sector average.

We have an industry-leading customer experience track record and in 2021, we topped the water and sewerage company ranking in Ofwat's customer experience league table, C-MeX.

Sewer flooding is a terrible experience for anyone. At 182 incidents last year, we were within our target, but even one incident is one too many.

Enhancing the environment

As well as responding to changing expectations on storm overflows and river water quality, we have continued to hold our focus on other long-term environmental outcomes we need to deliver. Our leakage rate was reduced by a further two million litres a day, putting us well on track to meet the target of a 15% cut by 2025.

I am pleased to report 100% compliance this year on our discharges to the water environment from our water recycling centres as well as the reduction in pollution incidents. We installed an intelligent blockage detection system which helped reduce pollutions from 87 in 2020, to 72 in 2021. We were particularly disappointed to have had five pollution incidents categorised as serious, reducing our environmental rating to "requires improvement". We are committed to maintaining our strong performance record and to improving on this position next year.

Our work in partnership with the local Wildlife Trusts – to deliver cleaner rivers, good quality habitats for wildlife and more natural solutions for flood alleviation and carbon storage – has continued apace. Together, we are delivering solutions where the challenges are particularly acute in areas across Dorset, Somerset and Wiltshire.

Water supply demand last summer was fairly muted, but the future looks challenging. In this reporting year, the Environment Agency classified the Wessex Water area as seriously water stressed for the first time, updating this to an environmental drought in recent weeks. Against that backdrop, we are working with our neighbouring water companies and other stakeholders to produce a long-term regional water resources plan, with ambitious targets to reduce demand, together with innovative supply side options.

Our greenhouse gas emissions and electricity use fell in the year, and we also published a route map setting out how we plan to meet the industry wide target of net zero operational carbon emissions by 2030. By 2040, we intend for our entire business to be net zero total carbon, 10 years ahead of the target for the UK as a whole.

We know how much our customers and communities value wildlife, and how much our planet needs us to reverse the decline in biodiversity we are witnessing. This year we completed the task of assessing the biodiversity value of all our significant landholdings and this will form the foundation of our work to support nature recovery.

Empowering our people

Our people are our greatest asset and we depend upon them to deliver all the outcomes to which we aspire for customers, communities and the environment. They continually demonstrate their dedication in going the extra mile, often in challenging circumstances.

One of our highest priorities is ensuring their health, safety and wellbeing, which requires constant vigilance and continuous improvement. Investigations are ongoing after the tragic incident at Avonmouth in December 2020. We are co-operating with the investigating authorities and remain committed to understanding why the incident happened. Health and safety matters were previously considered by the Environment and Public Value Committee. The Board has focused its activity through a dedicated sub-committee, supported by an advisory board of leading health and safety and process safety specialists.

This year we have updated our health, safety and welfare strategy, and maintained our focus on continuous improvement by implementing a new health and safety reporting system which makes it easier for concerns to be raised and action taken - the number of observations has doubled since 2020. A health and safety highlight this year was the President's award from the Royal Society for the Prevention of Accidents to our Engineering and Sustainable Delivery department. This award is reserved for organisations that have achieved 10 or more consecutive gold awards.

The diversity of our people is essential as we build a workforce that reflects the communities we serve. We are committed to fostering a culture where everyone belongs and thrives, inclusive of every gender, ethnicity, age, ability, sexual orientation and social background. We made good progress this year in further promoting our culture, inclusion and diversity priorities.

We promoted National Inclusion Week to raise awareness on inclusion and diversity. We continue to promote external partnerships and this year we worked closely with the National Autistic Society, achieved Disability Confident Employer status and signed the armed forces covenant. We have active internal network groups advancing our culture, inclusion and diversity programmes.

We are committed to ensuring all our people have the skills and knowledge they need to do their jobs well. Our focus on training is ongoing. This year we delivered more than 1,100 in person and 8,500 e-learning courses. A particular focus was risk assessment training for our operational teams and the launch of a new management development programme.

Financing the future

Despite a tough year, our financial performance remained resilient and in line with expectations. We depend on strong financing and governance to underpin service delivery and sustainability. Our strong track record and stable, committed ownership is seen very positively by investors.

Reported profit before tax remained strong, but fell from £75.2m last year to £54.0m this year due to the challenges we face from increased labour, power and chemical costs. We continued to champion innovation and competition through our online platform, the Wessex Water Marketplace, and by expanding our use of environmental trading platform EnTrade beyond Poole Harbour to the Hampshire Avon.

Our management of risk and assurance of those processes by the board has remained robust.

Looking forward

So, while we continue to deliver excellent results for customers, communities, the environment and investors, we recognise the scale of the challenge presented by climate change and our commitment to carbon neutrality. We also share the concerns about river water quality and overflows and we will drive rapid improvement. But to meet all these challenges while keeping bills affordable in challenging economic circumstances, we need regulators and government to fully embrace outcome based environmental regulation in time for the PR24 price review.

Colin Skellett
Chief Executive

21 September 2022

Governance report

Chairman's introduction to governance

Wessex Water is committed to the highest standards of corporate governance and as requirements evolve, we strive for continuous improvement. This report outlines how we have ensured that best practice and effective corporate governance procedures are in place and how ongoing improvements have been implemented to support the long-term success of the Company.

We have a very important role in the lives and wellbeing of our customers and the Board recognises that it is a privilege to be entrusted to provide essential public services to millions of customers. In this privileged position we must build and maintain successful relationships with a wide range of stakeholders. The purpose, strategy, values, and culture of the Company are developed and promoted through continuous engagement with these stakeholders, including customers, community and interest groups, employees and regulators. Further details on how we have engaged with all our stakeholders over the year can be found on pages 58 to 65. This year, in particular, the Board has reviewed its purpose, vision, and strategic framework through its Environment and Public Value Committee to ensure both customers' views and our wider social purpose are fully considered in Board discussions and decision making.

Maintaining the highest standards of corporate governance is integral to the long-term success of the Company. The Company continues to embrace Ofwat's Board leadership, transparency and governance principles and is satisfied that it meets all the objectives. The Ofwat Objectives are the primary governance framework against which the Company reports, but the Board also follows the Wates Corporate Governance Principles for Large Private Companies (the Wates Principles). We believe that our standards of corporate governance ensure that the Company operates effectively and efficiently to the benefit of all our stakeholders, maintaining our position as a leading water and sewerage company for customer service, satisfaction, and environmental performance. In this report, we demonstrate and explain how this is the case.

The following pages set out details of our Board of Directors (pages 9 to 13), further information on our governance arrangements and compliance with Ofwat's Objectives (pages 14 to 27) and the reports of the Audit and Risk, Environment and Public Value, Health and Safety, Nomination, and Remuneration Committees (pages 28 to 53). These reports demonstrate that the Company has in place effective arrangements to ensure the highest standards of corporate governance.

Tan Sri Francis Yeoh KBE
Chairman

21 September 2022

The Board of Directors

The composition of the Board throughout the reporting year is as follows.

Shareholder Non-Executive Chair

Tan Sri Francis Yeoh KBE

Sir Francis has been Managing Director of YTL Corporation Berhad, Malaysia, since 1988 and was appointed as Executive Chairman in June 2018. He was appointed to the Board of Wessex Water Services Limited in May 2002 and chairs the Nomination Committee.

He has been Managing Director of YTL Power since October 1996 when he was appointed to the Board as an Executive Director. Since June 2018 he has been the Executive Chairman of YTL Power. Under his stewardship, YTL Corporation Berhad Group has grown from a single listed company into a global integrated infrastructure developer encompassing multiple listed entities including YTL Corporation Berhad, YTL Power International Berhad, Malayan Cement Berhad, YTL Hospitality REIT, and Starhill Global REIT.

He is a founder member of the Malaysia Business Council, a member of Malaysia's Capital Markets Advisory Council and independent non-executive director of the Hong Kong and Shanghai Banking Corporation Limited.

In 1997 Sir Francis was conferred the Order of Loyalty to the Crown of Malaysia for his services to the nation which carries the title “Tan Sri”. In 2019 he was awarded the Knight Commander of the Most Excellent Order of the British Empire (KBE) by Her Majesty Queen Elizabeth II for his contribution in strengthening UK-Malaysia bilateral relations.

Executive Directors

Colin Skellett – Chief Executive

Colin Skellett is a scientist and engineer by training and a Fellow of the Royal Society of Chemistry. He has worked largely in the water industry and was appointed Chief Executive of Wessex Water in 1988.

Colin is currently Chief Executive of the YTL UK Group that includes Brabazon new town and Arena Complex at Filton, Wessex Water, YTL’s UK Hotels, GENeco and a number of retail businesses. He became Chair of Business West in April 2022.

He has had non-executive roles in rail, travel and international infrastructure businesses, served on the Board of the South West Regional Development Agency and is involved with a number of charities. Colin was also Chair of the West of England Local Enterprise Partnership from 2011 until the beginning of 2016.

Colin was awarded an OBE for services to business and WaterAid in the 2012 Queen's Birthday Honours and has Honorary Doctorates in Engineering from the Universities of the West of England and Bristol.

Andy Pymer – Executive Director Finance and Regulation

A civil engineer turned economist, Andy is a Chartered Director and Fellow of the Institute of Directors with more than 25 years' experience in the water sector. Andy was previously managing director of Wessex Water’s regulated water and sewerage business since 2016 and director of regulation and customer services since 2012.

Andy was appointed to the Board of Wessex Water Services Limited in August 2012. He is also Co-chair of Wessex Water's joint venture billing company, Pelican Business Services, and chair of Wessex WaterAid, which has raised more than £1.5m for the charity over the past 10 years.

John Thompson – Executive Director of Engineering and Sustainable Delivery

John has held senior management roles in engineering, environmental, construction, operations, customer facing repair and maintenance businesses. John joined the Wessex Water group of companies in 2006 and has more than 20 years' experience in empowering and leading large teams to deliver award winning services. John's varied career has given him a breadth of experience in the oil, gas, aviation, defence, and water industry sectors. John is also a Trustee of Futura Learning Partnership.

John's appointment as Health and Safety Board Director in March 2021 recognises his experience, collaborative ethos, and commitment to continuously improve throughout Wessex Water and the wider industry.

John is a former director and branch chairman of the Pipeline Industry Guild and works with the development of young professionals. Appointed to the Board of Wessex Water Services Limited in June 2020, John is also a director of the Wessex Water Services Pension Trustee Board.

Mohammed Saddiq – Executive Director of Operations

Mohammed has held several senior engineering and management positions in the Water, Waste and Renewables sectors over the past 25 years. He joined the Wessex Water Group in 2002 and most recently was managing director of the waste recycling and renewable energy company GENeco.

Mohammed is an Associate Fellow of the Institute of Chemical Engineers, Fellow of the Chartered Institution of Water and Environmental Management, Fellow of the Royal Society of Arts and a Chartered Member of the Institution of Environmental Sciences. He is the recipient of the Institute of Directors South West Corporate Responsibility Director award and in 2020, an Honorary Degree of Doctor of Science from the University of the West of England, for enhancing the sustainable development of Bristol. He was appointed Lord Lieutenant to the County of Somerset in August 2022.

Mohammed is the Independent Chair of the Bristol Green Capital Partnership. He is the Vice-Chair of the Board of Trustees and the Chair of the Remuneration Committee at the University of Bristol. He is a trustee of the cancer care charity Penny Brohn UK, Chair of the social mobility charity Bristol Future Talent Partnership, Vice-Chair of Governors at Montpelier High School and is a member of the West of England Climate Action Panel and the Society of Merchant Venturers.

Mohammed was appointed to the Board of Wessex Water Services Limited in June 2020.

Independent Non-Executive Directors

Jim McKenna – Senior Independent Director

Jim has a background in technology and services, working with a number of early-stage technology companies as both an investor and mentor. In his executive career, Jim was the Chief Operating Officer at Logica PLC having previously worked for GEC-Marconi and the Plessey Company PLC.

Appointed to the Board of Wessex Water Services Limited in June 2019, he became the Senior Independent Director in November 2020. Jim is a member of the Audit and Risk, Nomination, Remuneration, Environment and Public Value and Health and Safety Committees.

Jim is the Chairman of the Liverpool School of Tropical Medicine and Chairman of the SS Great Britain Trust. He is also vice-president of Catch22, a social business he helped create in 2008.

Previously Chairman of Parsons Brinkerhoff (Europe) and Chairman of Azzurri Communications, Jim also chaired the Senate at the University of East London and was a member of the government's Senior Salaries Review Board.

Dame Fiona Reynolds DBE – Independent Non-Executive Director

Dame Fiona Reynolds DBE was Master of Emmanuel College, Cambridge from 2012 until 2021. She came to the college from the National Trust, where she was Director-General from 2001 to 2012. Before the Trust, she was Director of the Women's Unit in the Cabinet Office (1998-2000), Director of the Council for the Protection of Rural England (now Campaign to Protect Rural England) from 1987-98 and Secretary to the Council for National Parks (now Campaign to Protect National Parks) from 1980-87.

Appointed to the Board of Wessex Water Services Limited in August 2012, Fiona chairs the Environment and Public Value Committee and is also a member of the Audit and Risk Committee.

Fiona holds several other non-executive roles. She is Chair of the National Audit Office, the International National Trusts Organisation, the Cathedrals Fabric Commission for England, Cambridge University's Botanic Garden and its Bennett Institute for Public Policy, a Trustee of the Grosvenor Estate and the charity Green Alliance and most recently, Chair of the Governing Council of the Royal Agricultural University. Her book *The Fight for Beauty* was published in 2016.

Kate Mingay – Independent Non-Executive Director

Kate Mingay is a corporate finance specialist with three decades of experience across regulated utilities, transport, and energy infrastructure. Kate began her career in UBS and Goldman Sachs, later becoming Director, Corporate Finance at the Department of Transport. She was a member of HM Treasury's Major Projects Review Group, which involves scrutiny of major government projects.

Appointed to the Board of Wessex Water Services Limited in June 2019, Kate was appointed Chair of the Audit and Risk Committee in August 2020. She is also a member of the Remuneration, Nomination, and Environment and Public Value Committees.

Kate has recently been appointed as a Non-Executive Director to the Board of HRL Morrison and Co, a leading infrastructure fund manager, and is also a Trustee of the British Science Association. She was previously the Senior Independent Director at Mutual Energy and a Non-Executive Director at Ansaldo STS S.p.A. (now integrated into Hitachi's global rail business). She is actively involved in economic and corporate finance consulting including being a Senior Adviser at Cambridge Economics Policy Associates and advises Ofgem in the offshore transmission and nuclear sectors.

Kevin Wall – Independent Non-Executive Director

Kevin has extensive experience in the banking and finance sectors having spent four decades working for Barclays Bank in various senior leadership roles in the UK and overseas. Kevin retired from Barclays Bank in 2020 and his last role was as CEO and Board member of Barclays European subsidiary as well as being a member of the Barclays Bank PLC executive Committee.

Kevin is also a senior adviser at the stockbrokers Panmure Gordon and the investors Board observer at Zero Gravity, an online educational mentoring platform.

Appointed to the Board of Wessex Water Services Limited in January 2021, Kevin is a member of the Audit and Risk, Remuneration, Nomination, Environment and Public Value, Health and Safety Committees and is chairs of the Wessex Water Services Pension Trustee Board.

Kevin was previously a non-executive director of Which? Limited, the Business Growth Fund and served as a trustee director of the Barclays Pension Fund.

Tim Gardam – Independent Non-Executive Director

Tim's career began in broadcasting at the BBC where he was Editor of Newsnight, Panorama, and Head of Current Affairs Programmes, and then went on to executive roles at Channel 5 and Channel 4 TV. Tim has held several senior roles across a variety of commercial, regulated and consumer sectors.

Appointed to the Board of Wessex Water Services Limited in January 2020, Tim is a member of the Audit and Risk, Nomination, Remuneration and Environment and Public Value Committees. In 2021, Tim was appointed Chair of the Health and Safety Committee. Tim also attends the Customer Challenge Group which engages with our customers directly.

Tim was previously the Chair of the Consumers Association (Which?). He was also a non-executive member of the Ofcom Board from 2008 to 2015. Tim was the Principal of St Anne's College at the University of Oxford from 2004 to 2016. Tim is currently the Chief Executive of the Nuffield Foundation and a member of Council of the University of Birmingham.

Huw Davies – Independent Non-Executive Director

Earlier in his career Huw was CFO of Wates Group Ltd, Head of Corporate Finance at Taylor Woodrow and has held key positions with KPMG, Ernst & Young and the Government of Oman. He has extensive experience in UK and international corporate finance, risk management and corporate governance within a number of sectors including construction and engineering, residential and commercial development, property investment and financial services.

Huw was appointed as an independent non-executive director in September 2014. He was Chair of the Wessex Water Services Pension Trustee Board, and a member of the Audit and Risk Committee.

He is currently a non-executive director of J Murphy Ltd and a former Chair of the children's charity I CAN and non-executive director of West Bromwich Building Society, Hydro International plc and WSP plc.

Huws term ended in September 2021.

David Barclay – Non-Executive Director

With over 30 years of experience in the City, David has an in-depth knowledge of corporate finance and corporate governance. David has held directorships in a wide variety of sectors including engineering, construction, retail, and investment management. David was previously the Deputy Chairman of the British Library and is currently Chairman of the Board of Trustees of The Maudsley Charity.

David assisted YTL Corporation with its acquisition of Wessex Water in 2002 and since then has been a director of Wessex Water Services Limited. David formerly chaired the Audit and Risk Committee and is also a director of Wessex Water Limited, the holding company for Wessex Water Services, and YTL Land and Property Limited. David is a member of the Remuneration and Health and Safety Committees.

Hong Yeoh – Shareholder Non-Executive Director

Hong is the Managing Director of YTL Power International Berhad, parent company of Wessex Water. He has been an Executive Director of YTL Corporation Berhad, Malaysia since 1985 and spearheads the group's investments in utilities, infrastructure and building of the fourth generation (4G) network businesses. He is also the Managing Director of the YTL Group's flagship construction company and a telecommunications company.

He has been a director of Wessex Water Services Limited since May 2002, a member of the Nomination Committee and chairs the Remuneration Committee. He is a trustee of YTL Foundation.

Mark Yeoh – Shareholder Non-Executive Director

Mark is executive director responsible for the YTL hotels and resorts division. He was appointed to the Board of Wessex Water Services Limited in July 2003 and is a member of the Remuneration Committee. He joined the YTL Group in 1989 and serves on the Board of YTL Corporation Berhad, YTL Power International Berhad, YTL Land & Development Berhad, and YTL Cement Berhad.

He is also an executive director and chief executive officer of Pintar Projek Sdn Bhd, the manager of YTL Hospitality REIT. He graduated from King's College, University of London with an LLB (Hons) and was subsequently called to the bar at Gray's Inn, London in 1988. He became a fellow of King's College London in July 2014.

Hann Yeoh – Shareholder Non-Executive Director

A graduate of Oxford University with a Master of Engineering in engineering science, Hann also sits on the Board of YTL PowerSeraya Pte Limited in Singapore and is the President Director of Tanjong Jati Power Company in Indonesia.

Hann is executive director of YTL Power Generation Sdn Bhd and leads the new business and investments arm of YTL Power International Berhad. Hann led the team that set up Geneco, now Singapore’s second largest energy retailer, and is looking at partnerships through digital initiatives and technology.

He has been a director of Wessex Water Services Limited since August 2012.

Board leadership, transparency, and governance – the Ofwat Objectives (and supporting provisions)

We explain below how we meet the Ofwat Objectives and supporting principles on Board leadership, transparency and governance as published by Ofwat in January 2019.

Ofwat Objective 1 - Purpose, values, and culture

The Board establishes the company's purpose, strategy, and values, and is satisfied that these and its culture reflect the needs of all those it serves.

The Board has full responsibility for all aspects of the Company's business, and is responsible for establishing the purpose, aims, strategy, values, and culture of the Company for the long term. The Company has spent significant time in the year refreshing its purpose, aims and strategy. This is to ensure that the Company continues to meet the demands of all stakeholders.

The Company's purpose is '**To support our customers' health and wellbeing and enhance the environment and the diverse communities we serve'**. The long-term plan for delivery of the Company's purpose is set out in the revised Strategic Direction Statement which can be found here with eight key outcomes.

Outcome	Aim
Safe and reliable water supply	100% quality compliance, always Zero interruptions of longer than three hours
Effective sewerage service	Halve the impact of sewer flooding
Affordable bills	Zero water poverty
Exceptional customer experience	Be a top 10 customer service provider in the UK
Sustainable abstraction	Never harm the health of the water environment through our abstraction
Great river and coastal water quality	To restore the quality of our rivers and coastal waters
Net zero carbon	Be a net zero carbon business by 2040
Increased biodiversity	Double our contribution to the region's biodiversity

The purpose, aims, strategy, values, and culture of the Company are developed and promoted through continuous engagement with wider stakeholders, including customers, community and interest groups, employees, and regulators. The Company has mechanisms through which stakeholder interests can be represented and changing societal pressures can be understood by the Board, including the Customer Challenge Group, the PR24 working group, and the Environment and Public Value Committee, the role, and responsibilities of which are described further in this report.

Additional information about the range of stakeholder engagement that has informed and influenced the aspirations of the Board is contained in the Strategic Report on pages 54 to 106. Through this approach the Board ensures that the Company's vision, which encompasses its purpose, values, and culture, aims and strategy to deliver, are aligned to ensure the Company performs and delivers for all that it serves.

The Board's processes ensure that the proposals contained within the five–year business plan are consistent with its vision, aims and strategy for the long term. The activities of the Board that enable it to be satisfied that the business plan is consistent with its long-term vision for the Company are set out within the Strategic Direction Statement which is available on the Company's website. In November 2021 we set out a new approach to business planning with a view to move away from the five-year approach. The proposed Outcome Based Environmental Regulation could enable society to pay less for more environmental improvements, empowering the water sector to make its contribution to the Government's 25-year Environment Plan. The Board has actively engaged with the Company's regulators to encourage this more holistic approach to regulatory performance outcomes beyond a five-year period to encourage sustained outcomes.

Given the long-term challenges faced by society, the Board has a published statement of the Company's social purpose. This statement specifies the Company's wider role, in particular the opportunity to deliver a better environment, to support the communities we serve, to be a great place to work and to contribute to the growth of the UK economy. This statement is published on the Company's website and has been underpinned by visible messaging, training, policies, and regular reviews to ensure that everyone in the Company feels our strength of purpose. The Company has built upon its previous approach to corporate and social responsibilities by establishing a Environment and Public Value Committee (replacing the Futures Panel and the Corporate Social Responsibility Committee) to oversee delivery of these commitments.

The Board monitors and assesses the values and culture of the business to satisfy itself that behaviours are aligned with the Company's purpose and values on an ongoing basis. It does so by monitoring the performance of the business against its key targets. It also seeks out the views and experiences of customers, key stakeholders, and employees. The Company has canvassed over 1600 customers for the strategic direction statement alone in addition to qualitative engagement and inter-generational work groups. The Board has refreshed its approach to engaging customer feedback through its Customer Challenge Group. The Board also takes account of independent assessments of the Company's commitment to customer service excellence by achieving both the government's Customer Service Excellence accreditation and the Institute of Customer Service 'Service Mark' accreditation and Trustpilot reviews. Key stakeholders are engaged through a variety of means from funding water guardians, working with organisations such as Citizens Advice or liaising with over 200 partners through our "Partner Hub". Employees' views are canvassed through regular surveys and by giving further opportunities for instant feedback. Where there is evidence that behaviours are misaligned with the Company's purpose and values, the Board acts, through the Executive and Management, to correct this. Further details are included in the Strategic Report on pages 54 to 106.

The Company actively publicises to all its employees a whistleblowing policy for reporting instances of wrongdoing or inappropriate activity across all areas of business, including behaviours, water regulation, health and safety, bribery, corruption and fraud. The Company has the 'Raising a Concern' policy, including step-by-step guidance on how to raise concerns. All 'Raising a Concern' reports are treated on a strictly confidential basis whether from internal or external sources. Reports on whistleblowing are made to the Audit and Risk Committee and details are set out in the Audit and Risk Committee Report on pages 28 to 31.

The Company also maintains its formal policy on business ethics. Directors and employees are expected to commit to the highest standards of professional and ethical conduct to protect the Company's reputation and standing. Unethical behaviour, bribery and corruption are not tolerated. All Directors and employees are made aware of the Company's policy and that breaching it will result in disciplinary action.

Ofwat Objective 2 - Standalone regulated company

The regulated company has an effective Board with full responsibility for all aspects of the regulated company's business for the long term.

The Board is fully focused on and has full responsibility for the activities of the Company and is responsible and accountable for setting, implementing, and supporting the Company's purpose, strategy, aims, values and culture. The Board is satisfied that this objective is met and the Board takes full responsibility for all aspects of the Company's business for the long term. The Board composition and details of career backgrounds, relevant skills, Committee membership and tenure is set out in the individual biographies on pages 9 to 13.

The Board sets the strategy, oversees its delivery, and maintains the highest standards of governance. The Board also ensures that, in making its decisions, these create sustainable, long-term value for the Company's stakeholders. The Board has ultimate responsibility for risk management and determines the appropriate risk appetite based on a balanced assessment of all the risks whether operational including safety, financial, or strategic. The Board is supported by both the Audit and Risk Committee, the Health and Safety Committee and the Environment and Public Value Committee, from which it receives regular updates and reports.

In order to manage risk, the Board and its Committees assess the integrity of information and whether controls and systems of risk management are robust and defensible. The Board requires management to identify, assess and report the impact of risks to enable the Board to effectively monitor and approve any decisions affecting the Company's risk profile. An explanation of principal risks, and our approach to mitigating these risks, is provided on pages 70 to 91.

The Chair leads the Board and ensures that all items are discussed openly and that all Directors have the opportunity to express their views. The Board meets at least six times each year.

The principal duties of the Board and the matters reserved for its decision are fully documented and published on the Company's website. The Board is responsible for strategy; charges; material changes to the Company's management and control structure; Board appointments; approval of material contracts; risk management; health and safety; disposal and acquisition of material assets; approval of the annual operating budgets; employee pension arrangements; significant changes in accounting policies; and the defence and settlement of material litigation. During the year, the Board received detailed reports from Executive Directors on all aspects of the Company's business and finances. There are regular updates on health and safety, customer service, operational performance, management of key business risks, the investment programme, and regulatory matters. During the year, the Board also established a PR24 working group to govern the business planning for AMP8.

There are no matters specifically reserved to the shareholder. In practice the Board operates (and has operated continuously for more than a decade) without the requirement for shareholder resolutions. As part of its responsibility for the management of risk, the Board has determined criteria which control the extent of dividends paid and consequently the financial gearing of the Company. As with all Board decision making, these criteria were determined with the active involvement of the Independent Non-Executive Directors. These criteria are set out in the notes to the accounts. The Board also annually reviews and approves the Company's framework for control of the Company's affairs detailing the effective management of the Company and granting delegated powers and authorisations.

In line with good governance, the Board delegates certain roles and responsibilities to its Committees. All Board Committees report to the Board and, where required, final decisions are taken by the Board. The Independent Non-Executive Directors, led by the Senior Independent Non-Executive Director, form or participate in the various Board Committees. The Committees assist the Board by fulfilling their roles and responsibilities, focusing on specific activities, reporting to the Board on decisions and actions taken and making recommendations to the Board. The Terms of Reference of each of the Board Committees are regularly reviewed and published on the Company's website.

The Board ensures that Directors (and in particular the Independent Non-Executive Directors) have access to independent professional advice at the Company's expense where they judge it necessary to discharge their responsibilities as Directors. The Board also ensures that the Committees are provided with sufficient resources to undertake their duties.

If Directors have concerns about the running of the Company or a proposed action which cannot be resolved, they are encouraged to ensure that their concerns are recorded in the Board minutes and the Independent Non-Executive Directors are encouraged, on resignation, to provide a written statement to the Chairman highlighting any such concerns.

The Company arranges appropriate Directors' and Officers' insurance against the usual legal risks faced through holding office.

Ofwat Objective 3 - Board leadership and transparency

The Board's leadership and approach to transparency and governance engenders trust in the regulated company and ensures accountability for their actions.

The Board is satisfied that its leadership of the Company including its transparency and accountability satisfies this objective.

Details of the Company's group structure can be found on page 25. Details of the Board Committees, including membership, number of meetings, and attendance are set out in the Committee reports on pages 28 to 53.

The Company's dividend policy and detail on dividends paid during the year are set out in the Notes to the financial statements on page 141. Details of the Company's executive pay policy can be found on page 39.

The Board is also responsible for the management of risk. The principal risks to the Company and how these have been considered and addressed can be found in the Strategic Report on pages 70 to 91.

The Company always ensures that it publishes information for its customers and stakeholders in a form that is clear and easily accessible.

Ofwat Objective 4 - Board structure and effectiveness

Boards and their Committees are competent, well run, and have sufficient independent membership, ensuring they can make high quality decisions that address diverse customer and stakeholder needs.

The Board is satisfied that this objective is met.

The following were Directors during the year under review:

Independent Non-Executive Directors	Executive Directors	Non-Executive Director	Shareholder Non-Executive Directors
Jim McKenna (Senior independent Director)	Colin Skellett	David Barclay	Francis Yeoh (Chair)
Huw Davies[1]	Andy Pymer		Hong Yeoh
Dame Fiona Reynolds	John Thompson		Hann Yeoh
Kate Mingay	Mohammed Saddiq		Mark Yeoh
Tim Gardam			
Kevin Wall			

[1] Independent Non-Executive Director to September 2021.

The Company carefully considers its Board composition and there are currently five Independent Non-Executive Directors on the Board following the completion of Huw Davies' term in September 2021. This makes the Independent Non-Executive Directors the single largest group on the Board and ensures that wider group or shareholder interests are not able to override independent judgment and/or dominate decision-making. The Independent Non-Executive Directors bring extensive knowledge and experience to the Board.

In addition to the Independent Non-Executive Directors, there are four Executive Directors. The Executive Directors have very significant experience in the water sector. One experienced former Independent Director is also appointed as a Non-Executive Director: David Barclay was our former Senior Independent Director, and the Board makes full use of his individual professional expertise. David was also our former chair of the Audit and Risk Committee and has extensive construction industry background and continues to provide expertise on our Remuneration and Health and Safety Committees.

Four further Non-Executive Directors are appointed by the Company's sole shareholder, including the Chair and Kathleen Chew as an alternate director for Hann Yeoh.

The collective experience of the Directors and the diverse skills and experience they possess ensures that the Board makes decisions in a balanced way. The Board considers that its current composition ensures an appropriate balance of skills, experience, independence, and knowledge so that no individual or small group of individuals can dominate the Board's decision taking. Details of the Board's skills and experience can be found in the Director's biographies on pages 9 to 13 and are summarised below:

		Utility experience	Financial	Regulatory	Customer	Public Affairs / Policy	Environment	Technology	Infrastructure / Capital Delivery	Commercial	Transformation al Change
Chairman	Francis Yeoh	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Group Chief Executive	Colin Skellett	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Independent Non-Executive Directors	Jim McKenna	✓	✓	✓	✓	✓		✓	✓	✓	✓
	Fiona Reynolds	✓	✓		✓	✓	✓	✓	✓		✓
	Huw Davies[1]	✓	✓	✓	✓		✓	✓	✓	✓	
	Kate Mingay		✓	✓		✓			✓	✓	
	Tim Gardam			✓	✓	✓				✓	✓
	Kevin Wall		✓	✓	✓	✓				✓	✓
Executive Directors	Andy Pymer	✓	✓	✓	✓	✓	✓		✓	✓	✓
	John Thompson	✓	✓		✓		✓	✓	✓	✓	✓
	Mohammed Saddiq	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Non-Executive Director	David Barclay		✓			✓				✓	✓
Shareholder Non-Executive Directors	Hong Yeoh	✓	✓	✓	✓		✓	✓	✓	✓	
	Mark Yeoh	✓	✓	✓	✓		✓	✓	✓	✓	
	Hann Yeoh	✓	✓	✓	✓		✓	✓	✓	✓	

[1] to September 2021

The Independent Non-Executive Directors scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance. The Independent Non-Executive Directors have direct access to senior management and contact with the wider business is always encouraged to ensure a deeper understanding of the Company's operations and activities.

The search for Board candidates is led by the Nomination Committee, and appointments and re-appointments are made by the Board on merit, against objective criteria, with due regard to the benefits of diversity on the Board (including diversity of skills, experience, ethnicity and gender). Before any formal appointment, new Independent Non-Executive Directors meet with Ofwat to ensure that there is a clear understanding of the responsibilities attached to being a non-executive director in this sector. All directors receive induction training on joining the Board and regularly update and refresh their skills and knowledge.

Chair

Throughout the financial year under review Francis Yeoh was the Company's Chair. The Chair was not independent of investors on appointment; however, this appointment is considered to be appropriate given the Company is a private company with a single shareholder. Whilst not independent, the Chair has demonstrated objective judgment throughout his tenure, and the Board is satisfied that the Chair leads the Board in a way that encourages all Directors to participate fully in Board discussions. The Board and its Committees have sufficient independent membership, ensuring they can make high quality decisions that address diverse customer and stakeholder needs.

To ensure there is an independent link with regulators that is separate from management or the shareholder, Jim McKenna, the Senior Independent Director, is the nominated point of contact. Since Jim was appointed Senior Independent Director in November 2020, he has spent a significant amount of time developing that relationship with Ofwat and other regulators.

The Chair promotes a culture of openness and debate by facilitating the effective contribution of Non-Executive Directors, in particular ensuring constructive relations between Executive and Non-Executive Directors and ensuring effective communication with the Company's shareholder. Board agendas are agreed in consultation with other Directors and the Company Secretary. By way of exception to the general governance provisions, the Chair does not have formal meetings with Non-Executive Directors but has informal meetings and discussions on an ongoing basis.

The Chair is responsible for ensuring that Directors receive accurate, timely and clear information. Any Director or the Company Secretary may request an item be included on the agenda.

Senior Independent Director

Jim McKenna is the Board's Senior Independent Director. Jim is a member of all Board Committees and is responsible for leading the annual review of Board performance. As Senior Independent Director, Jim would chair Board meetings if the Chair were unavailable. The Senior Independent Director's role is to act as a sounding board for the Chair and to serve as an intermediary for the other Directors, when necessary, as well as an additional point of contact for the shareholder and other stakeholders. By way of exception to general governance provisions, the performance of the Chair is incorporated within the Board effectiveness review, rather than led by the Senior Independent Director. The Company believes this approach, which results in a range of feedback, provides a more robust and well-rounded performance review.

As the Senior Independent Director appointed in accordance with the Licence, Jim is well placed to provide an independent link to Ofwat, our regulator.

Independent Non-Executive Directors

The Company's Independent Non-Executive Directors are appointed from a range of different backgrounds to bring to the Board an appropriate balance of skills, external experience, and knowledge. Details of their skills and experience can be found in their biographies on pages 9 to 13 and in the Board skills matrix on page 19.

The Independent Non-Executive Directors, as the single largest group on the Board, provide independent thought and challenge to the Board's decision making. The Board has reviewed their status and concluded that they are all independent. In particular, the Board considers these Directors to be independent in character and judgement. The Board is not aware of any relationships or circumstances which are likely to affect, or could appear to affect, any Independent Non-Executive Director's judgement.

Independent Non-Executive Directors are appointed following a formal process led by the Nomination Committee. Independent Non-Executive Directors are required to meet with Ofwat prior to appointment and are appointed with the agreement of the Company's shareholder, for an initial three-year term (subject to statutory provisions relating to removal) that may be extended.

Any term beyond six years for an Independent Non-Executive Director is subject to particularly rigorous review and takes into account the need for progressive refreshing of the Board, balanced against the requirement for skills, experience, independence and knowledge. Continuity of appointment of some Independent Non-Executive Directors between price reviews is desirable to facilitate scrutiny of Company performance against its business plan. The Board has determined that the Independent Non-Executive Directors are independent for the purposes of the governance requirements.

In the year, the Board considered Fiona Reynolds' term as an Independent Non-Executive Director. To ensure an appropriate balance of skills, backgrounds, experience, knowledge and continuity on the Board, the Board decided to extend Fiona's appointment for an additional one-year term. The Board considered that Fiona is a very experienced director, with particular expertise in conservation and environmental matters which are central to the Company's work. As Fiona has been in position for more than six years, the Board specifically considered Fiona's independence and was satisfied that Fiona demonstrated a fully independent approach, offering a constructive and challenging perspective to Board discussions.

Independent Non-Executive Director	Appointed	Current term expires
Jim McKenna	3 June 2019	2 June 2025
Fiona Reynolds	1 August 2012	30 September 2022
Kate Mingay	3 June 2019	2 June 2025
Tim Gardam	27 January 2020	26 January 2023
Kevin Wall	25 January 2021	25 January 2024
Huw Davies	1 September 2014	Term expired 30 September 2021

All Independent Non-Executive Directors and David Barclay as a Non-Executive Director are appointed on written terms of engagement setting the time commitments and standards required of them. Non-Executive Directors representing the Company's sole shareholder do not have formal terms of appointment and receive no payments from the Company.

Induction programmes are designed and arranged for all new Directors to familiarise themselves with the Company's governance arrangements, business, regulatory framework, culture, and values. The induction programme includes introductory meetings with all Executive and Non-Executive Directors, the Company Secretary, and senior managers across the Company's business. As part of the induction programme, new Independent Non-Executive Directors visit the Company's principal offices and operational sites, including the Company's Scientific Centre and the Company's billing and customer services operations. In addition, any new Independent Non-Executive Directors meet with Ofwat prior to formal appointments being made.

The training and development needs of the Directors are reviewed annually by the Senior Independent Director (and not the Chair). This allows closer assessment of need and, where relevant, all Directors are offered the opportunity to complete online training alongside the business.

Company Secretary

All Directors have access to the Company Secretary and the Company's internal solicitors. The Company Secretary's responsibilities include ensuring good information flows within the Board and its Committees and between senior management and Non-Executive Directors, as well as facilitating induction and assisting with professional development as required. The Company Secretary is responsible for ensuring that the Company's delegated authority and Board procedures are followed and for advising on suggested changes.

Ruth Jefferson was appointed as Company Secretary in 2018. As Company Secretary her role is to provide legal and regulatory advice as required by the Board or any Director and she is responsible for advising the Board through the Chair on governance matters. The Board is kept informed of major changes to law and regulation affecting the Company's business. The Company Secretary also advises on Directors' duties and conflicts. All Directors are aware that any conflicts of interest must be reported to and registered with the Company Secretary.

Board meetings

The Board meets a minimum of six times a year at approximately bi-monthly intervals, which is considered sufficiently regular to enable the Board to discharge its duties effectively. It may meet on such further occasions as required. The Board held six meetings during the year ended 30 June 2022. The Board received regular reports on health and safety performance, business and financial performance, regulatory issues, employee issues and the management of key business risks. As a private company with a single shareholder, the Company does not consider it necessary to hold Annual General Meetings. Attendance by individual Directors at scheduled meetings of the Board and Committees during the financial year under review was as follows:

Director	Board	Audit and Risk Committee	Nomination Committee	Remuneration Committee	Environment and Public Value Committee	Health and Safety Committee
Francis Yeoh	6/6					
Colin Skellett	6/6					9/9
David Barclay	6/6			1/1		9/9
Andy Pymer	6/6	5/5			4/4	
John Thompson	6/6				4/4	9/9
Mohammed Saddiq	6/6				4/4	5/5
Jim McKenna	6/6	5/5		1/1	4/4	8/9
Huw Davies[1]	2/2					
Fiona Reynolds	6/6	5/5			4/4	
Kate Mingay	6/6	5/5		1/1	4/4	
Tim Gardam	6/6	5/5		1/1	4/4	9/9
Kevin Wall	6/6	5/5		1/1	4/4	9/9
Hong Yeoh	6/6			1/1		
Mark Yeoh	6/6			1/1		
Hann Yeoh	6/6					
Kathleen Chew (alternate)	0/0					

[1] Independent Non-Executive Director to September 2021

Board Committees and Advisory Panels

Five formal Board Committees operated throughout the financial year under review:

- Audit and Risk Committee
- Health and Safety Committee
- Remuneration Committee
- Nomination Committee
- Environment and Public Value Committee.

These Committees operate under the authority of the Board and assist the Board in carrying out its duties. The Committees have the appropriate balance of skills, experience, independence, and knowledge of the Company. The Committees report to the Board on decisions and actions taken together with any specific recommendations. Where necessary, final decisions are taken by the Board.

Reports from the Chair of each of the Committees, including details of membership and attendance, are set out on pages 28 to 53. There is a majority of Independent Non-Executive Directors on the Board Committees. The Nomination Committee and Remuneration Committee are chaired by the Chair and a shareholder Director respectively. The Board considers this to be appropriate in the context of the Company's ownership structure.

The Board also receives reports from the Customer Challenge Group, as part of the Company's commitment to stakeholder engagement.

The Customer Challenge Group includes our key organisational stakeholders, scrutinises and assesses the Company's delivery against customer related outcomes and performance commitments. The Group is independently chaired by Dan Rogerson who was previously Water Minister under the coalition Government. An Independent Director attends most meetings.

During this reporting year, the Board formed a dedicated Health and Safety Committee, chaired by Tim Gardam and supported by an Advisory Board, the terms of reference for the committee are published on the Company's website.

Board, Committee and Director Performance

The Board reviews its own performance and the performance of its Committees, the Chair, and the Independent Non-Executive Directors, annually. The performance of the Executive Directors is appraised by the Chief Executive. Generally, the Board will engage the services of an external consultant to conduct this review at least one year in three, the last external review was undertaken in 2019-20.

Between external evaluations, reviews are facilitated by the Company Secretary on behalf of the Senior Independent Director. The evaluation assessed the Board's balance of skills, experience, diversity, independence, and knowledge of the Company and how the Board works together as a unit, and other factors related to its effectiveness. This year the feedback confirmed that, overall, the Board continues to work effectively with open challenge, debate and collective decision-making. The particular contributions of the Board and the Committees to the development of the Company's purpose, strategy and values, and the work to promote Outcome Based Environmental Regulation were noted.

Directors' remuneration

Details of Directors' remuneration are set out in the Remuneration Committee Report on page 37.

Directors’ interests and conflicts

The Board has a formal approach to conflicts of interest by including its conflicts within the business ethics policy. This policy covers both employee and Board conflicts and enables Directors and employees to identify, report and manage such conflicts. Directors are aware of the requirement to disclose interests in contracts with the Company and any conflicts of interest are recorded by the Company Secretary. No new interests or conflicts were disclosed during the year.

Raising a concern

The Company reviews its Raising a Concern policy each year. The policy is supported by step-by-step guidance on how to raise concerns and a confidential helpline available 24-hours a day, 7-days a week. The policy sets out how to report any concerns about wrongdoing or inappropriate activity across all areas of business, including water regulation, health and safety, bribery, corruption and fraud. All ‘Raising a Concern’ reports are treated on a strictly confidential basis whether from internal or external sources. Reports are made to the Audit and Risk Committee.

Anti-corruption

The Company has adopted a formal policy on business ethics. Directors and employees are expected to commit to the highest standards of professional and ethical conduct in order to protect the Company’s reputation and standing. Bribery and corruption are not tolerated. All Directors and employees are made aware of the Company’s policy and understand that breaching it will result in disciplinary action. No instances of a breach of the policy were recorded in the year. All senior staff are asked to certify to internal audit that throughout the year they have complied with the business ethics rules. No instances of non-compliance were noted during the year.

Procurement

The Company has in place procurement rules that ensure awards of contracts for works, services and supplies are made in compliance with the Utilities Contracts Regulations 2016 or, for contracts below the relevant thresholds, in accordance with clear internal rules. The rules promote fair competition for potential suppliers. All relevant staff are required to certify to internal audit that throughout the year they have complied with the rules or disclose any non-compliance. No material instances of non-compliance were recorded during the year.

Group structure

The Company’s pre-penultimate holding company is a Malaysian company, YTL Corporation Berhad, that is listed on the main market of Bursa Malaysia Securities Berhad. It addresses the Holdco Principles as described in the paragraphs below.

Ofwat’s published document Board Leadership, Transparency and Governance – Holding Company Principles sets out the principles it expects the holding companies of a regulated water company to follow to demonstrate adherence to the highest standards of governance, particularly in its interaction with a regulated water company. The Holding Company Principles build upon and supplement the Company’s licence provisions dealing with its relationship with its owners.

A diagrammatic representation of the Group's structure appears below showing ownership of the regulated company through to YTL Corporation Berhad and each company's country of incorporation and role in the structure. YTL Corporation Berhad at 30 June 2022 was 49.80% owned by third-party shareholders and 50.20% owned by Yeoh Tiong Lay & Sons Family Holdings Ltd.

YTL Corporation Bhd	Investment holding and management company	Incorporated in Malaysia and quoted on the Main Market of Bursa Malaysia Securities Berhad
49.08%		
YTL Power International Berhad	Investment holding and provision of administrative and technical support services	Incorporated in Malaysia and quoted on the Main Market of Bursa Malaysia Securities Berhad
YTL Utilities Ltd	Investment holding company	Incorporated in Cayman Islands to look for global mergers & acquisitions in the utilities sector
YTL Utilities Holdings Ltd	Investment holding company	Incorporated in Cayman Islands to look for global mergers & acquisitions in the utilities sector
YTL Utilities (UK) Ltd	Investment holding company	Incorporated in United Kingdom, the acquisition vehicle for the purchase of the Wessex Water group of companies
Wessex Water Ltd	Investment holding company	Incorporated in United Kingdom, also owns SC Technology AG, Wessex Water Enterprises Ltd, 70% of Water2Business Ltd, and 50% of Bristol Wessex Billing Services Ltd
Wessex Water Services Ltd	Water supply and waste water services	Incorporated in United Kingdom, granted a Licence as a water and sewerage undertaker under the Water Industry Act 1991

The following Directors of the Company are also Directors of the Group companies above;

Colin Skellett and David Barclay are Directors of Wessex Water Limited. Colin Skellett is a director of YTL Utilities (UK) Limited.

Francis Yeoh, Hong Yeoh and Mark Yeoh are Directors of Wessex Water Limited, YTL Utilities (UK) Limited, YTL Utilities Limited, YTL Power International Berhad and YTL Corporation Berhad. Hann Yeoh is a Director of YTL Utilities Holdings Limited.

YTL Corporation Berhad's consolidated debt and equity are shown in its annual accounts available on the YTL Corporation website. The Company has no borrowings with other Group companies.

The Company operates independently. There are no matters specifically reserved to the shareholder. In practice the Board operates (and has operated continuously for more than a decade) without the requirement for shareholder resolutions. A list of those Directors of the Company who also hold office within the Group structure appears above. Disclosure of the interests of such Directors has been made to the Company.

Governance of YTL Corporation Berhad is in accordance with the requirements of Bursa Malaysia and corporate law in Malaysia which include a requirement to publish statements in its annual accounts on corporate governance, risk, risk management and internal control and the workings of its audit Committee.

YTL Corporation Berhad and YTL Power International Berhad gave undertakings to Ofwat in 2002 upon the acquisition of the Company that they and their subsidiaries would comply with the requirements of Licence Condition P. The Condition P undertaking provides that:

- they would give the Company all information as may be necessary to enable the Company to comply with the conditions of its appointments as a water and sewerage undertaker; and
- to refrain from any action which would cause or may cause the company to breach any of its obligations under the Water Industry Act or the conditions of its Licence.

YTL Corporation Berhad has confirmed that it:

- fully understands the duties and obligations of the Company arising under statute and its Licence;
- is aware of and is complying with the obligations of Condition P of its Licence;
- discharges these obligations by various means including through its knowledge of the terms of the Licence, the appointments of shareholder directors to the Board of the Company and their involvement in the affairs of the Company and the advice of its UK corporate lawyers;
- will provide the Company with the information it legitimately needs to assure itself that it is not at risk from activities elsewhere in the YTL Group;
- will identify and disclose to the Company promptly in writing any issues, if such should arise, within the YTL Group which may materially impact upon the Company for publication on the Company's website or disclosure in its annual report any relevant announcements made on Bursa Malaysia;
- will facilitate, so far as it is reasonably able, compliance with the Company's corporate governance arrangements; and
- will support the Company's decision-making processes so that it can make strategic and sustainable decisions in the interests of the Company for the long term.

Compliance with the Wates Principles

The Board considers that it complies with the Wates Principles, through the corporate governance arrangements described in detail above.

Principle One – Purpose and leadership

An effective Board develops and promotes the purpose of the company, and ensures that its values, strategy and culture align with that purpose.

The Company sets out its compliance with Ofwat Objective 1 on pages 14 to 15.

Principle Two – Board composition

Effective Board composition requires an effective chair and a balance of skills, backgrounds, experience and knowledge, with individual directors having sufficient capacity to make a valuable contribution. The size of a Board should be guided by the scale and complexity of the company.

The Company sets out its compliance with Ofwat Objective 4 on pages 18 to 26.

Principle Three – Director responsibilities

The Board and individual directors should have a clear understanding of their accountability and responsibilities. The Board's policies and procedures should support effective decision-making and independent challenge.

The Company has clear corporate governance practices in place, with clear lines of accountability and responsibility as set out under Ofwat Objective 2 on pages 16 and 17. Details of the Board Committees are set out in the comments on Ofwat Objective 4 on pages 18 to 26.

Principle Four – Opportunity and risk

A Board should promote the long-term sustainable success of the company by identifying opportunities to create and preserve value and establishing oversight for the identification and mitigation of risks.

The Company is a long-term business and ensuring its long-term sustainable success underpins the work of the Board and its Committees. The Board's approach to oversight of the identification and mitigation of risks can be found on pages 14 to 15 set out under Ofwat Objective 1 and also in the Strategic Report on pages 70 to 91.

Principle Five – Remuneration

A Board should promote executive remuneration structures aligned to the long-term sustainable success of a company, taking into account pay and conditions elsewhere in the company.

A detailed explanation of the Company's executive pay policy is provided in the Remuneration Committee Report on pages 37 to 53.

Principle Six – Stakeholder relationships and engagement

Directors should foster effective stakeholder relationships aligned to the company's purpose. The Board is responsible for overseeing meaningful engagement with stakeholders, including the workforce, and having regard to their views when taking decisions.

Details of the Company's stakeholder engagement are set out under Ofwat Objective 1 on pages 14 to 15 and in the s172 statement on pages 58 to 65.

Audit and Risk Committee Report

The Audit and Risk Committee comprises five independent Non-Executive Directors of the Board, all have been members throughout the financial year. The Chair of the Board is not a member of the Audit and Risk Committee preserving the independence of the Committee. The Committee is independently led.

The Board is satisfied that each of the Committee members is appropriately independent, qualified and experienced to fulfil their role including that of our longest serving non-executive.

Audit and Risk Committee Members' Attendance

Audit and Risk Committee attendance – Non-Executive Directors		Length of Committee Service
Kate Mingay (Chair)	5/5	3 years 3 month
Fiona Reynolds	5/5	10 years 1 months
Jim McKenna	5/5	3 years 3 month
Tim Gardam	5/5	2 years 7 months
Kevin Wall	5/5	1 year 7 months
Huw Davies[1]	-	9 years 1 month

1 – Term duration 1 September 2014 to 30 September 2021

During the year the Executive Director Finance and Regulation, the Group General Counsel, Director of Regulation, the Director of Risk and Investment, the Group Financial Controller, the Group Head of Internal Audit attended and/or presented at meetings of the Committee. Our external auditors, Ernst and Young LLP are invited to all meetings. Other senior management, our external technical auditors, Mott MacDonald, and Customer Challenge Group representatives are invited to attend as required. The members of the Committee receive updates on financial reporting, the regulatory framework and performance throughout each financial year from Ernst and Young and other sources, as appropriate.

Liaison with Other Committees and Working Groups

With the establishment of the new Health and Safety Board sub-committee, it has been important to ensure that the Audit and Risk Committee's assurance activities and the health and safety assurance arrangements neatly interface and are clear, ensuring that both Committees can discharge their duties as outlined in their terms of reference.

Going forwards over the PR24 business planning process, the Audit and Risk Committee will support the Board and its PR24 working group as appropriate.

Role and Report on Committee Activity

The Audit and Risk Committee met five times in the financial year under review, reporting their work to the Board. The Audit and Risk Committee's work is typically focused on:

- monitoring the integrity of the financial statements and any formal announcements of the Company's financial performance;
- overseeing the Company's financial reporting processes and accounting policies;

- providing advice to the Board on whether the annual report and accounts are fair, balanced and understandable in relation to the company strategy and performance;
- reporting to and providing advice to the Board on approval of regulatory submissions;
- ensuring that the Company has adequate internal controls and that they are appropriately reviewed and implemented;
- reviewing and agreeing the annual internal audit programme, the monitoring of internal audit progress and the respective reports and actions. Overseeing the internal and external audit programmes and monitoring the effectiveness of the Internal Audit function and the performance of the external auditors;
- ensuring compliance with the regulatory reporting obligations of the Company, including the Risk and Compliance Statement and the Company's performance commitments;
- detailed independent consideration of the half year results, the Annual Review documents incorporating the Annual Performance Report prior to the Board's approval;
- consideration of the material subjective assessments within financial reporting to ensure that the Company's treatment of these matters is properly addressed within the Company's financial statements;
- reviewing and agreeing the Company's approach to risk appetite and tolerance, and providing advice to the Board on the same; and
- receiving reports from investigations arising from our Raising a Concern policy.

We have had a full agenda this financial year. Issues discussed to highlight include:

- the implementation of a new audit and risk system, and the revised reporting to the Committee;
- review of capital investment and risk framework ahead of the PR24 business planning process;
- management of cyber-security risks including detailed and ongoing compliance work in relation to the Security of Network and Information Systems (NIS) Regulations 2018 and the company's OT security network;
- oversight of risk reporting, building upon the previous years' detailed review of risk appetite and tolerance for strategic risks and principal risks; and
- ongoing compliance with the Data Protection Act 2018 and the General Data Protection Regulations (GDPR).

Our governance arrangements are available on the Company's website and provide full terms of reference for the Audit and Risk Committee. These are in accordance with both Ofwat's Board Leadership, Transparency and Governance (BLTG) principles and the Wates principles.

The Audit and Risk Committee have discharged their responsibilities in accordance with both these sets of principles by considering the content, accuracy and tone of the Annual Report to ensure a fair, balanced and understandable report that provides the necessary information to stakeholders to assess the company's performance, strategy and position.

Our external auditor (Ernst & Young LLP) reported to the Audit and Risk Committee on their audit of the year-end financial statements.

Internal Controls

Topic	Activity
Internal controls	The Audit and Risk Committee, assisted by Internal Audit, monitors the effectiveness of the system of internal controls that have been in place for the year under review and up to the date of approval of the annual report and accounts. The Audit and Risk Committee also reviews management reports received from the external auditor. The Audit and Risk Committee receives reports on any 'Raising a Concern' whistleblowing allegations made to the Company from either internal or external sources, concerning fraud, bribery or other matters. Reports include the outcomes of resulting investigations and the management action taken.
Oversight of Internal Audit and External Audit	The Audit and Risk Committee oversees the work of the Company's Internal Audit function and External Auditors. The Audit and Risk Committee reviews the performance of the internal and external auditor independently of executive management.
Internal Audit	The annual programme of planned internal audits is agreed by the Audit and Risk Committee prior to the start of each financial year based on significant business risks, key internal processes, and both financial and regulatory compliance requirements. A new audit management system was implemented during the year as well as a total of seven individual audit reports. The Group Head of Internal Audit reports on the adequacy and effectiveness of the Company's risk, control and governance framework. The Internal Audit plan and required resource are reviewed annually by the Audit and Risk Committee. The Group Head of Internal Audit has an unhindered direct report to the Audit and Risk Committee or its Chair at all times.
External auditor	Ernst & Young LLP were appointed as the Company's external auditor in 2017. The EY audit partner is invited to attend all Audit and Risk Committee meetings and has been present at every meeting during the year. The Audit and Risk Committee monitors the effectiveness of the external auditor throughout their term of appointment. In relation to the current year, Ernst & Young LLP audit fees are £50k for the 2021-22 year. The Audit and Risk Committee scrutinise the volume and value of non-audit work and as a matter of policy, fees paid to the external auditor for non-audit services will not exceed the limits set out in EU Regulation 537 or the rules set out in the Financial Reporting Council's code of ethics. The proportion of fees for non-audit services is compliant with EU Regulation 537. Ernst & Young LLP also reports to Ofwat in respect of the Company's Annual Performance Report and Annual Report & Accounts to 31 March 2022.

Further details of internal controls and risk management systems in relation to the financial reporting process can be found on pages 70 to 91.

Financial Reporting

Material issues considered by the Audit and Risk Committee in relation to the financial statements (as also reported by the external auditor) were as follows.

Topic	Activity
Revenue Recognition and accrued income	The Audit and Risk Committee considered the key financial risk that can arise from the estimation of the amount of unbilled income charges at the period. In this context, they discussed that the management estimates and assumptions are aligned to IFRS 15 and current accounting standards.
Expected Credit Loss	The Audit and Risk Committee considered the key financial risk that arose due to the subjective nature of the provision. It reviewed the significant judgements made when assessing the reasonableness of the provision rates applied against the customer profile categories, particularly in light of the economic uncertainties post Covid-19 and the Ukraine conflict and ensured that the methodology chosen was in accordance with IFRS 9.
Pension Actuarial Assumptions	The Audit and Risk Committee considered the key financial risk that the assumptions made by the Company in association with the independent actuary, in arriving at the pension deficit under IAS 19, could lead to an overly prudent or aggressive position. In particular, the assumptions in relation to inflation, discount rate, pension and salary increases, return on equity and life expectancy were tested against the range of assumptions used by other companies.
Classification of Capital Expenditure	The Audit and Risk Committee considered the key financial risk of the degree of judgement involved in the classification of expenditure between operating expenses and capital expenditure. In doing so they considered the level of capital expenditure, the Regulatory Accounting Guidelines and IAS16/38, the recharges from overhead to capital projects and the controls of the Company.
Going concern, long-term viability and breach of financial covenants	The Audit and Risk Committee considered the long-term viability assessment and its appropriateness, assumptions and its approach to reverse stress testing. The Committee considered the going concern of the company in conjunction with the work completed by the auditor under IAS 570, including the company's compliance with financial covenants.
Accounting treatment for Software-as-a-Service (SaaS) arrangements	The Audit and Risk Committee considered the key financial risk that arose regarding the completeness and classification of cloud based systems and their incorrect treatment as intangible assets.
Misstatements	Management confirmed to the Audit and Risk Committee there were no material misstatements in the financial statements to achieve a particular presentation. The Audit and Risk Committee was satisfied that the external auditor had fulfilled its responsibilities to the Audit Committee and the Company.

Nomination Committee Report

The following were members of the Nomination Committee throughout the financial year under review.

Nomination Committee attendance	
Francis Yeoh (Chair)	-
Hong Yeoh	-
Huw Davies [1]	-
Kate Mingay	-
Jim McKenna	-
Tim Gardam	-
Kevin Wall	-

1 – To September 2021

There is a majority of independent members on the Nomination Committee, in line with Ofwat's Objectives. The Nomination Committee is chaired by a Non-Executive Director appointed by the shareholder, by way of exception to Ofwat's Objectives. However, the Committee's composition is considered to be appropriate in the context of a private company with a single shareholder.

Role and report on activities

The Nomination Committee's full terms of reference are available on the Company's website.

The purpose of the Nomination Committee is to ensure that appropriate procedures are in place for the nomination, selection, training and evaluation of Directors. The role of the Nomination Committee is to evaluate the balance of skills, experience, and knowledge on the Board. The Committee reviews Board structure, size and composition and will make recommendations to the Board on new appointments. The Board, as a whole, will consider any extensions to the term of appointment for Directors. The Nomination Committee did not meet during the year under review, but the Board considered the re-appointment of Fiona Reynolds as an Independent Non-Executive Director and concluded that Fiona demonstrated a fully independent approach, offering a constructive and challenging perspective to Board discussions. The Board therefore decided to extend Fiona's appointment for an additional one-year term.

Health and Safety Committee Report

Health, safety, and wellbeing remains a top priority for the Company. The continued development and implementation of health and safety policy and practice has been at the centre of the Board's attention throughout the year. The Board made the decision in 2021 to establish a committee to focus solely on Health and Safety matters (Principal Decision 1 page 66).

Committee Members

The following were members of the Health and Safety Committee (the "Committee") throughout the financial year under review.

Health and Safety Board Committee attendance – Non-Executive Directors	
Tim Gardam (Chair)	9/9
David Barclay	9/9
Jim McKenna	8/9
Kevin Wall	9/9

In addition to the above, the former Independent Non-Executive Director, Huw Davies, is also a member of the Committee.

Committee Meetings

The Committee is scheduled to meet at least four times a year and reports back to the Board after each meeting. This year it has met nine times to focus on the Company's delivery of its strategy and continuous improvement under each of the Company's strategic pillars (Leadership, Risk, Culture, Reporting, Occupational Health and Wellbeing). This is in addition to the regular health, safety and wellbeing reports which are presented to the Board. This demonstrates the Board's commitment on matters relating to health, safety and wellbeing.

The Board and Committee are supported by an Advisory Board comprising leading health and safety and process safety experts. The Chair of the Advisory Board also attends Committee meetings.

Focus of Committee

Following its establishment, the Committee has spent a significant amount of time considering and recommending actions including the following:

1. process safety in relation to high hazard activities;
2. the introduction of Institute of Safety and Health (IOSH) safety training for all senior managers and approved additional training through the IChemE for those involved in process safety;
3. the update of our health, safety and wellbeing strategy including the introduction of a five-step culture model to support a more consistent approach to behavioral safety. Safety communications across the company were also enhanced via new safety hubs, which act as easy-access one-stop shops for health and safety material and best practice;
4. the roll out of a dedicated health and safety reporting platform which improves visibility, action tracking and action management. The number of people reporting their observations doubled from 2020 and the reporting system will also identify leading and lagging trends to drive continuous improvement; and
5. health and safety incidents involving the Company, colleagues and partners, including near misses.

Over the year we have achieved a stable health, safety and wellbeing performance including a decrease in the all-injury accident incident rate. The increase in reporting, including of near misses, evidences a heightened awareness among our people. However, we have still seen incidents during the year, and whilst action has been taken to prevent recurrence, all incidents and near miss events are reminders of the need to drive continuous improvement to protect customers, contract partners and our people.

Environment and Public Value Committee Report

The following Non-Executive Directors were members of the Environment and Public Value Committee throughout the financial year under review.

Environment and Public Value Committee attendance – Non-Executive Directors	
Fiona Reynolds (Chair)	4/4
Kate Mingay	4/4
Tim Gardam	4/4
Jim McKenna	4/4
Kevin Wall	4/4

The Environment and Public Value Committee advises the Board on how the Company's purpose, strategy and values are developed and delivered, and ensures that the Company's culture reflects the needs of all those in the communities that it serves and wider societal and environmental values.

Focusing on outcomes for people, the environment, nature and water across the region, the Committee's functions are to

(a) oversee the development of an integrated social purpose that sets out clear goals for:

environmental leadership including exemplary delivery of environmental obligations in the Company's operations and across its catchments;

the positive social and economic investment impact the Company will make for the communities it serves;

(b) establish and lead ongoing dialogue with staff, retail and business customers, communities, local authorities and other interested stakeholders about the Company's social purpose;

(c) identify and monitor external developments which are likely to be drivers of change that may have a significant influence on the Company's social purpose;

(d) develop and maintain a strategy to deliver the Company's social purpose and long-term shareholder value;

(e) ensure that the Company's social purpose is fully integrated with and shapes the strategy for the Price Determination Process;

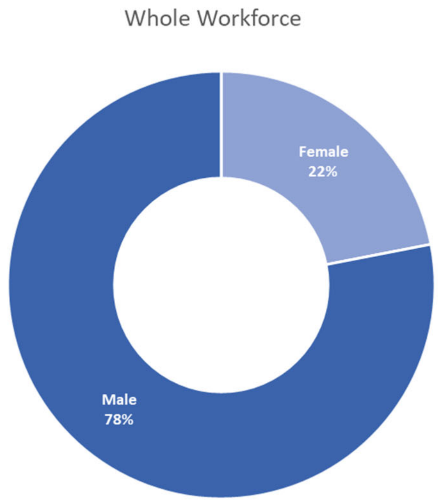
(f) develop socially responsible values and standards and regularly review performance measures and KPIs, including their independent audit, and verification to ensure their delivery

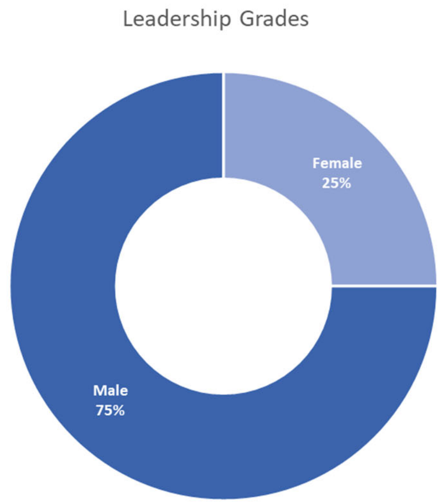
(g) oversee the development of workplace policies and procedures that deliver the company's people values, human rights, diversity and inclusion requirements

In line with its horizon-scanning function, the Committee periodically invites external perspectives to inform the Board's strategic thinking. The meetings of the Committee during the reporting year have focused primarily on the company's revised purpose statement, assisted by input from Sustainability First, which has in turn informed initial work for the 2024 Price Review including the company's strategic direction statement and the development of a new strategic framework for Wessex Water.

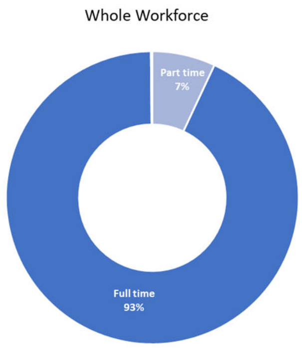
The Committee has also considered the company's net zero carbon route map; customer and community engagement; and environmental, social and governance (ESG) reporting; and company culture, inclusion and diversity; and has reviewed and approved the gender pay gap reporting which was published on the government website in March 2022. The Committee are committed to promoting an inclusive workforce that reflects the cultures and diversity of the Wessex Water region, and to fostering a culture where everyone can thrive, inclusive of every gender, ethnicity, race, age, ability, sexual orientation and social background.

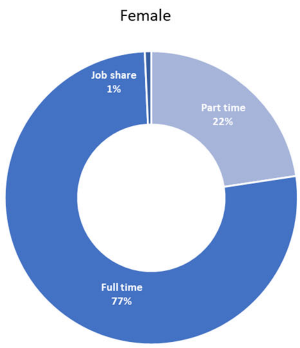
Gender diversity

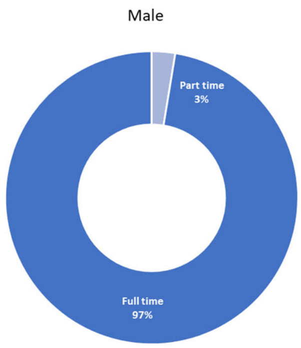




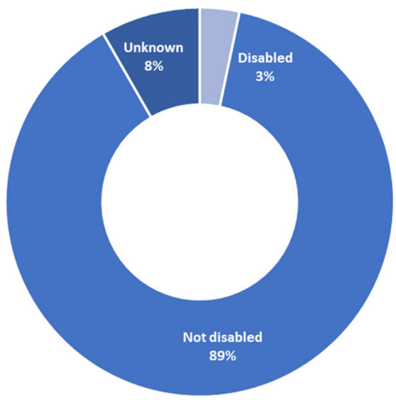
Working pattern diversity







Employees with a disability



Remuneration Committee Report

The following were members of the Committee throughout the financial year under review:

Remuneration Committee Attendance	
Hong Yeoh (Chair)	1/1
Mark Yeoh	1/1
David Barclay	1/1
Jim McKenna	1/1
Kate Mingay	1/1
Tim Gardam	1/1
Kevin Wall	1/1

There is a majority of independent members on the Committee. The Committee is chaired by a Non-Executive Director appointed by the shareholder, by way of exception to Ofwat's Objectives. However, the Committee reflects the requirements of a private company with a sole shareholder, but with a majority of independent membership ensuring a formal and transparent procedure for developing policy on executive remuneration.

There were no changes to the membership of the Committee for 2021-2022.

Role of the Remuneration Committee

The Committee's full terms of reference are available on the Company's website.

The Committee determines, on behalf of the Board, the Company's policy on the total remuneration of Executive Directors, the Chief Executive, and senior executive managers. The Committee ensures there is a link between reward and performance to promote the long-term success of the Company and does not reward poor performance.

This report sets out the remuneration policy for the Directors of Wessex Water and discloses the amounts paid to them in the financial year ended 30 June 2022. The policy also applies to the remuneration of the Company's senior managers.

The Committee met once during the financial year under review. The Committee continued to monitor the Company's remuneration policy to take account of evolving best and market practice. The annual bonus plan is designed to promote the success of the Company over the five-year regulatory period and is based on a portfolio of KPIs linked to the Company's performance scorecard and Ofwat's measures of success.

Strategic Alignment of Remuneration

Salary and bonus levels were benchmarked against the Korn Ferry Hay Group National Utilities market sector with jobs sized in relation to scope, role responsibilities and impact to determine salary. The Committee continued to take a proactive approach to responding to developments in legislation, best practice, and the wider market, as well as the corporate strategy, in order to ensure that the Company's senior executive reward policy remained market competitive and appropriate.

The Committee ensured that any changes in senior executive remuneration were proportionate in the context of workforce pay. Whilst it has not set a specific policy on the relationship between Executive Directors' pay and that of the rest of the workforce, it aims to ensure that executive salary movement is appropriately aligned to the rest of the workforce, and it specifically considers this aspect as part of its decision-making process.

The Committee considered performance related executive pay in the context of Ofwat's requirement that performance related pay should demonstrate a substantial link to stretching performance delivery for customers which includes environmental commitments and obligations.

To ensure that the Company's remuneration practices are competitive but not excessive, the Committee has access to detailed external research on market data and trends from experienced specialist consultants.

Remuneration of the Senior Management Group

During the year, the Committee took advice from their independent advisers, Korn Ferry Hay Group. Korn Ferry Hay Group provided detailed market analysis and advice to the Committee for the senior management group, including Executive Directors and Non-Executive Directors. Korn Ferry Hay Group's fee for providing such advice was £23,100 for the year ended 30 June 2022. In line with best practice, the Committee assesses from time to time whether the appointment of its current independent remuneration advisers remains appropriate and whether the role should be put out to tender.

The Committee also considers what compensation commitments (including pension contributions and all other elements) Directors' terms of appointment would entail in the event of early termination. The aim is to avoid rewarding poor performance, and the Remuneration Committee would take a robust line on reducing compensation to reflect departing Directors' obligations to mitigate loss.

The Chief Executive (Colin Skellett) and the Group Director of People (Mark Nicholson) attend the Committee meetings to provide advice and respond to specific questions. They did not participate in any discussion concerning their own remuneration.

Changes to the Executive Directors

There were no changes to Executive Directors in 2021-2022.

Remuneration principles and policy

The remuneration policy for executive directors and senior managers is aligned to the Company's four key focus areas, as shown below.

Key Focus	Remuneration Policy
Customer service delivery and business costs	Target annual bonus potential at the median when compared to the national utilities market, supported by competitive base salary at or below market median. Financial based KPIs within the annual bonus are set with close regard to Ofwat's determination, ensuring that we closely manage our performance within the regulatory limits. Customer focused KPIs form a substantial part of the annual bonus scorecard.
Environment performance	KPIs within the annual bonus for all employees include environmental factors.
Employee alignment	The Remuneration Committee aims to ensure that the executive salary movement is aligned to the rest of the workforce. The performance scorecard is used for the annual bonus throughout the Company. KPIs within the annual bonus for all employees include health and safety, engagement, and training compliance factors.
Financial performance	A variety of financial KPIs are used within the annual bonus plan with the aim of delivering a fair return to our shareholder.

The Committee continues to monitor variable pay arrangements for Executive Directors and senior managers. The Committee believes that the arrangements are appropriately managed and that the choice of performance measures and targets does not encourage undue risk-taking by the executives so that the long-term performance of the business is not put at risk by considerations of short-term value. The arrangements incorporate a range of internal and external performance metrics, measuring both operational and financial performance providing a rounded assessment of overall company performance to ensure that a significant portion of executive remuneration is performance related. More details on the remuneration policy for Executive Directors is shown later in this report.

Recruitment of Executive Directors

The base salary for any new Executive Director takes into account market data for the relevant role, relativity with the salaries of existing Executive Directors, the individual's previous experience, and current base salary. In the event that an individual is recruited at below market level, their base salary may be aligned over a period of time to the median of the relevant market position, subject to their performance in the role.

Individual Executive Directors participate in a senior manager bonus scheme, governed by the Committee. Executive Directors have a target bonus set at 50% of base salary and their maximum bonus at 100% of base salary.

Policy for loss of office

There are no specific provisions for compensation on early termination (except for payment in lieu of accrued but untaken holidays) or loss of office due to a change of ownership of the Company. The Committee will review all contractual obligations and will seek legal advice, as and when necessary, on the Company's liability to pay compensation in such circumstances.

The Committee will seek to reduce the level of compensation payable taking into account, among other factors, the Company's and the individual's performance, the Executive Director's obligation to mitigate loss, and length of service.

Early termination payments made in the year

No Executive Director left the Company during the year.

Remuneration arrangements for Executive Directors 2021-2022

The following table sets out a summary of the Company's Executive Directors' remuneration package, which comprised the following elements:

- basic salary
- bonus (non-pensionable) subject to individual and company performance
- pension plan
- company car or allowance and private fuel allowance
- private health insurance and executive medical screening
- share option scheme of a parent company YTL Power International Berhad.

The table below highlights the key elements of executive remuneration and the link to Company strategy, how executive remuneration is operated in practice and the link to relevant performance metrics.

Element of Pay	Purpose and Link to Company Strategy	How Operated in Practice	Maximum Opportunity	Description of performance metrics
Base Salary	To attract and retain the high calibre Executive Directors needed to implement the Company's strategy and maintain its leading position in the industry. To provide a competitive salary relative to comparable companies in terms of size and complexity.	Reviewed annually and takes effect from 1 April. Review takes into consideration: • individual responsibilities • salary levels for similar sized roles in the national utilities market • the level of pay increases awarded across the Company • economic and market conditions • the performance of the Company Salaries are paid monthly	There is no prescribed maximum increase. However, Executive Director salary increases are aligned to the increases provided to all Company employees. Such increases are negotiated by the joint staff council involving management and trade union representatives.	n/a
Taxable Benefits	To attract and retain high calibre Executive Directors and to remain competitive in the market.	Benefits include: • Company car or allowance and private fuel allowance • Private medical insurance and executive health screening	n/a	n/a
Pension	To attract and retain high calibre Executive Directors and to remain competitive in the market.	All Executive Directors participate in the Company's defined benefit pension scheme. Executive Directors are also insured for a lump	Up to 24.6% of base salary	n/a

Element of Pay	Purpose and Link to Company Strategy	How Operated in Practice	Maximum Opportunity	Description of performance metrics
		sum of up to four times their pensionable salary on death in service.		
Annual Bonus	To motivate and reward Executive Directors for the achievement of demanding objectives and key strategic measures (including measures of customer satisfaction, service quality, environmental performance, employee alignment and financial performance) over the financial year and five-year regulatory period. The performance measures set are stretching in the context of the nature, risk and profile of the Company and have regard to historical company performance, sector comparisons and the performance commitments made in the relevant business plan. The measures and the weightings of them ensure that bonuses are substantially linked to stretching delivery for customers and the environment.	The Board of Directors sets annual performance targets for the Company prior to the commencement of each financial year. Company and individual performance against those targets are measured at the end of the financial year and the level of bonus payable is calculated at that point. Bonuses are paid in May. The committee has the discretion to, and does consider for effect of, corporate performance on environmental and governance risks when reviewing Executive Director bonuses to ensure variable remuneration incentivises and rewards appropriate behaviour. Part of the bonus may be forfeited for underperformance in respect of customer service, environmental, regulation and employee related performance targets. Annual bonus is not pensionable.	Maximum bonus opportunity is 100% of base salary.	A combination of key performance indicators relating to customer satisfaction, service quality, environmental performance, employee alignment and financial performance. The Committee has absolute discretion in making bonus payments.

A detailed explanation of each of these follows and the table below highlights some of the elements.

Component 2021-2022	Colin Skellett Group Chief Executive	Andy Pymer Executive Director of Finance and Regulation	John Thompson Executive Director of Engineering and Sustainable Delivery	Mohammed Saddiq Executive Director of Operations
Target bonus (% of salary)	50	50	50	50
Maximum bonus (% of salary)	100	100	100	100
Share options (maximum)	Approved 87,000 Unapproved 1,913,000	Approved 87,000 Unapproved 913,000	Approved 87,000 Unapproved 13,000	Approved 87,000 Unapproved 213,000
Pension arrangement	Defined benefit - Pension in payment	Defined benefit Pension deferred	Defined benefit	Defined benefit
Benefits	Car allowance £20,000, fuel £4,310, and private medical insurance £2,070 (family)	Car allowance £11,750, fuel £4,310 and private medical insurance £2,070 (family)	Car allowance £17,000, fuel £4,310, and private medical insurance £2,070 (family)	Car allowance £17,000, fuel £4,310 and private medical insurance £2,070 (family)

Base salaries and benefits

Executive Directors' remuneration is reviewed annually by the Committee and takes effect from 1 April. Salaries are set with reference to individual performance, experience, and contribution, together with development in the relevant employment market (having regard to the median position for the national utilities market) and internal relativities.

The Committee gives due consideration to the current economic climate and current market practice regarding executive salary reviews and the broader employee salary review policy at the Company.

We do not normally link pay levels to company performance measures, as this is done where appropriate through the bonus arrangements.

Executive Directors' base salary 2021-2022

The Committee reviewed 2020-2021 salaries and determined that the salary for the Chief Executive Officer and the Executive Director of Finance and Regulation would remain unchanged from 1 April 2021.

	Effective 1 April 2021	Effective 1 April 2020
Chief Executive Officer	£276,000	£276,000
Executive Director, Finance and Regulation	£222,700	£262,000
Executive Director, Engineering and Sustainable Delivery	£235,000	£215,000
Executive Director, Operations	£247,450	£245,000

The salaries for the rest of the Company increased by 1% effective 1 April 2021, which was in line with the collective agreement for 2021-2022 of 2% or CPI (whichever was the greater) unless CPI fell below 1%. As the published CPI figure for November 2021 was 0.3% a single year agreement was negotiated for a 1% pay uplift plus a one-time payment of £500 (prorated for part-time employees).

Executive Directors' bonuses – 2021-2022

The annual bonus of Executive Directors is performance-related and designed to promote the long-term success of the Company. It is dependent on the achievement of Company and individual targets.

For 2021-2022 there were 22 internal performance indicators upon which executive remuneration was based, as shown below:

Customers and communities	C-Mex / D-MeX / CRI (compliance risk index) / water supply interruptions / volume of water leaked / restrictions on water use (hosepipe bans) / customer property internal sewer flooding incidents.
Protecting and enhancing the environment	Waste water pollution incidents (cat 1- 3) / waste water treatment compliance / greenhouse gas emissions / length of river with improved water quality (WINEP) / reiver improved (non-WINEP)
Employees	H&S plan and accident statistics progress (assessed by EPVC) / employee rating company as a good employer / training plan compliance / staff retention / diversity plan progress (assessed by EVPC).
Financial	profit after corporation tax / operational costs (excluding other regulated activities) / net capex / cashflow before dividends / dividends declared.

Only if the Committee judged that three quarters or more of the customer and environmental targets had been achieved, would Executive Directors be eligible for any bonus payment. The Committee would take account of any extenuating circumstances outside the control of the Company when determining the level of bonus payments.

The size of the bonus pot was determined by Company financial performance, against targets set by the Board. This aligns with the shareholder's expectations and ensures that bonuses reflect the financial performance of the Company.

The Executive Directors Bonus structure for 2021-2022 is illustrated below:

	Weighting	Target Bonus Opportunity	Maximum Bonus Opportunity
Customers and communities	30%	15%	30%
Protecting and enhancing the environment	30%	15%	30%
Employees	20%	10%	20%
Personal objectives	20%	10%	20%
TOTAL		**50%**	**100%**

Performance Indicators

The Company had another strong regulatory year against increasingly tight targets and continues to lead the industry on customer service and recorded its best ever performance on drinking water quality, supply interruptions and leakage. Out of our 46 performance commitments we have met 28, but we missed 13 (5 are not measured this year or await regulators scoring). Some (e.g. school visits, water consumption, and help provided to customers) were affected by covid, and others by the weather e.g. external sewer flooding. We were particularly disappointed to have had a higher number of pollution incidents categorised as serious, which reduces our environmental rating to 'requires improvement'. We are committed to maintaining our strong performance record and to improving on this position next year.

In the financial year under review, 18 of our 22 internal performance indicators linked to executive remuneration were achieved or bettered. There were four failures:

Customer property internal sewer flooding incidents	Failed to meet the internal stretch target for Internal sewer flooding, predominantly due to the extreme summer storm period. However, performance remained better than the target set by Ofwat.
Staff retention	Employee retention target missed by less than 1%. Staff retention has been difficult against a strong job market and initiatives are underway to ensure we achieve higher levels of retention.
Profit after corporation tax	Affected by the UK's high inflation and the impact on the company's index linked bonds. The result being interest costs will be £8m more than target, although this is a non-cash impact.
Operational costs (excluding other regulated activities)	Additional costs resulting from new health & safety activities being undertaken following discussions with the HSE together with the expensing of Microsoft licences previously capitalised.

The Executive Director bonus payments for 2021-2022 were calculated as follows:

Actual bonus 2021-2022	Colin Skellett	Andy Pymer	John Thompson	Mohammed Saddiq
Customers and communities				
% of salary	20.1%	20.1%	20.1%	20.1%
Amount £	£55,476	£44,763	£47,235	£49,737
Protecting and enhancing the environment				
% of salary	22.3%	22.3%	22.3%	22.3%
Amount £	£61,548	£49,662	£52,405	£55,181
Employees				
% of salary	10.3%	10.3%	10.3%	10.3%
Amount £	£28,428	£22,938	£24,200	£25,439
Personal objectives				
% of salary	16.0%	16.0%	16.0%	14.0%
Amount £	£44,048	£35,637	£37,605	£34,643
Total				
% of salary	**68.7%**	**68.7%**	**68.7%**	**66.7%**
Amount £	**£189,500 ‡**	**£153,000**	**£161,445 ***	**£165,000**

‡ The Chief Executive personally declined to accept a payment above £168,000

* *The Remuneration Committee applied a discretionary increase from £161,445 to £165,000*

Pensions

Executive Directors are members of the Wessex Water defined benefit pension scheme. The scheme is a HMRC registered defined benefit occupational pension scheme. The Executive Directors are members of the WPS section, which provides:

- a normal retirement age of 65 years
- a pension at normal retirement age based on 1/60th of completed pensionable service and final pensionable salary
- life cover of four times basic salary
- a pension payable in the event of retirement on grounds of ill health
- a dependent's pension on death of two thirds of the member's pension
- guaranteed increases in line with price inflation (subject to a maximum of 5% each year).

Members' contributions are payable at the rate of 8% of basic salary, with the Company making a further 24.6% contribution. Early payment of pension is available from age 55 with the consent of the Company. Any pension would be subject to a reduction, based on rates the trustees consider appropriate, acting on actuarial advice, to reflect the expected longer payment of the pension. No additional pension will become receivable by a Director if that Director retires early.

In the event of incapacity, an unreduced pension is payable immediately. Incapacity pensions can be paid on either a 'partial' or 'full ill health' basis depending on the conditions met. A full ill health pension is topped up to give additional service to age 65, subject to a maximum of 20 years.

Under the Trust Deed and Rules, pensions in payment in excess of any guaranteed minimum pension are guaranteed to increase in line with price inflation subject to a maximum of 5% each year.

In the calculation of individual cash equivalent transfer values, allowance is made for such increases.

As a result of the changes in pension legislation for high earners, Wessex Water has introduced the following options for individuals under age 55 who are affected by the tax changes:

- continue in the scheme, with individuals meeting any tax liabilities as they fall due; or
- continue in the scheme with a capped pensionable salary which restricts pension growth to the annual allowance limit (£50,000 pa) and receive a cash supplement in lieu of pension entitlement on the excess salary. The cash supplement is based on the employer contribution rate to the scheme.

Differences between Executive Directors' and Employees' remuneration

The following differences exist between the Company's policy for the remuneration of Executive Directors and its policy for the remuneration of employees.

- Executive Directors pay and benefits are benchmarked against the median position of the National Utilities market whilst we benchmark pay and benefits for all fully qualified and experienced employees against the median position of the Willis Towers Watson Energy and National Resources remuneration survey
- a lower level of target and maximum annual bonus opportunity applies to various employees when compared to Executive Directors
- Executive Directors (and senior managers) participate in a bonus scheme that is not available to other employees to motivate and reward them for achievement of demanding financial objectives and key strategic measures.

In general, these differences arise from the development of remuneration arrangements that are market competitive for the various categories of staff ranging from employees to Executive Directors.

Executive Directors' service contracts

All Executive Directors' service contracts are terminable by either the Company or the Executive Director providing 12 months' notice. There is a theoretical maximum payment in case of redundancy of 100% of salary inclusive of allowances and benefits plus their redundancy entitlement. There are no specific contractual payments or benefits which would be triggered in the event of a change in control of the Company.

Executive Directors	Date of current agreement	Date of appointment as Executive Director	Notice Period
Colin Skellett	1 April 2014	1 September 1989	12 months
Andy Pymer	21 July 2016	1 August 2016	12 months
John Thompson	1 June 2020	1 June 2020	12 months
Mohammed Saddiq	1 June 2020	1 June 2020	12 months

Executive Directors' service contracts are available for inspection during normal office hours at the registered office, Wessex Water, Claverton Down Road, Bath BA2 7WW. The Committee will continue to review the contractual terms for Executive Directors to ensure they reflect best practice and are compliant with employment law.

Non-Executive Directors

The remuneration policy for Independent Non-Executive Directors is determined by the Board. The remuneration reflects the time commitment and responsibilities of the role.

The breakdown of the Independent Non-Executive Directors' fees from 1 April 2021 is shown in the Directors' Emoluments table below. Independent Non-Executive Directors do not participate in share or bonus schemes or any other performance-related scheme, nor is any pension provision made.

Independent Non-Executive Directors are normally appointed for three-year terms (subject to statutory provisions relating to the removal of a Director) that may be renewed. They do not have service contracts, but their terms of engagement are regulated by letters of appointment (copies of which are available on the Company's website). Any term beyond six years for an Independent Non-Executive Director is subject to particularly rigorous review and takes into account the need for progressive refreshing of the Board balanced against the requirement for skills, experience, independence, and knowledge.

Non-Executive Directors appointed by the shareholder do not receive any fees or other payments from the Company.

Directors' Emoluments

The table below shows the emoluments for the current and preceding year.

	Salary/Fees		Benefits		Bonus		LTIP		Pension		Total	
	2021/ 2022 £k	2020/ 2021 £k	2021/ 2022 £k	2020/ 2021 £k	2021/ 2022 £k	2020/ 2021 £k	2021/ 2022 £k	2020/ 2021 £k	2021/ 2022 £k	2020/ 2021 £k	2021/ 2022 £k	2020/ 2021 £k
Colin Skellett	280	276	21	20	168	224	-	-	-	-	**469**	**520**
Andy Pymer	225	249	15	18	153	149	-	-	55	56	**448**	**472**
John Thompson	241	220	24	18	165	120	-	-	61	60	**491**	**418**
Mohammed Saddiq	251	246	12	12	165	200	-	-	57	51	**485**	**509**
Gillian Camm	-	25	-	-	-	-	-	-	-	-	**-**	**25**
David Barclay	-	-	-	-	-	-	-	-	-	-	**-**	**-**
Huw Davies	38	84	-	-	-	-	-	-	-	-	**38**	**84**
Jim McKenna	92	80	-	-	-	-	-	-	-	-	**92**	**80**
Kate Mingay	92	82	-	-	-	-	-	-	-	-	**92**	**82**
Kevin Wall	77	33	-	-	-	-	-	-	-	-	**77**	**33**
Tim Gardam	77	70	-	-	-	-	-	-	-	-	**77**	**70**
Fiona Reynolds	82	75	-	-	-	-	-	-	-	-	**82**	**75**
	1,455	**1,440**	**72**	**68**	**651**	**693**	**-**	**-**	**173**	**167**	**2,351**	**2,368**

Notes to table:

1. Bonus awards for the performance year 2020-2021 were voluntarily forfeit by the executive directors. Bonus figures shown for 2020-2021 represent deferred bonus awards for the performance year 2019-2020.
2. No emoluments earned by Francis Yeoh, Hann Yeoh, Hong Yeoh, Mark Yeoh or Kathleen Chew
3. Benefits comprise private medical insurance, company car or allowance and fuel benefits
4. Three Directors received emoluments for services to other Group Companies: Colin Skellett £513k, David Barclay £113k and Andy Pymer £79k. The Audit Committee was satisfied that services provided to other Group Companies do not reduce the effectiveness of the Directors' provision of services to the Company.
5. The Non-Executive Directors requested a 20% reduction in their fees between May and October 2020
6. Gillian Camm stepped down from the Board on 31 October 2020
7. Huw Davies stepped down from the Board on 30 September 2021
8. Tim Gardam was appointed to the Board on 27 January 2020
9. John Thompson and Mohammed Saddiq were appointed to the Board on 1 June 2020.
10. Kevin Wall was appointed to the Board on 25 January 2021.

Chairman

No remuneration was paid to the Chairman during 2021-2022 (2020-2021 – £nil).

Chief Executive

The total remuneration for the Chief Executive (Colin Skellett) was:
(information in the table below is subject to audit)

	Remuneration 2021-2022 £000	Remuneration 2020-2021 £000	% change
WWSL			
Salary	280	276	+1.4%
Bonus	168	224*	-25.0%
LTIP	-	-	-
Benefits	21	20	+5.0%-
Other group companies			
Salary	186	184	+1.1%
Bonus	312	320*	-2.5%
LTIP	-	-	-
Benefits	15	14	+7.1%
Total	**982**	**1,038**	**-5.4%**
All employees WWSL			
Wages and salaries	103,800	102,900	+0.9%
Social security costs	13,200	11,200	+17.9%
Other pension costs	16,800	16,400	+2.4%
Total	**133,800**	**130,500**	**+2.5%**

**2020/21 bonus payments represent deferred bonus awards for 2019/20 which were paid in October 2020. Bonus awards for 2020-2021 were voluntarily forfeit.*

The pay increase awarded to the employees of the Company on 1 April 2021, for the year 2021-2022, was a 1% increase over the preceding year. In addition, employees received a one-off payment of £500 (pro-rated for part-time employees).

Relative importance of spend on pay

Note 6 to the accounts shows the total employment costs of the Company, and the movement between 2021-2022 and 2020-2021.

	2021-2022 £m	2020-2021 £m	Movement £m	Movement %
Wages and salaries	103.8	102.9	+0.9	+0.9%
Social security costs	13.2	11.2	+2.0	+17.9%
Other pension costs	16.8	16.4	+0.4	+2.4%
Total employment costs	**133.8**	**130.5**	**+3.3**	**+2.5%**

The relative importance of total employment costs can be shown as:

Percentage of	2021-2022 %	2020-2021 %	Source
Turnover	25.8%	25.2%	Income statement
Profit before tax *	247.8%	170.6%	Income statement
Profit after tax *	310.4%	378.3%	Income statement
Dividends	195.6%	221.2%	Note 10
Capital expenditure	56.5%	51.0%	Cash flow statement

Pay ratios table

Year	Method	25th percentile pay ratio (P25)	50th percentile pay ratio (P50)	75th percentage pay ratio (P75)
2021-2022	A	17:1	14:1	11:1
2020-2021	A	17:1	13:1	10:1
2019-2020	A	18:1	15:1	12:1

Notes:

1. The Company chose Option A as the preferred method of calculating the pay ratio for the financial year under review. The individual pay and benefits for every employee of the company were determined (for the financial year being reported on the Director's Remuneration Report).

2. The pay and benefits were ranked from lowest to highest, and the employees at the 25th, 50th and 75th percentiles were identified.

3. The pay ratios were calculated by dividing the CEO's single table of remuneration with the employee pay and benefits at each of those percentile points. The pay ratio was calculated for all employees as at April 2022.

4. Full-time equivalent (FTE) remuneration was determined by assuming that all full-time employees are engaged on a 40 hour per week contract. Remuneration for all part-time employees was re-calculated to a 40 hour per week, full time equivalent.

Executive Directors' Defined Benefit Pension Provision

(Information in the table below is subject to audit)

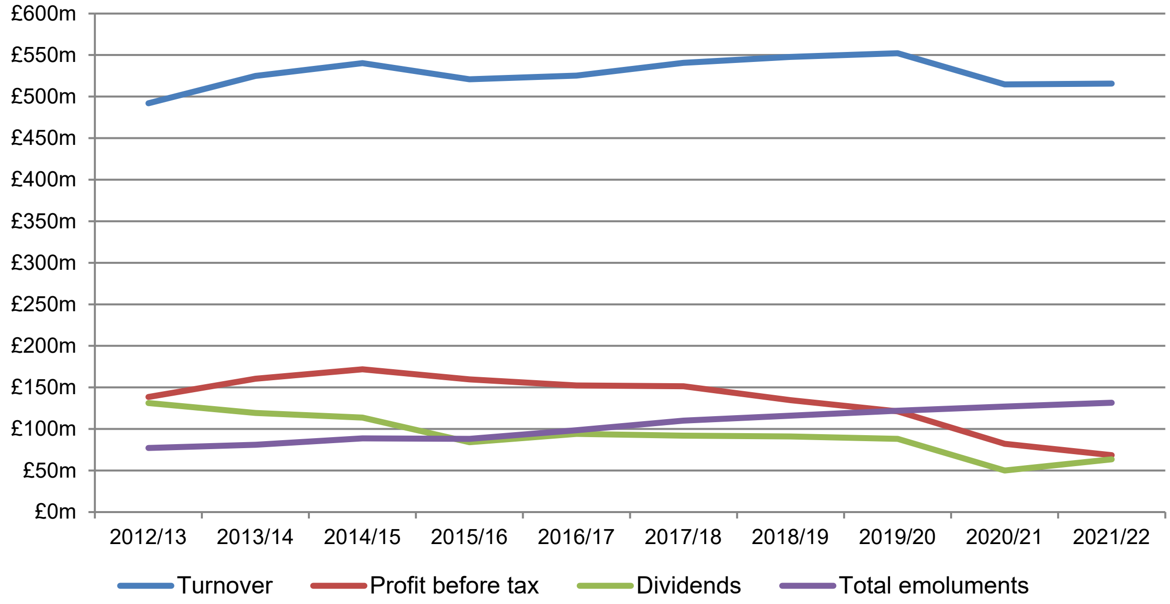
	Pension service completed in years (1)	Normal retirement date at 65	Accrued pension at 30/06/2021 £pa	Increase in accrued pension during the year £pa	Accrued pension at 30/06/2022 £pa
Colin Skellett (2)	41	13/06/2010	193,830	9,587	203,417
Andy Pymer (3)	23	18/08/2033	70,173	3,507	73,680
Mohammed Saddiq (3)	20	20/06/2035	65,545	2,223	67,768
John Thompson (4)	17	17/10/2034	33,562	1,929	35,491

Notes:

(1) Includes transfers in and bonus years
(2) Pension is currently in payment
(3) Deferred pension
(4) Active members

Remuneration link to financial performance

The table below compares the movement over 10 years in total emoluments of the Company with the movement in the key financial performance measures of turnover, profit after tax and dividends.



Dividends are as declared in the year. Total emoluments include Directors' emoluments.

Executive Directors' share interests

Share options

YTL Power International Berhad (a parent company and itself a subsidiary of YTL Corporation Berhad) operates a share option scheme under which options are granted to employees of the Company. The terms of the scheme are specified under the YTL Power ESOS (2011 UK part) known as the '2011 UK Plan'.

The majority of options are issued under terms approved by HMRC (the 'Approved' scheme), but some are issued to senior employees under an 'Unapproved' scheme. The options are for ordinary shares in YTL Power International Berhad of Malaysian Ringgit RM0.50 each.

The Executive Directors have been granted ordinary share options of Malaysian Ringgit RM0.50 each in YTL Power International Berhad under the 2011 UK Plan. The exercise of share options granted is not subject to any performance criteria, other than continued employment within the group.

All share options lapsed on 31 March 2021.

Shares held

There are no shares held by the Directors in the Company or the UK parent company.

The Executive Directors held the following ordinary shares of Malaysian Ringgit RM0.50 each in YTL Power International Berhad (a parent company), at the start and end of the accounting period.

(Information in the table below is subject to audit)

	Opening number 30/06/2021	Closing number 30/06/2022
Andy Pymer	58,321	58,321
John Thompson	-	-
Mohammed Saddiq	-	-

The share price at 30 June 2022 was RM0.685 or £0.13.

Remuneration Arrangements for Executive Directors 2022-2023

Base Salary 2022-2023

At the meeting in March 2022 the Committee set the base salaries for each Executive Director effective 1 April 2022 as shown below.

	Effective 1 April 2022	Effective 1 April 2021	% change
Chief Executive Officer	£290,100	£276,000	5.1%
Executive Director, Finance & Regulation	£233,750	£222,700	5.0%
Executive Director, Engineering & Sustainable Delivery	£260,000	£235,000	10.6%
Executive Director, Operations	£260,000	£247,450	5.1%

Where a salary increase has been approved it includes a 5.1% inflationary increase which mirrors the increase awarded to employees on 1 April 2022 in accordance with the final year of a three-year pay deal agreed with the recognised Trade Unions and also awarded to those employees not covered by trade union agreements.

Bonus scheme 2022-2023

For 2022-2023 there are 20 internal performance indicators, as shown below:

Serving people and places	C-Mex / D-MeX / Water quality CRI (compliance risk index) / water supply interruptions / storm overflow and FFT progress against plan / internal sewer flooding incidents
Enhancing the environment	Leakage / pollution incidents (waste water cat 1- 3) / treatment works compliance / greenhouse gas emissions / river with improved water quality / compliance with abstraction licences
Empowering our people	H&S plan progress / employee rating company as a good employer / training plan compliance / diversity plan progress
Financial measures	operational costs / net capex / gearing / return on regulated equity

At the end of the financial year, the Committee will review company and individual performance, taking into account performance against the measures.

Only if the Committee judges that three quarters or more of the customer and environmental targets have been achieved, will Executive Directors be eligible for any bonus payment. The Committee would take account of any extenuating circumstances outside the control of the Company when determining the level of bonus payments.

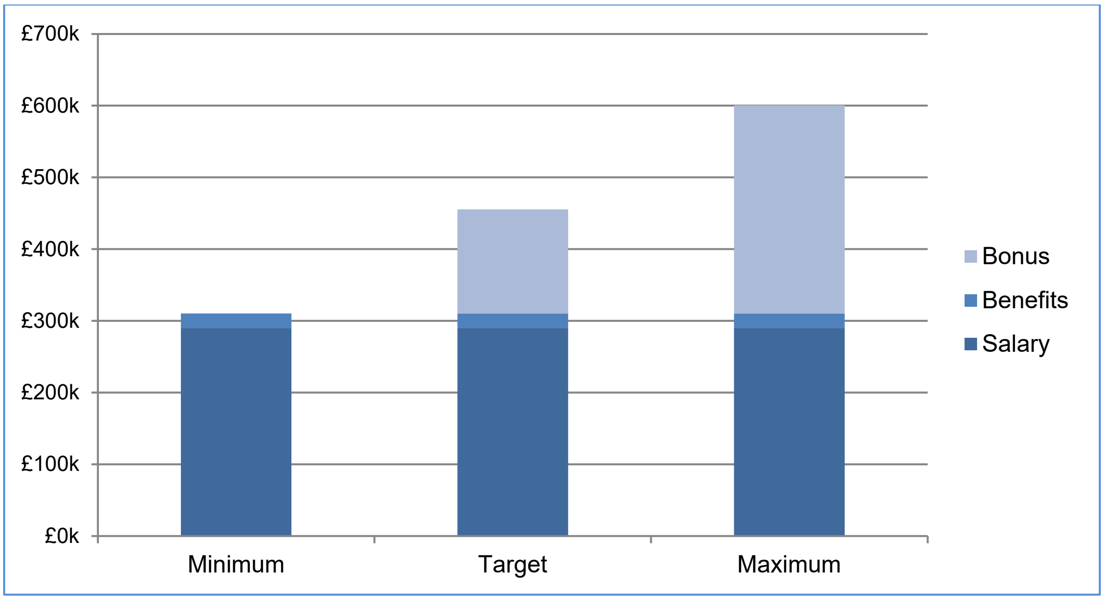
The size of the bonus pot is determined by Company financial performance, against targets set by the Board. This aligns with the shareholder's expectations and means that bonuses will reflect the financial performance of the Company.

The Executive Directors Bonus structure for 2022-2023 is illustrated below:

	Weighting	Target Bonus Opportunity	Maximum Bonus Opportunity
Serving people and places	33⅓% / 37½%	16⅔% / 18¾%	33⅓% / 37½%
Enhancing the environment	33⅓% / 37½%	16⅔% / 18¾%	33⅓% / 37½%
Empowering our people	33⅓% / 25%	16⅔% / 12½%	33⅓% / 25%
TOTAL		**50%**	**100%**

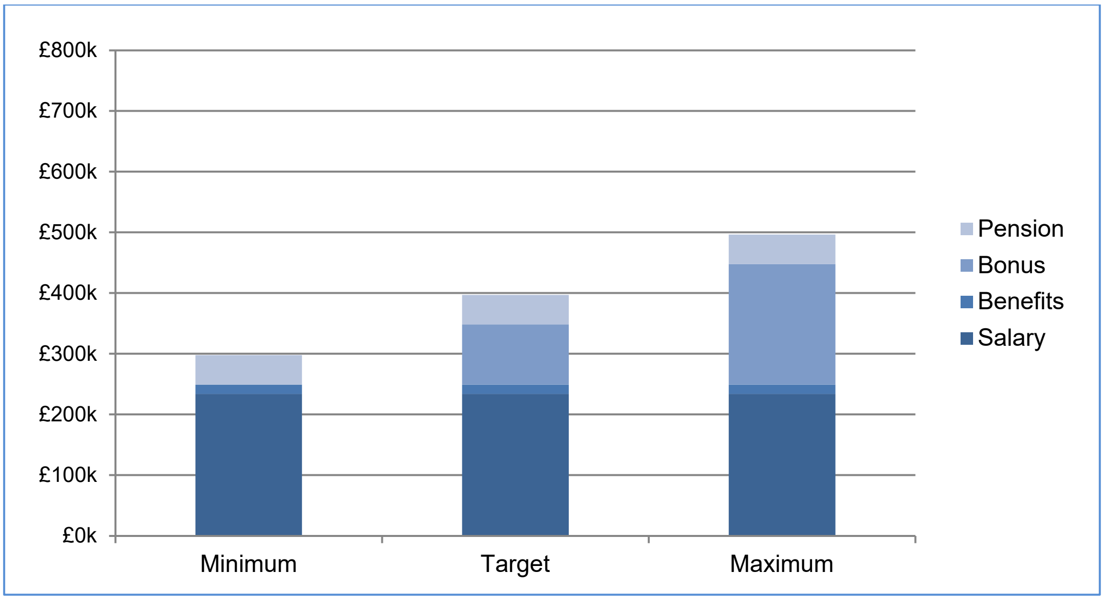
Illustrations of Remuneration Policy

A) Colin Skellett – Chief Executive
(Using estimated 2022-2023 data)



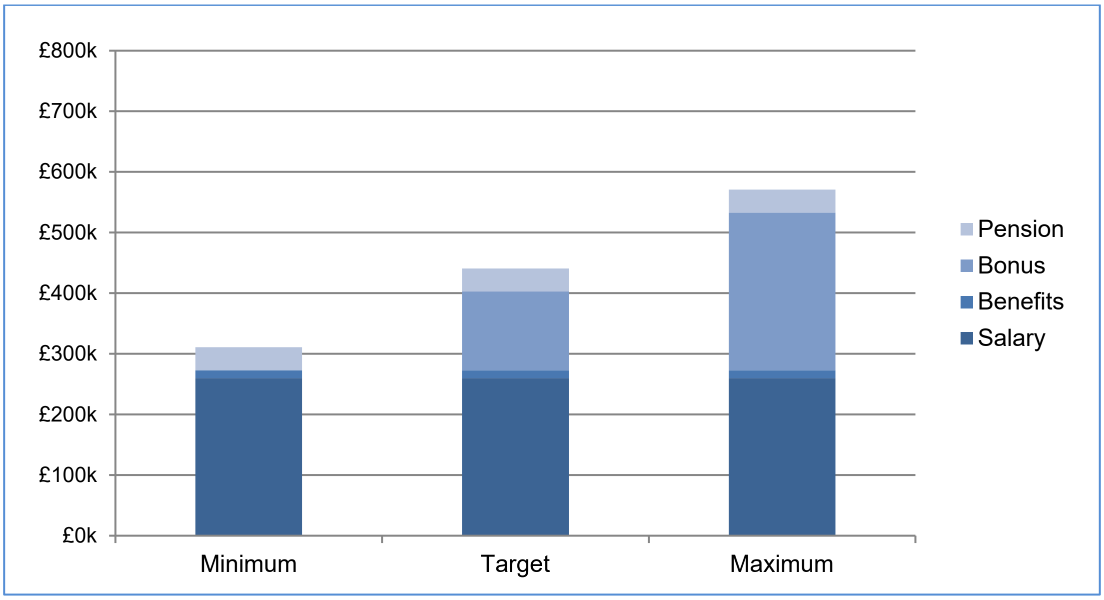
Minimum assumes no bonus earned, target assumes 50% bonus earned and maximum assumes 100% bonus earned. No employer pension contributions.

B) Andy Pymer – Executive Director, Finance & Regulation
(Using estimated 2022-2023 data)



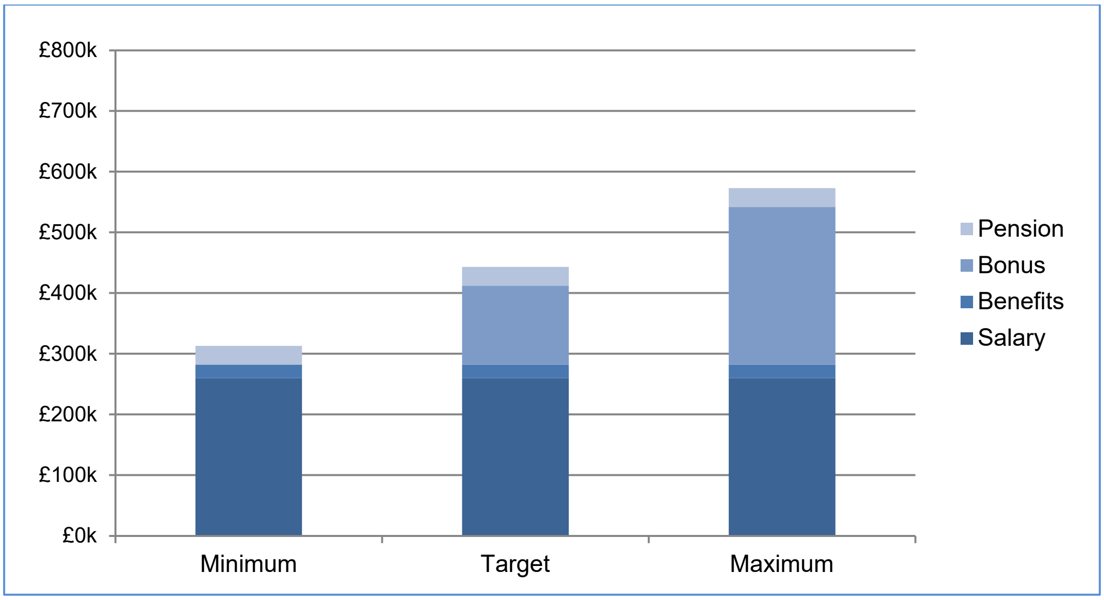
Minimum assumes no bonus earned, target assumes 50% bonus earned and maximum assumes 100% bonus earned.

C) Mohammed Saddiq - Executive Director, Operations
(Using estimated 2022-2023 data)



Minimum assumes no bonus earned, target assumes 50% bonus earned and maximum assumes 100% bonus earned.

D) John Thompson – Executive Director, Engineering & Sustainable Delivery
(Using estimated 2022-2023 data)



Minimum assumes no bonus earned, target assumes 50% bonus earned and maximum assumes 100% bonus earned.

Strategic Report

Introduction

We support all aspects of life in our region. Safe and reliable water and waste water services are essential for our day-to-day lives, our wellbeing and our natural world. Our long-term strategy is owned by our Board and has been developed in partnership with more than 1,600 customers, businesses, employees and stakeholders.

Wessex Water has strong foundations, grounded in its record for operational, customer, financial and environmental performance. But in light of the challenges ahead, they are not sufficient. We recognise we must earn the right to be considered by a public, sceptical of the industry as a whole, as a leader in environmental stewardship as well as customer service and efficiency through delivery of our strategic vision for 2050.

The eight outcomes below have been co-created with our stakeholders and customers. These outcomes and aims are highly ambitious and will see us transition from being a pacesetter in water to performing a far wider role in society, including as a leader in environmental stewardship.

But our vision is credible: we have a track record of customer service and environmental excellence; and we are committed to embedding these targets into all our business plans.

At the heart of our Strategic Direction Statement (SDS), published in early 2022, are eight outcomes, all created with stakeholders, all focused on long-term ambition. They cover customer, community and environmental outcomes and are shown in the top half of the wheel below that summarises our 25-year plan. We will need to work in partnership with our communities to deliver these aims and we will need to embed resilience along the way.

We have also identified some internal enablers that we will need to secure to effectively deliver our eight outcomes, centred around strong financing and governance, and empowered people. These are shown in the bottom half of the wheel.

Wessex Water has always been a water industry leader, as well as a responsible business firmly rooted in our region. We are pleased, therefore, that we have performed well against many of our targets this year, but we know that we must do more, particularly with the growing interest in water-based recreation. The investment and performance that we have delivered in the past 12 months demonstrates that we take our responsibilities seriously.

Investigations into the tragic incident at Avonmouth in December 2020 are ongoing. We continue to co-operate with the investigating authorities and remain committed to understanding why the incident happened and sharing any lessons with the wider industry.

Setting the company's aspirations and performance for those it serves

Setting our aspirations

Our purpose is set, owned and embedded by our Board, who have worked with all our stakeholders including colleagues from all levels and all departments to form a set of commitments to which we can all aspire.

To deliver against these commitments, we need our people to understand our aims and live our values every day. We do this through visible messaging, training, policies, and regular reviews to ensure that everyone feels our strength of purpose and that our strategy, values, and culture reflect the needs of all those we serve.

As the ultimate owner of our purpose, our Board is committed to considering all stakeholders in its decision making with the aim of ensuring the long-term success of the company, including its delivery for customers, communities, employees, regulators, investors and our supply chain.

The Board also recognises that the Company has a critical role to play that goes far beyond the responsibility of providing an essential public service. We have an opportunity to help tackle the climate emergency, to support the communities we serve, to deliver wider environmental benefit and to contribute to the growth of the UK economy.

The Board considers that the Company's success in delivering long-term benefit to its members is best achieved by aspiring to:

- deliver the excellent and resilient services for customers and the environment that our stakeholders require
- at a price that is affordable to all our customers, and
- by contributing more widely to the communities we serve.

Therefore, throughout the development of the current business plan, the Company engaged with more than 140,000 customers to understand the things that matter most to them. We also spoke to all our major stakeholders representing areas including customers in vulnerable circumstances, local rivers, and wildlife.

On an ongoing basis the Company engages regularly with stakeholders including through the Customer Challenge Group, the People's Council, the online customer panel, the Young People's Panel, and frequent customer surveys and consultations.

The Board translates its aspirations into a set of stretching targets for the company's performance having regard to:

- The commitments made to customers, Ofwat and the environment in the published business plan
- Insight from ongoing stakeholder engagement
- The levels of performance for customers and the environment achieved in previous years
- Relevant regulatory determinations
- The best performance levels achieved by other water and sewerage companies
- The interests of employees
- Wider societal and economic trends and challenges
- The requirements of investors

Performance delivery

For 2021-2022, customer and environmental targets were set to:

- regain the company's overall leading position amongst water and sewerage companies on key regulatory measures (Ofwat, Environment Agency, Drinking Water Inspectorate and Consumer Council for Water)
- achieve the key commitments we make in our 2020-2025 business plan
- ensure there is no reduction in standards against our average performance over the last three years on key measures of performance

Employee targets for the year were set to ensure continued high levels of employee safety and satisfaction and to promote continued progress in wellbeing, diversity, and inclusion.

Financial targets were set to promote continued long-term financial resilience and, in line with the company's aims, to give investors fair returns.

Company targets are agreed by the Board in advance of the reporting year and are used for the remuneration of senior executives and managers in the business as set out in the Remuneration Committee report.

The Board reviews progress against these targets at each Board meeting and challenges company management on delivery.

The Board also monitors long-term trends in performance against several sustainability metrics and uses these to assess whether the company's progress overall is in line with its vision and its social and public purpose.

Our performance in 2021-22

The Company has performed well against most of its performance targets and continues to be the overall leading water and sewerage service: first for customer service, first for environmental performance, first for efficiency and first for drinking water compliance.

But we must do more. The year has been characterised by a surge of comment on the poor state of water quality in UK rivers and, in particular, the contribution from water company storm overflow discharges. Overflows were built into sewer networks constructed prior to the 1960s to prevent property flooding during heavy rain. Whilst their impact on river water quality is very limited, we share the view that in the 21st century, any such discharge into a watercourse is unacceptable. So, whilst this has been uncomfortable, we welcome the spotlight now being thrown on river water quality and will rise to the challenge of making changes that meet society's expectations.

We will progressively eliminate storm overflows, starting with those that discharge most frequently and those that have any environmental impact. Eight of the 444 rivers, lakes and seas in our region currently fall short of the standards required, due to the operation of storm overflows and we are currently investing more than £3 million every month to address this. Nature-based solutions and separating surface water before it enters the sewerage network must be our first choice, given the cost, carbon footprint and disruption associated with engineering solutions.

We need government support for this in the form of powers for water companies to stop new developments being connected to combined sewers and for us to disconnect surface water where possible. In addition, government ministers are being urged to ban wet wipes that contain plastic and lead to sewer blockages.

More generally, we are committed to improving the environmental status of all rivers within our region in line with the Government's 25 Year Environment Plan and the Environment Act. We will also support others to reduce the impacts they have, by acting as a convener and leader of catchment partnerships and markets, helping different parties to work together to greatest effect.

We have been assessed as:

- one of the top water and sewerage companies for customer service in Ofwat's customer measure of experience
- the leading water and sewerage company for the DWI's key quality measure (CRI).
- the water and sewerage company with the lowest number of complaints during the year, according to CCW.

In 2020 we accepted a regulatory price determination from Ofwat (PR19) which included a number of performance commitments for 2021-22 as part of the regulator's incentive package. Our acceptance of a price determination is always in the round and recognises that there are trade-offs in the regulator's incentive framework.

Whilst there are 46 performance commitments agreed with Ofwat, the Board considers the 20 highest profile commitments on a more regular basis. The table below shows how the company performed against the Board's internal key performance targets in 2021-22.

Performance against target	Customer	Environment	Employee	Financial	Total
Better	4	6	4	2	16
Same	1	-	-	1	2
Worse	1	-	1	-	2
Same or Better	**5/6**	**6/6**	**4/5**	**3/3**	**18/20**

In the financial year under review, 18 of the 20 highest profile internal commitments were achieved or bettered. The two measures where performance was below our internal target were Customer property internal sewer flooding incidents, and staff retention.

In comparison to our PR19 regulatory Ofwat commitments, we have met or exceeded 28 of our 46 commitments for the year. 5 are not measured this year or we await the regulators' scoring. We failed to meet 13, 2 of which were in a performance deadband set by Ofwat and so incur no penalty. We exceeded our regulatory commitment against those which are of most importance to stakeholders, such as minimising internal sewer flooding, leakage, and water supply interruptions, for which we have achieved provisional incentive payments.

Where we have not met a regulatory performance commitment, we have provided stakeholders with an explanation of the reasons and the actions we are taking to improve performance in future years as part of our annual review summary.

Our current performance is available on our website here, and we talk in detail about our future performance here.

Acting to promote the success of the company (s.172 (1) statement)

Section 172 of the Companies Act 2006 requires a director of a company to act in good faith, as he or she considers will most likely promote the long-term success of the company for the benefit of all stakeholders as a whole.

This section sets out how the Board has had regard to the matters set out in s.172(1) (a) to (f) in particular:

- the likely consequence of any decision in the long term;
- the interests of the company's employees;
- the need to foster the company's business relationships with suppliers, customers and others;
- the impact of the company's operations on the community and the environment;
- the desirability of the company maintaining a reputation for high standards of business conduct; and

- the need to act fairly as between members of the company.

Our Governance Report (pages 8 to 27) outlines how the Board operates and describes how the Board has:

- established the Company’s purpose, strategy and values, and is satisfied that these and our culture reflects the needs of all those it serves
- taken full responsibility for all aspects of the Company’s business for the long term
- demonstrated leadership and an approach to transparency and governance with trust and accountability at its heart
- ensured the skills, experience, and composition of the Board and its overall effectiveness meets the Company’s future requirements.

In discharging our section 172 duty, our directors, individually and collectively as the Board, act as they consider will best promote the success of the Company, for the benefit of all our stakeholders. As part of this duty, our directors have regard for likely long-term consequences of decisions and the reputation of the business demonstrated through high standards of business conduct.

Our s172 duties have regard to our employees and to all our external stakeholders.

- Employees – The Board regards the company employees as critical to delivering the vision, values and outcomes needed to meet our wider stakeholder expectations. The Board has established a number of channels to allow employees to be heard whether to raise concerns, make improvement suggestions or simply to appreciate how we work with them. The People’s Council is a forum attended by representatives across the whole business and allows any employee to raise agenda items for discussion through their representative. The Council is attended by Board Executive Directors and meets twice a year. In addition, the Company undertakes an annual anonymous employee survey, the actions and progress towards meeting them debated within the Board. The Company also has Employee roadshows, lunch and learn sessions and an ‘Ask the CEO’ on a regular basis to improve learning, appreciation of other departments and to share the messages from the Board. The Board actively supports employees though mental health awareness, disability awareness, and developing and supporting young people through their careers.
- External Stakeholders – Our directors have close regard to our business relationships with our wider stakeholders; our social purpose, sustainability, the natural environment and the impact of our operations on the environment and the communities we serve; as well as the need to act fairly to balance all stakeholder needs. Consideration of these factors and other relevant matters is embedded into all Board decision-making, strategy development and risk assessment throughout the year.

Our key stakeholders and how we engage with them are set out in the table on the next page.

Stakeholder group	What matters to our stakeholders?	Metrics	Company engagement	Board level engagement and Impact
Customers We serve 2.8 million customers across the south-west of England. Our aim is to be an exemplar water and sewerage company providing reliable and affordable services for all customers and communities. Our customers include: • Residential • Non-household/business • Developers, • Minority and underrepresented groups • Those in vulnerable circumstances • Retailers and bulk supply customers • Future customers and generations, including children and students	Our customers want safe and reliable water supplies, an effective sewerage system that does not pollute our environment, a great customer experience but delivered with affordable bills and the peace of mind that they are supported in times of need. Our customers' priority is increasing for long-term investment to enhance or protect the environment and biodiversity, with many of our future customers using river and bathing water more frequently.	• Customer Experience Score 84.82 • Developer Experience Score 89.65 • Retailer Experience Score 73.8% • EA Environmental Performance Assessment 2 star Requires improvement • DWI Compliance Risk Index Score 0.37 • Water Supply interruption 4 mins 12 secs per property within our region • Internal sewer flooding (per 10k properties) 1.43 • Priority services 4.0% on register • Risk of severe restrictions in a drought 0% • Unplanned outage 1.59% • Pollution incidents (per 10,000kms of sewer) 20.6 • Mains repairs (per 1000km of mains) 147.1 • Sewer collapses (per 1000km of sewer) 5.91 • Trustpilot rating 5 star	• Customer Challenge Group • Qualitative engagement with household customers, stakeholders, businesses including in-depth workshops and inter-generational focus groups to identify the highest priorities • Customer feedback surveys and continuous engagement reviews • Customer contacts • Market research • Feedback routes through customer magazine • Website, including livechat and e-billing with over 139k signed up • Developer consultations • Young People's Panel • Working with schools and students • Money Matters Projects • NHS Key Worker Subsidy during the pandemic • Working with partners in catchments to protect and enhance raw water quality • Engaging with customers to remove lead pipes and issues that may affect public health • Work with customers to prevent items such as fat, oil and wet wipes being disposed down toilets and sinks. • Personalised support packages tailored to meet individual financial circumstances	• Willingness to pay research • Every Customer Matters Strategy • Customer image tracking surveys and customer experience research • Performance metrics • Operational Resilience • Young People's Panel • Catchment Panel • Environment and Public Value Committee and our Social Purpose • Working with stakeholders and customers to develop our 25-year drainage and waste water management plan **Feedback from our customers and their representatives informs our strategy, values, priorities including (but not limited to) our business planning priorities, charges, and pricing strategy.**

Stakeholder group	What matters to our stakeholders?	Metrics	Company engagement	Board level engagement and Impact
			• Provide water and energy efficiency advise to help reduce usage and lower customer bills. • Engaged with over 1,600 customers in developing our strategic direction statement.	
Customer representatives We value the opinions of all our customers and their representatives. We work with over 200 organisations (through our Partner Hub) that help us support individuals and communities across our region. Our customers representatives include: • Organisations representing customer groups such as (but not limited to) • Citizens Advice • Step Change • Consumer Council for Water (CCW) • Bristol Age UK • Debt Advice Agencies • Alzheimer's Society • Mind • Schools and Colleges	Our customer representatives want to ensure that we value all customers and engage fully with them to understand their requirements, needs and concerns. Our customer representatives want to provide unrestricted challenge to us for the betterment of all customers. One of our long-term outcomes is affordable bills, targeting water poverty and ensuring that our households spend no more than 5% of their disposable income on water.	As Above	• Partner Hub • Customer Challenge Group • Qualitative engagement with household customers, stakeholders, businesses including in-depth workshops and inter-generational focus groups to identify the highest priorities • Customer feedback surveys and continuous engagement reviews • Market research • Website, including Livechat • Developer consultations • Young People's Panel • Working with schools and students • Money Matters Projects • NHS Key Worker Subsidy during the pandemic • Tailored Assistance Programme • Online partner hub and roadshows • CCW public meetings • Working with partners in catchments to protect and enhance raw water quality	• Customer Challenge Group • CCW public meetings Willingness to pay research • Every Customer Matters Strategy • Performance metrics • Operational Resilience • Young People's Panel • Catchment Panel • Environment and Public Value Committee and our Social Purpose • Launch of our "Foundation" dedicated to community projects across our region. We have distributed grants to over 140 projects to help homelessness, hunger and mental health. **Feedback from our customers and their representatives informs our strategy, values, priorities including (but not limited to) our business planning priorities, charges, and pricing strategy.**

Stakeholder group	What matters to our stakeholders?	Metrics	Company engagement	Board level engagement and Impact
• Charities and third sector organisations • Farmer and landowner groups			• Work with CCW and the industry to implement plans for a single national social tariff	
Our people Our people are the embodiment of our culture and allow us to provide excellent service to our customers. Our people are also our customers. We aim to empower our staff with the skills, knowledge and opportunities within a diverse and inclusive culture. Safety of our staff is paramount. Our employee group includes: • Employees • Retired Pension scheme members and their families • Future Employees • Unions • Contractors.	Our people strive for excellence in their work and want to be developed to their full potential, working in a fully inclusive workplace, be given opportunities to shine and be rewarded fairly for the work they do. They want to be valued and their health and wellbeing kept safe from harm.	Amongst all H&S KPIS - Lost time incident per 1000 staff rate from health and safety incidents 14.95 President's award from RoSPA Gender Diversity Male:Female 78:22 Mean gender pay gap 2.65% Delivery of training 1158 face to face training courses and 8642 e-learning courses delivered Training plan delivery 100% Staff survey – good company to work for 90% Staff retention 88.9%	• IOSH training for all senior leaders • Employee survey • 'Ask the CEO' • Employee roadshows • Lunch and Learn talks • Mental Health First Aiders • ARC Alliance • Working Families Group • Armed Forces Covenant • Autism at Work Programme • Disability Confident Employer (Level 2) • Bristol Future Talent Partnership • Dedicated Early Careers Team • People's council	• People's council • Employee survey • Ask the 'CEO' • Employee Roadshows • Pension Trustee Board • Employee committee • Health, safety and welfare committee **We listen and act on our employees' opinions to provide our people with satisfying careers.**
Our supply chain Excellent relationships with our suppliers are key to delivering excellent services to our customer and nurturing business and innovation within our communities. We aim to use	Our suppliers want us to provide them with fair, open and competitive opportunities regardless of their size, so that both ourselves and they can grow and excel. Our suppliers want fair payment terms and assistance during times of	Number of suppliers 1,836 Average creditor days 20 Total Supplier Payments made during the year £377m Adherence to Utilities Contracts Regulations, with	• Wessex Water marketplace • Membership of British Water • Pipeline Industries Guild • CBI • EnTrade liaison with the market	• Wessex Water marketplace • Membership of British Water • Pipeline Industries Guild • CBI **Our suppliers have provided us with innovative and new ways of working**

Stakeholder group	What matters to our stakeholders?	Metrics	Company engagement	Board level engagement and Impact
markets to identify efficiencies to achieve the best possible outcomes for the best possible price. Our supply chain includes: • Contractors • Consultants • Suppliers • Other Group Companies	economic hardship, so that they can support us in delivering critical services to our customers.	current supplier challenges upheld being 0		**to deliver more services for less. We listen and nurture our supply base ensuring that they have been supported during Covid-19.**
Our investors Our investors provide the financial support to enable us to deliver our strategy and live our values. Our investors include: • Banks and financial institutions • Bond holders • Shareholder.	Our investors want to support a company that provides reputational and financial benefits to them. They want long-term performance that is supported by sound strategy, planning, governance, risk management and sustainability.	Regulatory gearing 66.9% Profit before tax £54.0m Investment credit grade BBB-	• Ratings agencies • Annual Report	• Sustainable Financing Policy • Ratings agencies • Annual Report • Dividends **Our investors provide our financial resilience**
Government and regulators Our regulators provide the oversight to allow us to contribute to the UK as a nation, to support our environment, our public health standards and our economic infrastructure. We aim to be an exemplar to the industry trusted to leave the environment in a better condition for future generations, whilst acutely aware of the financial pressures on our	Our regulators and government want the best outcomes for our customers, the environment and resilience. They want us and the water industry to be responsible, trustworthy and transparent in all our activities.	All performance commitments (see our annual review). Between 2015-2020 we have… Treated and supplied 280 million litres of water daily Renewed over 7,300 miles of water mains Spent £80m tackling leakage	• Performance and risk reporting • Strategic Direction Statement • Price review methodology • Charging • Annual Review, Annual Performance Report and interim accounts • Health liaison panel	• Board meetings and committees • Pre-appointment non-executive director interviews • Business planning and target setting • Outcome Based Environmental Regulation Approach • Health and safety strategy • Environment and Public Value Committee

Stakeholder group	What matters to our stakeholders?	Metrics	Company engagement	Board level engagement and Impact
customers. Our key government and regulator groups are: • government departments • MPs • local councillors • Ofwat • Environment Agency • Natural England • DWI • Health & Safety Executive • Pensions regulator • Market Operator Services Ltd (MOSL).		Treated 480 million litres of sewage a day Spent £732m on protecting rivers, lakes and estuaries. Spent £155m improving water quality Spent over £330m on upgrading storm overflows.	• Working with local authorities to understand growth strategies and to co-ordinate investment and deliver partnership projects • Chalk streams support projects, county wildlife Trusts, Natural England and local rivers and fishery trusts to develop our water resources management plan • Environment land management auction scheme	• Working with the Environment Agency to continue review of sustainable levels of abstraction • Working with neighbouring water companies to deliver shared solutions • Working with Defra and the Environment Agency over a four-year period with 17 landowners to reduce nitrogen and carbon **Our regulators inform our strategy, our business plans, our processes. They provide valuable input into everything we do.**
Environmental NGOs We take our role as a custodian of our local environment seriously and with that the opinions of our environmental colleagues. Our ambition is to perform a wider role in society as a trusted company that takes care of the natural world and sets the benchmark for environmental performance, addressing climate, carbon neutrality and nature emergencies across the industry to meet the rising expectations of the environment and long-term resilience. Our environmental	Our environmental colleagues want us to value, protect, preserve and enhance our local environment, and contribute to wider environmental improvement.	• EA Environmental Performance Assessment 2 Star Requires improvement • Compliance with abstraction licences • Pollution incidents (per 10,000kms of sewer) 20.6 • Water Recycling Centre compliance • Bathing water compliance • Watercourses in good ecological condition • Sites of Special Scientific Interest in Good or	• Catchment Panel • Wessex Water Foundation • Liaison groups • Chalk streams support projects, county wildlife Trusts, Natural England and local rivers and fishery trusts to develop our water resources management plan • Funding for Volunteer Water Guardians	• Environment and Public Value Committee • Outcome based environmental regulation approach **We embed the opinions of our environmental colleagues into our aspirational direction and priorities.**

Stakeholder group	What matters to our stakeholders?	Metrics	Company engagement	Board level engagement and Impact
non-governmental organisations include but are not limited to: • Wildlife interests • Bathing water and river amenity interests • Catchment and Land Management • waste minimisation.		Recovering condition; All actions delivered • Greenhouse gas emissions - 106 kilotonnes CO2 equivalent • Tree planting • Environmental partnerships		

Board principal decisions

The following examples provide insight into some of the committee Board discussions and principal decisions taken during the reporting year. This includes how stakeholder interests are considered, where conflicting stakeholder requirements have been debated and how the Board and its decisions have added long-term value to the company. The Board's principal decisions are central to the formation and delivery of our strategy and are those critical to our long-term performance and success. Details of the Board Committees, including membership, number of meetings, and attendance are set out in the Committee reports on pages 28 to 53. An outline of the Board members' skills and experience is outlined on page 19. In any decision we consider the needs and requirements of all our stakeholder groups, cognisant that we may not be able to meet everyone's requirements as positively as we would like and take careful consideration of competing priorities. The Company Secretary minutes all Board meetings and decisions made.

Principal decision 1 – Health and Safety

The Company enhanced its focus on health and safety by establishing a dedicated committee supported by an advisory board of external specialists of leading health and safety and process safety experts. In doing so the Board updated its health, safety and wellbeing strategy to a clear message outlining pillars of focus on leadership, risk, culture, reporting and occupational health and wellbeing. This decision was considered in the best interests of all stakeholders, providing an opportunity to become a valued employer and business-partner maintaining the company's reputation as a great place to work with its high standards of business conduct in the long-term. These pillars and the dedicated focus from the Committee has enabled a clearer focus on process safety and high hazard activities, enhanced training across the company, implementation of a five-step culture maturity model to embed a behavioural safety culture, improved reporting of near misses, observations, incidents and the related actions. The Board, through the Committee, decided to meet more than the minimum four times a year to provide focus across all areas of the strategy delivery and to accelerate continuous improvement.

Principal decision 2 – PR24 Process

The Board created a new working group consisting of the Board members to oversee the PR24 business planning process for AMP8 (2024-2029) in detail. This allows the Company's strategic direction statement and outcomes based environmental regulation approach focus to be embedded throughout the business plan submission to Ofwat. The Board believes this approach is in the interest of all stakeholders and has been liaising with regulators on this changed approach. The Board considered the risk that regulators defer this approach to a later AMP was too high given the environmental challenges of carbon neutrality, asset resilience and environmental pollutions. The company is working with this stakeholder group to address any concerns, and the approach for PR24 is not yet decided on by the regulator.

Principal decision 3 – Risk Management

The Board is ultimately responsible for the risk taken by the company and review the risk profile on a regular basis including assessing and updating the risk appetite and tolerance levels. Information to assess the risks comes from many sources internally and externally, including (but not limited to) performance metrics, changes in legislation, regulatory requirements, national and international events and crisis, environmental concerns and corporate image. The Board agreed, after its regular review of risk, the addition of:

- climate volatility as a strategic risk – as this underpins other key risks that sit across all levels of the company and is key to our Environmental Performance Assessment (currently scored as four-star leading). The Board's tolerance for a category 1 environmental pollution remained at a zero-tolerance approach. However, increasing volatility of weather systems, global warming and the increasing likelihood and impact from these events warranted a distinct risk opposed to a driver behind all other risks.

- cybersecurity and digital resilience – the Board required this to be shown as an increasing issue, given the increasing attempts and incidences of cyber security attacks across all companies and the critical services that the company provides.

The Board manages its risks on an ongoing basis to discharge its duties for managing the company business for the long term, in the interests of all stakeholders. The Board's decision to maintain its zero tolerance on category 1 pollution incidents is supported by regulators, environmental groups, our shareholder investor and our employees. The Board's decision on cybersecurity risk is in the interest of our customers concerning the protection of their data, and the operational resilience and provision of services.

Principal decision 4 – Sustainable Financing

The Board has agreed delivery of a sustainable finance framework that aligns our sustainability strategy to our business plan commitments and our financing ambitions through the use of targeted ESG (Environmental, Social and Governance) financing. The Board has identified future financing as a key enabler and an opportunity to deliver the long-term strategy through its renewed strategic direction. The decision to finance through sustainable investment in the future is in the interests of all stakeholders. This approach supports the Board's focus on being an exemplar and to perform a wider role in society as a trusted company that takes care of the natural world and improves the environment for future generations.

Principal decision 5 – Trowbridge Water Recycling Works Capital Scheme

The Board approved a £6m capital scheme at Trowbridge to improve the phosphorous removal at the site. The capital works are driven by the delivery of the Water Framework Directive and are part of the Environment Agency's (EA) Water Industry National Environment Programme (WINEP). The scheme is also part of the wider catchment work being undertaken in the Bristol Avon to reduce phosphorous levels across the catchment. Early in PR19, the Company considered potential schemes at different sites within the catchment and identified some as having disproportionately high costs associated with minimal length of improvement to water body. The Company worked with the EA on alternative options other than those within the original WINEP. A solution that reduced capital investment work at the smaller water recycling centres by application of an upstream solution at Trowbridge offered better water quality improvement, with fewer technical issues, and for both a lower total capital expenditure and operational expenditure. The decision to complete the capital scheme at Trowbridge was considered to be in the best interests of the wider catchment, environment and the customer.

Financial performance

The UK group structure has remained the same since 2002 with the company wholly owned by Wessex Water Limited, which in turn is wholly owned by YTL Utilities (UK) Limited.

Neither of these entities provide any intragroup funding to the company with virtually all the debt raised for the UK group sitting within the company and all borrowings at market rates provided by financial third parties.

Gearing, as measured by net debt to regulatory capital value (RCV), stands at 67%. On a pensions-adjusted basis, this figure rises to 68%, which the Board still finds an acceptable level. During the year the Board has continued to pay particular attention to the projected level of the company's gearing ratio and interest cover with a view, when declaring dividends, to protect the company's existing credit ratings. The Board remains committed to maintaining investment grade credit ratings for the company at all times.

The latest actuarial valuation of the company's pension scheme took place on 30 September 2019, showing a deficit of £157m. The company has agreed with the scheme's trustees a payment recovery plan in respect of the deficit comprising employer contributions of 24.6% and special contributions to reduce the deficit. The company paid a special contribution of £14.8m on 1 July 2021 and is committed to the schedule of future contributions through to 1 April 2026.

The company has an adequate liquidity position comprising cash and cash equivalents held on the balance sheet along with undrawn bank facilities, giving the company instant access to funding if needed.

Highlights include:

- operating profit decreased by £14.9m from £159.1m to £144.2m
- turnover increased by £0.9m or 0.2% while underlying operating costs increased by £13.2m or 3.6%
- the cost of debt increased from 3.5% to 3.8%. We maintained a balanced mix of financial instruments and maturities
- capital expenditure on property, plant and equipment and intangible assets (including infrastructure maintenance expensed through the income statement) delivered during the year was £258.9m, a reduction of £29.4m over £288.3m last year and in line with expectations
- profit before tax fell by £21.2m from £75.2m last year to £54.0m. This was primarily due to the underlying increase in operating and interest costs
- gearing, as measured by net debt to regulatory capital value, has fallen from 70.0% last year end to 66.9% this year end
- interest cover, as measured by net interest payable to earnings before interest, tax and depreciation reduced from 3.67x to 3.31x
- tax charges reduced from £111.0m last year to £10.9m this year as a result of last year reflecting the deferred tax impact of the change in corporation tax rate from 19% to 25% effective from 1 April 2023.

Further details on the company's performance for the year are included within the Annual Review summary which is available on the company website.

Tax strategy

Our attitude towards UK tax planning

Our approach to tax is fully aligned with our overall objectives. We seek to comply with the spirit and letter of UK tax legislation and claim all tax reliefs and allowances to which we are entitled. We will consider reasonable tax planning opportunities which are in line with our risk appetite. As a general rule, we do not enter into complicated structures nor engage in any aggressive or artificial tax planning, because we do not believe it is the correct thing to do. Due to the size and complexity of the UK tax system, tax is a complicated area and uncertainties will arise. Consistent with other business areas, we will seek external advice when required.

Approach to risk management and governance arrangements in relation to UK tax

The Executive Director of Finance and Regulation is ultimately responsible for our tax strategy and engages with relevant individuals within the company to ensure the strategy is implemented and monitored. Board oversight over our tax policy is exercised by the Audit and Risk Committee. As a UK regulated business with a significant capital programme, we believe obtaining tax relief on capital expenditure is a key factor affecting our tax liability. Other factors, such as changes in tax legislation or changes in interpretations, may also affect the amount of tax due, compared with what has been allowed as part of the regulatory final determination.

The level of risk in relation to UK tax the company is prepared to accept

As documented in our finance policy, we adopt a risk-averse and cautious approach to tax. In addition, tax is included as part of our risk assessment framework. We monitor the overall risk framework and provide regular updates to the Board.

The company approach towards dealings with HMRC

We have an open, regular and professional dialogue with HMRC and, as part of its business risk reviews, HMRC have always regarded our company as low risk. We are committed to maintaining this low-risk status in the long term and believe that our approach to tax and early engagement with HMRC on any area of uncertainty are significant factors in maintaining this low-risk rating. We will also engage with HMRC on industry-wide matters through our membership of Water UK.

Risk management

The effective management of risk is central to how we can deliver effective and efficient services to our customers and minimise the impact we have on the environment. It is critical that we have a robust risk management framework in which material risks to the business are proactively identified, evaluated, communicated and the appropriate response defined and implemented. The Company's processes are flexible to respond to changes in risk and ensure that the necessary controls and mitigation measures are put in place. Risks are defined as any event that can impede our ability to achieve our objectives. The most significant risks facing us are referred to as 'principal risks'.

Risk management process

Our policy on risk assessment and management is subject to regular review by the Board including the assessment and update of risk and tolerance levels. The board reviews all strategic risks and other principal risks on a regular basis.

Identification and management of risk is delivered through a hierarchy of risk management reviews from operational colleagues, senior management and Executive Directors. The Board reviews and is ultimately responsible for risk. To assist it in discharging its responsibilities, the Audit and Risk Committee reviews the company's internal control systems and process for managing risk.

Operational staff and senior management review, assess and record asset and operational risk monthly. Risks are scored in line with our process of assessing probability and impact on a 'five-by-five' scoring mechanism. Risk mitigation plans are recorded and implemented where appropriate and pre-and post-mitigation scores are monitored.

Operational risks act as a foundation for separate tactical risk registers which feed into the corporate risk register. The Risk Management Group maintains and reviews all business risks; the corporate risk register includes strategic, compliance, operational and financial risks, specifically including health and safety and climate change related risks.

The Risk Management Group comprises senior managers from across the business. The risks are assessed by subject matter experts and subject to independent challenge from our risk experts. Risks above our tolerance levels will have additional measures to manage and mitigate the risk exposure.

Every six months the Risk Management Group submits the corporate risk register and summary report to the Executive Leadership Team (ELT), comprising the Executive Directors.

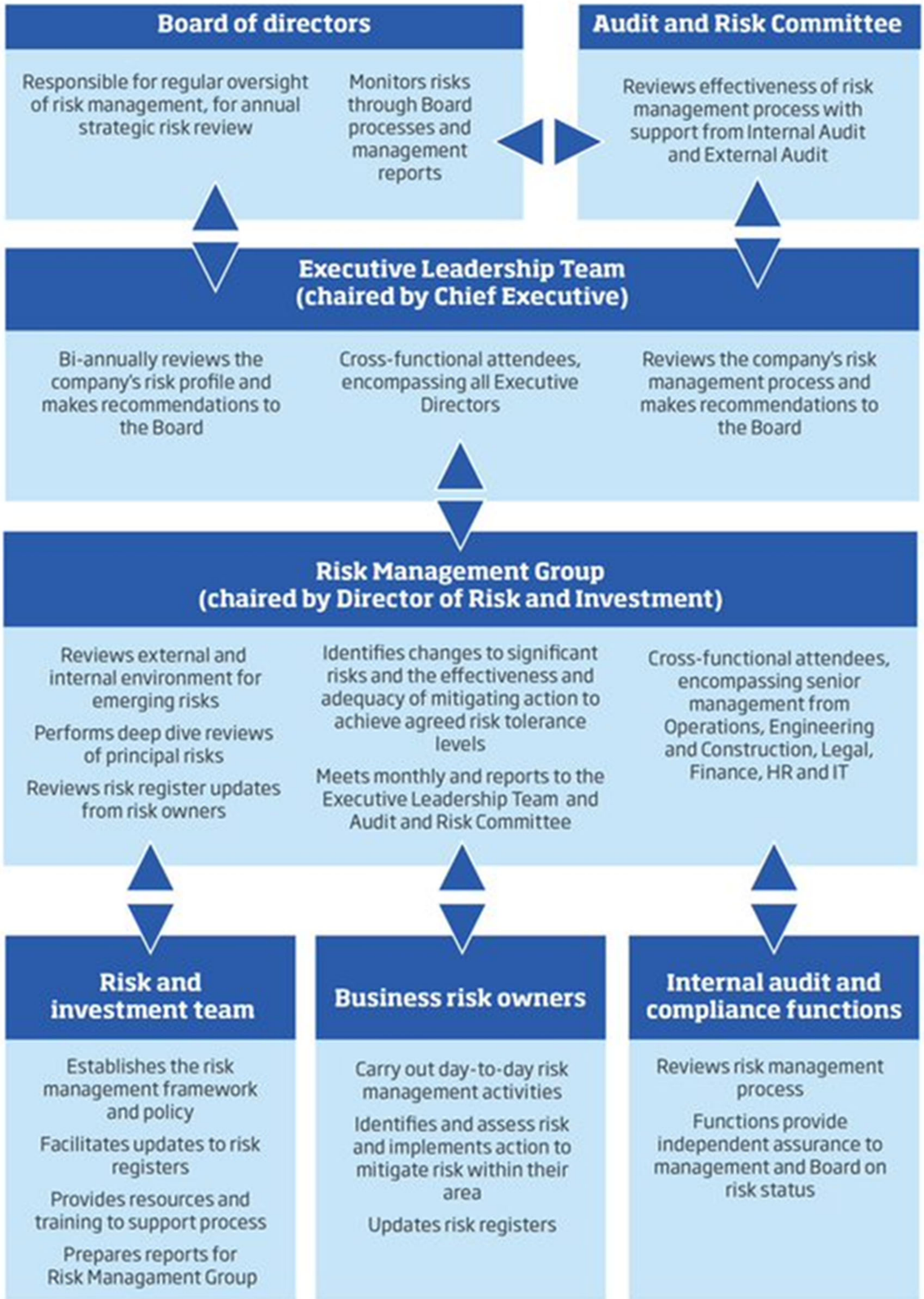
The ELT scrutinises and challenges the risks included within the register, ensures that we have comprehensively classified and assessed our risks and have appropriate mitigation methods. Any significant emergent risks or material changes in existing risks are reported to the ELT and the Board as they arise.

The CEO submits a bi-annual risk review paper to the Board for its review. This paper details the risk review process, identifies the current principal risks (listed below) to the business and the mitigation measures. It also records the status of emerging risks that have been identified as well as any proposed changes to risk appetite and tolerance for discussion at the Board.

The Board reviews the Company's risk identification and management policy annually and reviews the principal risks bi-annually. It delegates its authority to the Audit and Risk Committee for the review and oversight of the effectiveness of the risk management process. To aid it in doing this, the Audit and Risk Committee includes audits that review the status and mitigations of the principal risks when agreeing the annual Internal Audit programme.

Risk management governance

The diagram below explains the governance structure for risk management across the business.



We continuously review and improve the risk management framework. Since the last annual review, the following changes have been made:

- following the procurement of a governance, risk and compliance tool, the internal audit module has gone live and the operational and enterprise risk modules are well developed in preparation for rollout
- our existing risk management scoring for operational risks has been reviewed and data is being updated to reflect this revised approach
- the Board have reviewed the risk appetite framework and agreed appetite and tolerance positions.
- updating the definitions of our risk types to reflect the priorities of the Board following the review of the risk appetite framework.

Further improvements are planned as part of the implementation of our risk and investment framework over 2022-2023.

Principal risks

While the corporate risk register holds over 50 risks at any time, the principal risks are those that the Board consider could have a material impact on the capability of the business to perform its functions. All these risks are subject to active mitigation strategies and the Board considers that the Company is taking appropriate action to mitigate the severity and likelihood of those risks to an acceptable level.

Since 2020-21, we have revised our risk types to incorporate strategic, compliance, operational, and financial risks. The principal risks now include specific strategic risks.

In terms of risk trends, there continues to be a reducing level of resilience in the supply chain, particularly regarding chemicals. We are also experiencing challenges in recruitment of resources consistent with most other sectors. There are numerous discussions, reviews and challenges ongoing with regulators where tightening requirements and additional resilience are now expected, which places a burden on management at a time where costs are increasing above inflation and procurement times are getting longer.

We have summarised our principal risks below. Further information is then provided on each principal risk including a statement on the context, strategic objectives affected and the mitigation in place to address each risk.

Principal risk	Description	Risk exposure
Health and safety	Failure of operational controls or an external hazard that affects the health and safety of employees, contractors or the public	**Stable**
Political action	Actions taken by the government that fundamentally change the operating environment in which we work, affecting the business and/or cash flows.	**Increasing**
Regulatory action	Actions taken by regulators that fundamentally change the operating environment in which we work, affecting the business and/or cash flows.	**Increasing**
Reputation & positioning	National or regional issues arising that impact the perception of the business	**Increasing**
Environment & public value	The expectation on the business to create value beyond a focus on short term performance	**Stable**
Climate volatility	The natural environment changing due to greater climate volatility	**Stable**
Anti-competitive behaviour	Ineffective internal controls resulting in anti-competitive behaviour	**Stable**
Digital resilience	A malicious attack or failure of cyber security that results in the corruption or loss of data and/or inefficient operations	**Stable**
Supply of unfit water	External factors (e.g., contamination of supply or customer pipes) or internal factors (e.g., asset failure or poor operating performance) that results in the supply of unfit water affecting public health	**Stable**
Major pollution incident	External factors (e.g., sewer misuse or asset failure caused by a third party) or internal e.g., asset failure or poor operating performance) that results in a major pollution incident significantly affecting the natural environment	**Stable**
Insider threat	A disgruntled, vulnerable or radicalised employee or contractor causes malicious damage to operational activities and/or the company's reputation	**Stable**
Resources and skills	Failure to have the right resources with the right skills in the right place will have an impact on our ability to operate effectively and on our strategic objectives	**Increasing**
Failure to meet performance commitments	Failure to manage delivery of performance commitments resulting in a net penalty and/or reputational damage to the business	**Stable**
Pandemic infection	Loss of resources (goods/services/people) and/or revenue inhibit our ability to operate	**Stable**
Ability to raise finance	We are unable to fund the business sufficiently in order to meet our liabilities as they fall due	**Stable**
Supply chain failure	The supply chain for chemicals in particular has become increasingly more fragile.	**Increasing**

Health and safety

Description of the risk

Failure of operational controls or an external hazard that affects the health and safety of employees, contractors or the public.

Context

Working with and around water, sewage, gas, construction and excavation sites, plant and equipment exposes employees, contractors and the public to man-made and naturally occurring hazards.

The Board remains committed to understanding why the Avonmouth incident happened and sharing any lessons with the wider industry.

Mitigation and controls include

- Embedded framework and strategy coordinated through H&S Management Group reporting to Executive
- Implemented a cross-business health and safety management process
- Detailed process safety review of sites
- Embedding process safety into our decision-making framework
- Embedded behavioural safety programmes
- ISO 45001 certified for our engineering and construction activities
- Easy reporting of incidents, near misses and observation through our health and safety app
- Supporting our employees through resilience building, mental health and financial wellbeing initiatives
- Improved communication with employees on health and safety issues
- Sharing of best practice and advice between Water UK members
- Establishment of a dedicated Health and Safety Committee
- Appointment of an expert Advisory Board

Political action

Description of the risk

Actions taken by the government that fundamentally change the operating environment in which we work, affecting the business and/or cash flows.

Context

As a private provider of an essential public service our position as a licensed water and sewerage undertaker is subject to political perspectives and preferences.

Mitigation and controls include

- Advocating the benefits of private companies delivering essential public services
- Championing the need for long-term investment to improve outcomes.
- Engaging in issues of public and providing factual evidence
- Leading by example in demonstrating high standards of assurance in everything we do.
- Communicating value to customers and stakeholders of our operational performance and investment.
- Engaging in relevant government and regulatory consultations
- Keeping abreast of changing or new legislation and regulatory requirements

Regulatory action

Description of the risk

Actions taken by regulators that fundamentally change the operating environment in which we work, affecting the business and/or cash flows.

Context

As a private provider of an essential public service our position as a licensed water and sewerage undertaker and many of our associated obligations are defined by statute.

A strong regulatory framework allows quality and independent economic regulators to determine many of the outcomes we are required to deliver and the amount of revenue that we can collect through our charges.

Mitigation and controls include

- Consulting with customers and stakeholders to understand their requirements
- Communicating value to customers and stakeholders of our operational performance and investment.
- Embedding culture that embraces Ofwat's challenges to seek opportunities
- Engaging in relevant government and regulatory consultations
- The development of Outcomes Based Environmental Regulation (OBER), widely consulted on across the sector and stakeholders
- Keeping abreast of changing or new legislation and regulatory requirements
- Assessing and communicating the impact of changes in interpretation or expectation of existing regulations will have a material impact on the business

Reputation and positioning

Description of the risk

National or regional issues arising that affect the perception of the business

Context

While we are an excellent, high performing water company, national issues can drown out more local achievements. While performing consistently well against comparative performance targets we are increasingly judged against things that are outside of these regulatory targets.

Mitigation and controls include

- Management of operational and compliance risks Focusing on continued excellent service to customers Maintaining excellent relationships with stakeholders
- Ensuring a continued focus on our longer-term resilience and the need for long-term asset investment
- Horizon scanning and keeping ahead of emergent risks
- Explaining the bigger story about the public benefit and service to society we offer
- Continuing to show thought leadership on systemic challenges
- Communicating effectively on our bigger ambitions for the 25-year Environment Plan and demonstrating a commitment to bring our customers with us

Environment and public value

Description of the risk

The expectation on the business to create value beyond a focus on short-term performance.

Context

Society is increasingly expecting corporations to create value beyond an exclusive focus on short-term operational performance and financial returns.

The need to lead on finding solution to the problems of people and planet is particularly important to younger generations and therefore to our future customers and their willingness to pay.

Mitigation and controls include

- Carried out a comprehensive review of our purpose in conjunction with Sustainability First
- We have published our roadmap to net-zero carbon
- Increasing our wider stakeholder engagement on such matters as catchment markets, storm overflows and vulnerability
- Driving a change to outcomes-based regulation to allow innovation and wider value delivery to be sought through collaboration
- Communicating effectively at the strategic level
- The Environment and Public Value Committee has been set up to advise the Board on opportunities to increase both public and shareholder value through contributions to enhanced outcomes for people, environment, nature, and water across the region.
- Promotion of social tariffs

Climate volatility

Description of the risk

The natural environment changing due to greater climate volatility.

Context

The natural environment we are operating within is changing and we must adapt to reduce our impact.

The COP 26 summit reflects the international commitments made to reduce the impact of climate change, reduce carbon emissions and improve biodiversity.

Mitigation and controls include

- Water Resource Management Plan (WRMP), maintaining the supply/demand balance now and for the long term.
- Drainage and Waste water management plans (DWMPs) detailing how we will provide resilience across our waste water service to more extreme conditions.
- We have already committed to targets for net zero operational and embodied carbon and published our roadmap to net-zero carbon
- We have published our 25-year strategic direction statement incorporating long-term outcome targets for net zero carbon, increased biodiversity, sustainability abstraction and great river and coastal water quality as outcomes
- Incorporating climate change scenarios into our long-term planning and decision-making.

Anti-competitive behaviour

Description of the risk

Ineffective internal controls resulting in anti-competitive behaviour.

Context

The regulator is continuing to separate out the functions in the sector, identifying those that can be subject to greater competitive pressure such as water resources and bioresources through the bid assessment frameworks. New competitive markets increase the risk of anti-competitive behaviours, and the company must continue to take action to guard against this.

Mitigation and controls include

- Governance framework
- Company-wide training
- External assurance of our policies and procedures
- Internal audits into the application of policies and procedures.
- Compliance statements required by managers
- Competition group assurance
- Raising a concern policy

Digital resilience

Description of the risk

A malicious attack or failure of cyber security that results in the corruption or loss of data and/or inefficient operations.

Context

Information Technology (IT) and Operational Technology (OT) are fundamental to the daily operation of our activities. This ranges from the remote operation of our sites to the ability to fulfil regulatory reporting requirements and the use of technology manage our customer data and interaction to keep our financial and employee information accurate and secure.

In recognition of the need to achieve compliance with NIS regulations, as well as the regulatory driver of the Security (non-SEMD) performance commitment, the Operational Technology Security Improvement Programme has been initiated to achieve six outcomes including:

1. Cybersecurity cultural awareness and training campaign (completed in 2021-22)
2. Implementation of a security incident and event management tool to help identify patterns of suspicious behaviour
3. Implementation of a security operations manager to monitor the overall cyber security posture
4. Rogue device detection to detect unknown devices that are added to our network
5. Network segregation to ensure appropriate demarcation between the corporate and operational technology networks
6. User access control to better manage provisioning of and management of user access to key operational systems

The current programme runs to 2025, and we are on track to deliver. Further deliverables are identified that go beyond 2025.

Mitigation and controls include

- Corporate governance framework
- System patching undertaken regularly
- Back up of key systems and data
- Secure IT architecture – resilience/availability
- Continued certification to the information security standard, ISO27001
- Internal and external assessments, including annual penetration testing
- Ongoing awareness and education campaign for employees
- Continued review and updates to our systems and processes
- Continued communication with national bodies such as the Centre for the Protection of National Infrastructure (CPNI) and National Cyber Security Centre (NCSC)
- Disaster recovery plans
- Business continuity plans
- Operating technology self-assessment and action plan
- Creation of Cyber Security operations centre

Supply of unfit water

Description of the risk

External factors (e.g., contamination of supply or customer pipes) or internal factors (e.g., asset failure or poor operating performance) that results in the supply of unfit water affecting public health.

Context

We treat and supply 290 million litres of water a day to 1.3 million customers. Providing wholesome drinking water is a fundamental obligation to our customers and a responsibility that we take very seriously.

There are many risks that can affect our ability to deliver the right quantity and quality of water to our customers cost effectively. Raw water quality issues such as pesticides, nitrates, turbidity are increasing, the desire to remove borehole licences reduces the quantity of water. Our Water Resource Management Plan identifies the long-term approach to addressing these and other emerging issues while continuing to provide the expected quantity and quality of water.

Our resilience and performance is measured by a combination of performance commitments and other metrics to ensure we continue to make appropriate risk-based decisions for the short, medium and long term.

Mitigation and controls include

- Water Resource Management Plan, maintaining the supply/demand balance now and for the long term.
- Mature drinking water safety planning approach that meets regulatory requirements
- Risk-based prioritisation process for the maintenance and replacement of our assets
- ISO 9001 (Quality management) certified
- Robust monitoring of our operations 24/7
- Rigorous sampling/testing programme
- Emergency planning and business continuity plans
- Water Smart training

Major pollution incident

Description of the risk

External factors (e.g., sewer misuse or asset failure caused by a third party) or internal factors (e.g., asset failure or poor operating performance) that results in a major pollution incident significantly affecting the natural environment.

Context

Our waste water operations take away and treat 863 million litres of sewage from 2.8 million customers each day. Escape of sewage into the environment can cause significant damage to the wildlife and health of our region's watercourses. This impact can also be caused by the escape of treated water into a river's ecosystem.

As custodians of the environment, we are committed to reducing pollutions.

Mitigation and controls include

- Risk-based prioritisation process for the maintenance and replacement of our assets
- ISO 9001 (Quality management)
- Robust monitoring of our operations 24/7
- Rigorous sampling/testing programme
- Emergency planning and business continuity plans
- 'Love your Loo' and '3 P's – poo, pee and paper' campaigns to raise awareness of sewer misuse
- National lobbying of wet wipe manufacturers and supermarkets to tackle false advertising of 'flushable wet wipes'
- Planned preventative maintenance to reduce blockages
- Installation of EDM monitors to identify frequently spilling overflows
- Rising main monitoring programme
- Robust culture of self-reporting
- Use of marketplace to source the Stormharvester machine learning/ artificial intelligence network monitoring approach to predicting potential problems.

Insider threat

Description of the risk

A disgruntled, vulnerable or radicalised employee or contractor causes malicious damage to operational activities and/or the company's reputation

Context

We have more than 2,500 employees who have varying degrees of access to our assets, systems and information. A risk exists that an employee could use this access to cause malicious damage.

Mitigation and controls include

- Pre-employment screening of appropriate employees
- Maintenance of physical security, cyber security and information security policies and procedures for employees and contractors
- Monitoring and reporting of security breaches
- Supporting our employees through resilience building, mental health and financial wellbeing initiatives
- Trusted employee policy

Resources and skills

Description of the risk

Failure to have the right resources with the right skills in the right place will have an effect on our ability to operate effectively and on our strategic objectives.

Context

Our business is made up of more than 2,500 employees undertaking a wide range of roles with varying skills requirements. For some time there has been national shortage in STEM skills (Science, Technology, Engineering and Maths). However, post-Brexit and Covid 19 there is a national shortage of resources in total, affecting most sectors and roles. Many people are now used to home working and are less willing to move for a new job.

Staff retention remains key to maintaining the highly skilled, committed and talented people we need.

Mitigation and controls include

- Apprenticeship and graduate programmes
- Improved attraction and retention of colleagues, i.e., Increased flexible working
- Implementation of a new learner management system
- Succession planning for senior and key positions
- Continued commitment to training and development
- Promoting our Culture, Inclusion and Diversity programme.

Failure to meet performance commitments

Description of the risk

Failure to manage delivery of performance commitments resulting in a net penalty and/or reputational damage to the business

Context

Ofwat confirmed the performance commitments and associated financial implications within the PR19 final determination published in December 2019. The number of measures has increased by 50% and include even more stretching targets. Set against the tight financial determination means it will be harder to achieve these targets within the funding available while maintaining an acceptable level of risk. In some cases, there is no funding provided or any proven means of achieving stretching performance thus increasing uncertainty further. There is therefore a greater risk of underperformance resulting in penalties and reputational impact from not achieving the targets.

One impact of Covid-19 is that alternative forms of delivery of service and greater use of digital communication with our customers is necessary.

Mitigation and controls include

- Prioritisation of totex budgets to enable delivery of performance commitments
- Monthly monitoring and reporting to senior management and executive
- Monthly reviews of trends and streamlined governance to allow rapid allocation of resources and reserves to implement response plans
- Corporate and remuneration targets set to achieve performance commitments
- Collaborative solutions-based approach with stakeholders to identify alternative ways of delivering improvements at the lowest totex cost
- Hold management and staff briefings to embed processes and ensure performance culture focuses on priority areas
- Focus on outcomes for our customers not outputs and work the tote regulators to make this change to enable more innovative or flexible solutions to be delivered.

Pandemic infection

Description of the risk

Loss of resources (goods / services / people) and/or revenue inhibit our ability to operate

Context

We directly employ over 2,500 people, obtain the goods or services from more than1,500 suppliers and receive £500m revenue from 2.8 million customers each year. This supports our ability to provide industry leading service to our customers and fulfil our regulatory requirements. Pandemic infection has a direct impact on our employees, supply chain and customers.

The full implication and societal changes are not all visible yet, and this can affect our ability to perform at the highest level until stability returns.

Mitigation and controls include

- Emergency planning and business continuity plans
- Maintain strong links with Water UK and Defra
- Maintain strong relationships with Public Health England and local resilience forums
- Employees have appropriate access to hardware and software for remote/hybrid working
- Re-configured construction arrangements for safe remote working.
- Developed operational arrangements for safe working.
- Built on lessons learnt from Covid-19 including reconfiguration of working patterns

Ability to raise finance

Description of the risk

We are unable to fund the business sufficiently in order to meet our liabilities as they fall due.

Context

The company has a significant funding requirement for its investment programme and refinancing maturing debt, both in the current AMP period and into the future. This is a well-controlled risk, but it is important we continue to maintain our high standards to mitigate the risk.

At present there are significant global economic and financial implications, the extent of which are still not understood. These include the conflict in Ukraine, global logistics affecting delivery times, insufficient experienced resources. Inflation is increasing and this is affecting interest rates and financial rations across all sectors.

Mitigation and controls include

- Maintain communications and strong relationships with financial institutions and credit rating agencies
- Maintain and annually review borrowing policy
- Regular monitoring of position, horizon scanning and forecasting
- More detailed modelling of financial viability scenarios
- Focusing on maintaining industry leading customer service and environmental performance.
- Introduction of a sustainable financing framework

Supply chain failure

Description of the risk

The supply chain is becoming increasingly fragile, not just for chemicals but procurement lead times and costs are increasingly becoming challenging to delivery of fundamental services.

Context

Several events in the chemical supply chain over recent months and years have highlighted the fragility of some of the industry's suppliers. The government has also identified that the most significant single risk to public water supplies is a failure in the chemical supply chain.

This is a market issue where we have only limited means of proactively mitigating any supply chain loss, although we are relatively well placed compared to other water companies. Our controls are particularly important, and we have reviewed our business continuity arrangements for loss of supply of chemicals and loss of critical supplies generally.

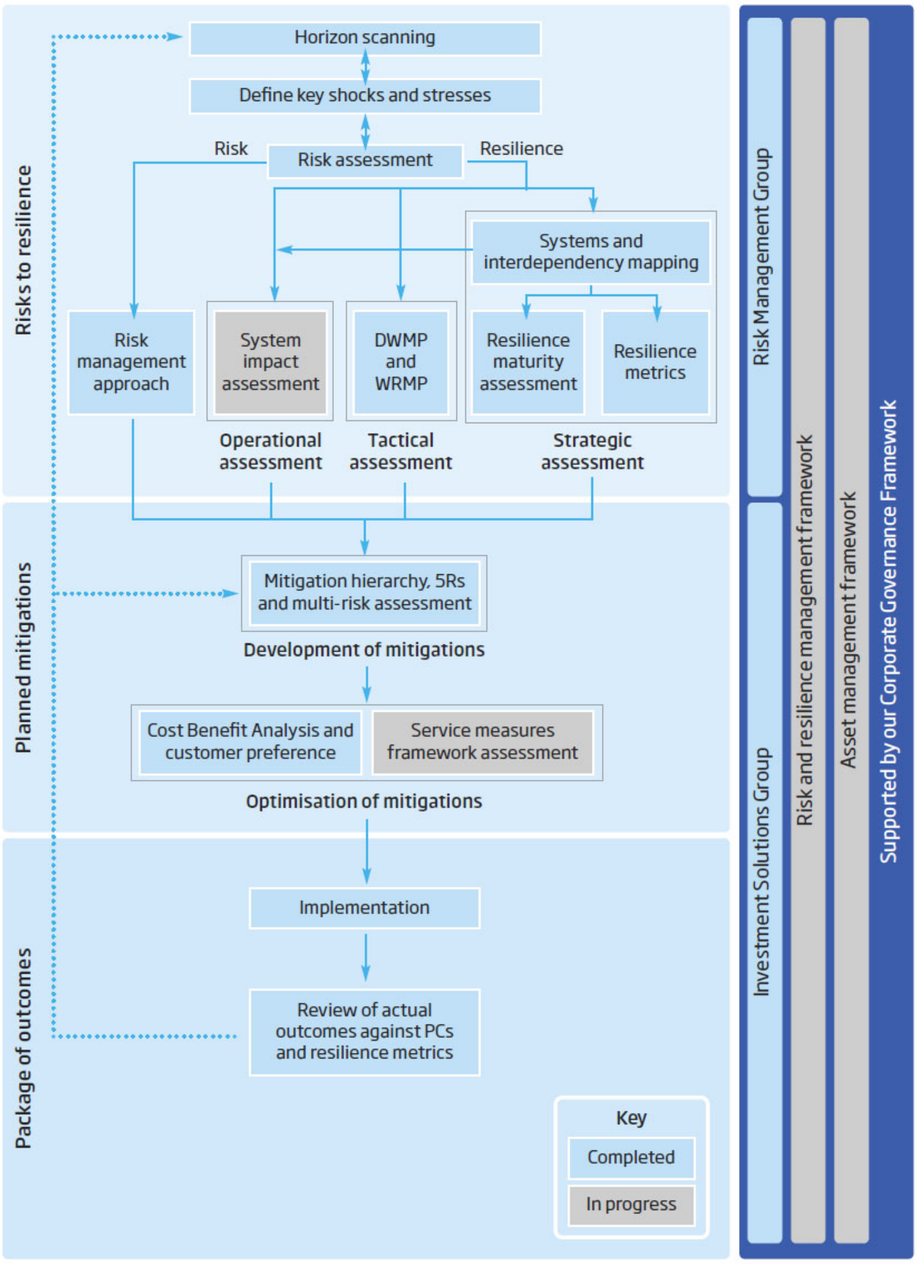
Mitigation and controls include

- Maintain strong relationships with the supply chain
- Engage in industry updates to government and escalation of issues.
- Minimise risk of failure through early procurement of key materials and alternative arrangements for emergency call-off
- Detailed and tested contingency arrangements in place
- Regular monitoring of the supply chain, early warning of issues and quick mitigation
- Reviewing existing contingency arrangements and seeking to become more self-sufficient and resilient

Resilience

A working group is in place progressing detailed actions to continue refining our resilience system-based capability across the business.

Our system-based risk and resilience framework



Ongoing developments

Operational system assessment – to strengthen our existing Drinking Water Safety Plans, we undertook site reviews. We undertook a gap analysis assessment between our current process and the Hazard Review (HazRev) process widely adopted across the industry. Additional components have been added to our methodology which will be rolled out in 2022-23. To prioritise the review of sites across other systems, we have begun to assess the criticality of our assets/sites. This work will then feed into the asset management framework which is currently under review.

Strategic assessment – we continue to undertake audits of the mitigations for our shocks and stresses. Where our mitigations are deemed insufficient, additional work will be instigated to feed into business-as-usual processes or if appropriate, our business plan submission. Where appropriate, our asset management framework will be updated.

Service measure framework – we have developed a list of measures and values to be incorporated into our new optimising software. This will be used to define and test our plan as we build our investment plan for the PR24 submission.

Resilience assessment

We review the impact of 26 shocks and stresses across our 16 systems covering corporate, operational and financial resilience. The following are examples of the shocks and stresses that we assess that include the implications of climate and environmental change in the short, medium and long term.

Climate change – change of climate, which is attributed directly or indirectly to human activity, that alters the composition of the global atmosphere, in addition to natural climate variability.

Environmental change – changes in habitats, ecosystems and biodiversity from pollution, habitat destruction and climate change. This includes invasive alien species arriving and outperforming and replacing the native species.

Customer behaviours/expectations – changes in the way people live and their ability to pay, causing a change in the resources used and expectations of services provision.

Land use change – changes in the use of land. This could be from changes in agriculture, land management or urban sprawl.

Supply chain failure – global resource scarcity or disruptions to supply chains which prevent critical products or services reaching their required designations.

Environmental pollution – deterioration in the quality of air, soil and water from ambient concentrations of pollutants and other activities and processes. In the case of water, this includes emerging contaminants, such as human pharmaceuticals and hormones, micro/nanomaterials and recreational drugs.

Extreme weather/natural disasters – major property, infrastructure, and/or environmental damage as well as loss of human life caused by extreme weather events.

Flooding – major property, infrastructure and/or environmental damage as well as loss of human life caused by extreme weather events which cause flooding.

Space weather – space weather, such as solar flares, affecting radio, satellite and GPS communications as well as affecting electric power transmission.

This process then derives specific risks against which we assess our current mitigation effectiveness

Long-term viability statement

The Company has a long-term commitment to the provision of resilient services for the communities it serves and plans on the basis of stewardship in perpetuity.

Over 2018 and 2019, as part of the Company's business planning cycle, the Board considered an operational business plan that included financial projections up to 2030. The Directors have therefore determined that the period to 31 March 2030 is still an appropriate period over which to provide its viability statement, using our latest delivery plan up to 2025 and our projections submitted as part of the business planning process from 2025 to 2030.

Next year, once robust operational plans post 2030 are developed through the PR24 process, the viability statement will incorporate these extending to 2035.

For the most immediate term analysis up to September 2023 the Directors have taken into account:

- the current financial position of the Company, its cash deposits and available funds
- the expected turnover up to September 2023 from the customer charges that have already been set
- that the large capital expenditure programme is of a similar nature to that delivered in previous regulatory control periods, allowing the Directors to be able to predict the cost of construction with some certainty
- the Company's ability to remain within financial covenants
- that borrowing facilities in place are long term and maturing after 30 September 2023. The mix of borrowings is spread between fixed, floating and index linked, and that predictions of interest rate increases are manageable
- that there are sufficient finance facilities in place to fund our working capital requirements
- the potential range of impacts that may result from the ongoing period of high inflation and cost of living crisis for our customers.

The key areas considered by the Directors in this regard were:

- the principal risks as shown in the Annual Review Summary
- the shocks and stresses shown in the company's resilience action plan
- the liquidity of the Company over the year
- compliance with financial covenants in respect of gearing and interest cover.

Having done so, the Directors confirm that they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due up to 30 September 2023.

The Company's approach to the assessment and consideration of the full range of risks, including common external risks that affect the water sector as whole as well as specific Company risks is detailed in the previous section of this report (pages 70 to 91).

When considering financial viability over a longer time period, Directors considered the impact if the risks identified in the corporate risk register including those related to the wider group were to occur. On top of this the wider economic situation and regulatory environment were considered, and the impact of any foreseeable risk was considered. This ensures that all operational, financial and regulatory risks and liabilities are fully considered. The assumptions used in stress testing for this viability statement are consistent with this wider risk assessment reported elsewhere in the Company's accounts.

The Corporate risk register is updated annually and reviewed by the Company's risk management group and Audit and Risk Committee to ensure it is a true reflection of the circumstances of the company.

The shocks and scenarios and levels of sensitivity considered within the financial viability assessment are reviewed and agreed by senior management across the finance, risk and investment, and economic regulation teams. Our full approach to risk identification, management and mitigation is described on pages 70 to 91 of this report. These are then presented to the Company's Audit and Risk Committee for review.

The shocks considered include but were not limited to:

- inflation (up to 3% variation from central forecast)
- revenue variation
    - up to 5% reduction in revenue recognised
    - up to 10% reduction in revenue collections
- expenditure
    - up to £150m totex overspend over modelled period
    - and up 4% increases relative to inflation for a short period
- costs associated with unfunded obligations (up to £30m of unfunded obligations up to 2025 note value based on what is deliverable not necessarily full requirements)
- debt service requirements (up to 2% increased cost of new debt)
- pension liabilities (up to 300% increase in DB pension liability)
- exceptional costs such as regulatory fines (up to £70m regulatory enforcement fine)
- a credit rating downgrade, including one determined by a rating agency due to other group activities.

Scenarios were developed ensuring that the analysis correctly identified linked and compounded risks and were sensitivity tested with reasonable, plausible and extreme levels of severity. These levels are set having considered historical precedent (both on company performance, that of its peers or analogous risks that have occurred in other sectors) and independent expert forecast (for instance forecast ranges published by the Bank of England).

In total the Company modelled 27 scenarios, the most severe of which consider multiple concurrent and linked risks as follows.

Scenario	Details and sensitivity testing
Waste water incident	This might include a major pollution incident or the widespread distribution of unfit water, either driven by catastrophic asset failure, extreme weather events or malicious damage. The base scenarios include the capital costs of rectification and then increases severity by progressively including risks of fines, penalties from regulatory delivery incentives, customer compensation payments and at the most extreme the withholding of customer bill payments.
Water supply incident	
Simultaneous water and waste water incidents	As above but assumes incidents occur concurrently.

Macroeconomy	This scenario assumes a sustained economic downturn in the UK that increases company input prices and reduces productivity, resulting in sustained overspends of regulatory cost allowances while depressing indices of consumer prices and reducing company sales. An accompanying credit squeeze means that the costs of new finance increase.
Combined operational and macroeconomic shock	Assumes operational failure coincides with higher input costs resulting in consistent overspends against regulatory allowances. Alongside this depressed consumer price indices reduce sales and regulatory value. Sensitivity testing increases the severity by assuming demand and sales volumes also decrease and the company suffers higher interest costs through a credit rating downgrade.
New unfunded obligations	This scenario assumes that government or regulators impose new obligations on the Company that create additional costs and diverts management focus, leading to operational failure. These are modelled individually and then alongside operational or macroeconomic shocks to fully test the resilience of the company.
Extreme weather event	Extreme weather event (either a 'beast from the east' or a prolonged dry period) causes overspend on opex and asset failures resulting in ODI penalties.
Climate change	Ongoing climate change causes more uncertain weather, drier summers and wetter winters lead to additional operational and maintenance costs. This was modelled individually and alongside operational and macroeconomic shocks to fully test the resilience of the company.

The scenarios are hypothetical for the purpose of creating outcomes that can threaten the viability of the Company. However, multiple control measures are in place to mitigate or prevent impacts. These include reducing any non-essential expenditure and not paying dividends. In this regard the Directors have noted the Company's flexible dividend policy and performance related executive pay and bonus arrangements.

The regulatory model also allows for turnover to be adjusted upwards in the event of a substantial adverse effect on the financial position of the Company, where this effect would not have been avoided by prudent management action. It also allows for turnover to be adjusted where a new legal obligation imposed on the Company as a water and sewerage undertaker has led to a material increase in the costs incurred.

The PR19 final determination has significantly reduced the headroom available, coupled with extreme global pressures on costs results in a challenging short-term position. The Directors note that under these assumptions several scenarios would breach the financial covenants in our bank facilities. In light of this, the Company has agreed a covenant amendment with its lenders for the testing periods to the 31 March 2024. After this date the covenants will revert to their original status pending an ongoing renegotiation of the covenant calculation.

The first line of mitigation given this position is to restrict expenditure. We have reflected our current view on possible efficiencies against the final determination and where expenditure would have limited short to medium-term benefits. This combined with restrictions on executive pay and dividends largely solve these issues.

It is imperative to note that if this restriction on expenditure is required over the longer term this will place more stress on the business and reduce its long-term resilience.

The current delta between RPI and CPIH results in immediate pressure on interest cover ratios that include accruals of interest linked debt. Our prudent financing strategy limits our exposure to this, but the levers available have little immediate effect on these ratios. We will continue to closely monitor this situation and have engaged pro-actively with stakeholders to mitigate any impact.

Additionally, in many of the scenarios tested, credit metrics would imply that credit ratings would fall below the business plan target level. In making its assessment of financial viability over this extended time period, the Directors primarily considered the ability of the company to retain credit metrics consistent with an investment grade credit rating and found that, in almost all cases, this was possible after mitigation.

In a small number of instances, not all metrics are held above a level that is required to maintain an investment grade rating. The mitigating actions that are most readily available, such as cuts in dividends, have limited impact on interest cover ratios.

Where metrics implied a non-investment grade rating the Directors considered the circumstances of these modelled scenarios more deeply. In all cases these breaches are short-lived, relating to specific shocks and recover promptly to appropriate levels. The Directors considered that in these cases the impact would not affect the underlying viability of the Company.

Following these assessments, the Directors confirm that they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due up to 31 March 2030.

Before agreeing this statement, the Directors, through the Audit and Risk Committee which contains all independent directors, challenged company management on its analysis of the risks and of the mitigations and also considered the management report of the statutory auditor in this regard.

In making this statement the Directors have had to make the following reasoned and reasonable assumptions:

- on the size of the investment programme post 2025
- on the availability of finance capital
- that Ofwat will continue to perform its statutory duty to ensure that the Company can finance the proper carrying out of its statutory functions
- the Company has an active and long-term shareholder, YTL, and is committed to long-term stewardship.

Task force on Climate-related Financial Disclosures (TCFD)

Introduction

This is our first report aligned to principles set out by the Task Force on Climate Related Financial Disclosures (TCFD). Under the government's reporting requirement, our first TCFD report would be required for the 2022-23 reporting year. However, we have decided to voluntarily report one year in advance of this requirement.

In terms of the report's structure we considered the framework produced by the TCFD itself, its application by other water and sewerage companies, and the February 2022 BEIS guidance (Mandatory climate-related financial disclosures by publicly quoted companies, large private companies and LLPs). We opted to use the four broad themes of the TCFD framework, while accommodating the February 2022 BEIS guidance as follows:

Report sections	Items in government's non-binding guidance
Governance	a) Our governance arrangements in relation to assessing and managing climate-related risks and opportunities
Strategy	e) Actual and potential impacts of climate-related risks and opportunities on our business model and strategy f) The resilience of our business model and strategy, taking into consideration different climate-related scenarios
Risk management	b) How we identify, assess, and manage climate-related risks and opportunities c) Integrating climate-related risks into our overall risk management process d) Climate-related risks and opportunities in connection with our operations
Metrics and targets	g) Targets and key performance indicators used to manage climate-related risks and to realise climate-related opportunities and of performance against those targets

The content of this report is drawn from two reports that we have published already. Firstly, information on physical risks mirrors our 2021 climate change adaptation report. Secondly, information on transition risks was taken from our 2021 net zero carbon routemap. These two reports are the source of content for the sections on governance, strategy and metrics as well as the sections on risk assessment and management.

Governance

Responsibility for understanding and responding to climate related risks and opportunities is shared across the Directorates of the appointed business and is part of our overall approach to risk and resilience.

Our governance of risk management is being expanded to cover resilience – ensuring an aligned approach between these closely related activities. Our Board is ultimately responsible for our risk and the Audit and Risk Committee is responsible for the review and challenge to our assurance arrangements. The Director of Risk and Investment manages our systems-based resilience framework with two groups: the Risk Management Group who manage the overall risk and resilience process, and the Investment Solutions Group who review and approve mitigations to ensure we continue to improve our resilience. As explained in the section on risk, climate change is one of the stresses identified in our resilience action plan.

The Independent Non-Executive Directors attend the Environment and Public Value Committee, which advises the Board on how the Company's purpose, strategy and values are developed and delivered. Focusing on outcomes for people, the environment, nature and water across the region, the Committee has a range of functions, including identifying and monitoring external developments which are likely to be drivers of change that may have a significant influence on the Company's social purpose.

We have produced three climate change adaptation reports, in accordance with the government's adaptation reporting duty. We report our carbon footprint each year to Ofwat and in our annual report.

Strategy

Impacts on our strategy and business model

We are a long-term business and aim to be a genuinely sustainable water company. As our services and operations are affected by weather patterns, it is crucial that we are prepared for climate change and are resilient to its impacts. Adapting to a changing climate is integral both to our long-term strategic direction, five-year business plans, and subject-specific exercises such as water resources planning. Climate impacts will have a bearing on many of the core services that we provide – it will affect water availability, water quality, and the efficacy of sewerage and surface water management among other things. The following sections explain how we assess and manage the risks associated with these issues.

Alongside physical risks associated with climate change, we will be affected by the necessary transition to a low carbon economy. Providing water and waste water services involves significant amounts of energy use and emissions of methane and nitrous oxide as well as carbon dioxide. We are committed to reducing our carbon footprint, reflecting the expectations of our external stakeholders – including investors, NGOs and the public – as well as mitigating the physical risks of climate change. Specifically, we aim to achieve net zero operational emissions by 2030 and net zero total emissions by 2040. In terms of reduction scenarios, the 2030 operational emissions goal is aligned with the principles of the Paris Agreement and the United Nations Convention on Climate Change 1.5°C pathway. We subsequently published a route map in summer 2021 setting out options for achieving net zero operational emissions, which can be found on our website here. Decarbonising our activities must connect with other environmental work, linking with our efforts to promote sustainable land use, protect biodiversity and the water environment, improve resource efficiency and reduce air pollution. This will in turn benefit our customers and the communities we serve.

Risk management

Assessing risks related to resilience

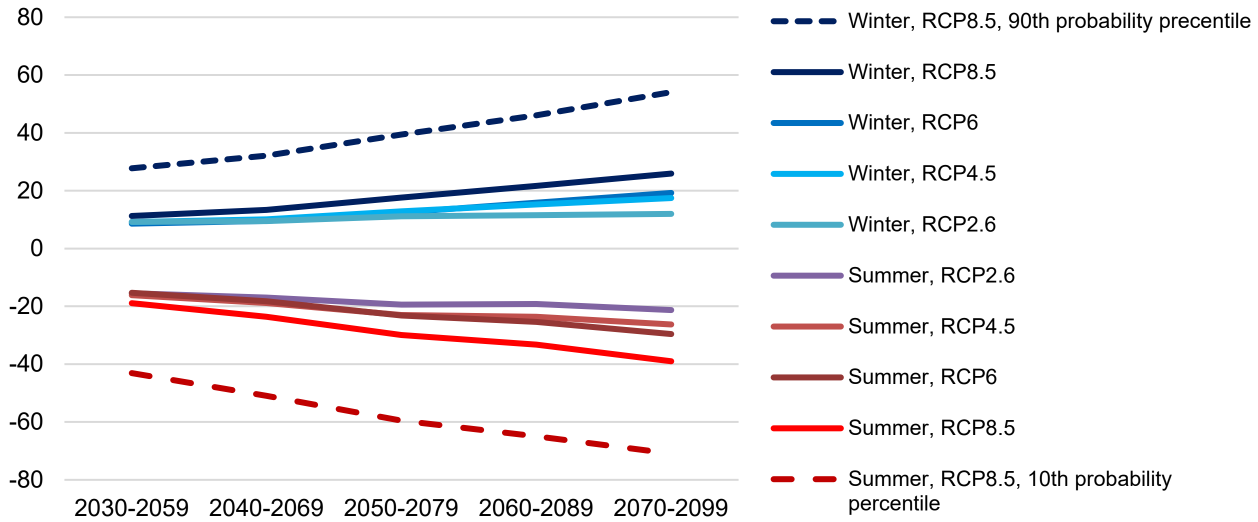
Like other water companies, we use UK Climate Projections to help assess climate risks and plan investment. The 2018 edition (UKCP18) provides the most up-to-date assessment of how the climate of the UK may change over the 21st century. It provides data based on:

- different levels of probability
- four emissions scenarios based on the representative concentration pathways (RCPs) used by the Intergovernmental Panel on Climate Change (IPCC)
- several overlapping time periods to cover the 21st century.

The table and chart on the next page summarise UKCP18 projections (between the low emissions RCP2.6 pathway and the high emissions RCP8.5 pathway) for changes to average rainfall and summer temperature in our region, relative to a 1961-90 reference period.

50th percentile for probability	2030-59	2050-79	2070-99
Summer (Jun-Aug) precipitation	-15% to -19%	-19% to -30%	-21% to -39%
Winter (Dec-Feb) precipitation	+9% to +11%	+11% to +18%	+12% to +26%
Summer average daily temperature	+1.9 to +2.2°C	+2.1 to +3.6°C	+2.3 to +5.4°C
Least likely, more extreme outcomes			
Summer precipitation	-36% to -43%	-43% to -60%	-46% to -71%
Winter precipitation	+24% to +28%	+28% to +39%	+29% to +54%
Summer average daily temperature	+3.1 to +3.6°C	+3.7 to +6.0°C	+4.2 to +8.7°C

Future average rainfall: % change vs 1961-1990 reference period



In addition to UK Climate Projections, we pay attention to the findings of the IPCC, the UK Climate risk Assessments (most recently updated in early 2022) and the National Adaptation Plan.

Our climate risk assessments consider the likelihood and consequence of various exposures to hazards. For likelihood we consider the probability of impacts occurring over different timescales – certain effects of climate change might be unlikely in the next few years but likely in the long term. For consequence or severity we use the various aspects in our corporate risk assessment system, including health and safety, public health, customer service, environmental impacts, reputation, legal and regulatory issues and financial or commercial consequences.

Overall, our planning uses the best available evidence and our current view of the best responses, incorporating good quality information from outside our company as well as the accumulated knowledge of our own staff. This includes detailed application of climate scenarios, for example in the models that inform our Water Resources Management Plan. However, we also acknowledge that climate change projections and responses involve uncertainties, including:

- the future return period of unpredictable extreme weather events such as multi-season droughts.
- future emissions, atmospheric greenhouse gases concentration, and the pace of climate change.
- the specific influence of climate change for issues such as flooding, combined sewer overflow discharges, and water demand where there are many factors involved.
- the costs and benefits of adaptation options and the suitability of the measures we choose.
- the potential appearance of some entirely new issues.

Principal risks related to resilience

Looking ahead, it is clear that across all scenarios and timescales, the average summer will be drier and warmer, and the average winter will be milder and wetter. Overlying this gradual trend we can expect a lot of variation from one year to the next. While changes to averages are important, the resilience of our services is affected more by extreme weather events such as heatwaves, droughts, intense storm events and prolonged rainfall. As background warming takes place, weather events considered extreme or unusual by today's standards are likely to occur more frequently in future. This is the most critical issue for our resilience and adaptability. Our experience dealing with acute weather-related impacts helps us factor them into our planning activities and company risk assessments. Notable examples include:

- summer 1995 – the driest summer since 1911 and the driest three-month period since 1938. Efforts to reduce leakage were stepped up following this event, leading to annual leakage targets overseen by Ofwat
- the prolonged rainfall of summer 2007 that required widespread emergency response, including our assistance to Severn Trent Water under the mutual aid scheme. This event led to a fundamental national review of surface water management under Sir Michael Pitt
- the heavy rainfall of 2012, with the wettest summer since 1911, followed a year later by the wettest three-month period since 1911 from December 2013 to February 2014.
- the 2018 'Beast from the East' cold wave and the subsequent thaw which caused widespread outbreaks of leaks and pipe bursts.
- for 2022, the driest December to August sequence since 1976, and the fourth driest in the last 100 years.

For our operations, climate-related risks will affect the reliability and quality of the services we provide to customers and communities. They will also place greater stress on the wider environment, e.g., rivers and streams suffering more often during very warm or dry weather conditions. This in turn will likely lead to greater pressure on our activities, e.g., reduced abstraction, or tighter end-of-pipe standards at water recycling centres.

Regarding water quantity, long-lasting drought and acute heatwaves both affect demand. Droughts also reduce overall yields from groundwater and reservoirs, and lead to pressure to reduce abstraction to protect the freshwater environment due to the risk oof low river flows. Detailed climate risk assessments are carried out for our Water Resources Management Plans, for which climate change scenario are an integral part; the current edition was published in August 2019. We estimate the impact of changing rainfall, evaporation and temperature patterns and the impact that these may have on river flows, reservoirs, groundwater recharge and ultimately on deployable output, and impacts on water demand. Our most recent water supply vulnerability assessment included the following conclusions:

- the impact of the median impact climate change scenario on deployable output was low for both the dry year annual average and dry year critical period scenarios
- the baseline impact of climate change in the 2080s is estimated at -3.69 Ml/d on average (1% of base year deployable output) and +1.07 Ml/d for the peak scenario (0.2% of base year deployable output)
- by 2045, the increase in overall consumption resulting from climate change amounts to 1.7 Ml/d representing a very small proportion of overall distribution input (c. 0.5%)
- we are supporting research projects to improve our modelling of the relationship between weather and demand. Such models may be driven with climate forecast changes to weather conditions in the future, leading to revised predictions of climate change impacts on demand.

Climate-related risks for water quality come in the form of extreme wet conditions that increase turbidity, as well as warm or dry conditions that can lead to reductions in quality due to biological activity. Our experience also shows that heavy rainfall – both in prolonged episodes or short, sharp spells – can result in contaminants being washed into reservoirs or groundwater sources. Past episodes have given rise to high levels of nitrates in relation to extremely wet autumn and winter conditions.

Regarding sewerage, sewage treatment and sludge, the highest risks relate to inundation of sewers during intense or prolonged rainfall, with adverse impacts on customers and receiving watercourses. Others include odour during warm weather, reduced dilution in receiving waters during drought, and sedimentation in sewers, also due to drought. Because of these risks, climate change impact assessments are increasingly used in waste water investment planning, such as the drainage and waste water management plans. Overall, with a changing climate and an increase in impermeable areas connected to the sewer system, we need to make sure that our pipes have sufficient capacity to cope.

More information is provided in appendix 5 of our 2021 Climate Change Adaptation Report.

Managing risks related to resilience

In terms of our subsequent management of climate related risks to our resilience, the table provides a summary of control measures and actions. The risks selected here are those profiled in the 2022 UK Climate Change Risk Assessment that we consider have the most bearing on our activities.

	Controls (examples)	**Actions (examples)**
UKCCRA 2022 – PRIORITY RISK AREAS		
Risks to the viability and diversity of terrestrial and freshwater habitats and species from multiple hazards.	• Drought planning • Long-term water resource planning • Dialogue with regulators on abstraction and river water quality	• Abstraction reduction at sensitive sites • Integrated supply grid to allow transfers within the region • Enhanced treatment at water recycling centres
Risks to people and the economy from climate-related failure of the power system	• Following Cabinet Office good practice guidance for integrated emergency management • Emergency Tactical Planning Group • Incident management procedures • Involvement in local resilience forums • Back-up generators	• Continued review of business continuity arrangements • Emergency planning; emergency simulation exercises
UKCCRA 2022 – MORE ACTION NEEDED		
I1 Risks to infrastructure networks (water, energy, transport, ICT) from cascading failures	• Following Cabinet Office good practice guidance for integrated emergency management • Emergency Tactical Planning Group • Incident management procedures • Involvement in Local resilience forums • Back-up generators	• Continued review of business continuity arrangements • Emergency planning; emergency simulation exercises
I2 Risks to infrastructure services from river, surface water and groundwater flooding H3a Risks to people, communities and buildings from river and surface flooding B1 Risks to business sites from flooding	• Adapting maintenance plans • Water supplies: ability to rezone; blend water sources; move water via our integrated grid • Response and recovery plans • Site flood risk assessments; designation of sites needing defences / alterations • Monitoring of vulnerability of sites and assets	• Water supplies: rezoning; blending; transfers via our integrated grid • Investments in bunding, flap valves, alarms and drainage improvements at high-risk sites • Moving electrical equipment above flood levels

I8 Risks to public water supplies from reduced water availability	• Long-term water resource planning • Drought planning • Dialogue with regulators on abstraction • Network monitoring, leakage detection • Intra-regional water movements via the integrated supply grid	• Publication of plans, following detailed analysis of risk and stakeholder engagement • Promotion of water efficiency • Replacement of older water mains • Completion of integrated supply grid
H3b Risks to people, communities and buildings from coastal flooding B2 Risks to business locations and infrastructure from coastal change from erosion, flooding and extreme weather events	• Adapting maintenance plans • Water supplies: ability to rezone; blend water sources; move water via our integrated grid • Response and recovery plans • Site flood risk assessments; designation of sites needing defences / alterations • Monitoring of vulnerability of sites and assets • Assessed as low likelihood for our sites	• Water supplies: rezoning; blending; transfers via our integrated grid • Investments in bunding, flap valves, alarms and drainage improvements at high-risk sites • Moving electrical equipment above flood levels
UKCCRA 2022 - FURTHER INVESTIGATION		
I3 Risks to infrastructure services from coastal flooding and erosion	• See H3b and B2	• See H3b and B2
I4 Risks to bridges and pipelines from flooding and erosion	• Water supply rezoning	• Watching brief
I7 Risks to subterranean and surface infrastructure from subsidence	• Proactive network monitoring inspections • Reactive responses	• Reactive maintenance in the event of sewer collapses
H10a Risks to health from water quality	• Continuous monitoring of water supplied from our sources • Source to tap risk assessments; water safety plans • Investment in infrastructure and systems to limit the number of customers reliant on a single source	• Rezoning in the event of failing samples • Catchment management to protect drinking water sources • Blending water supplies • Additional treatment where necessary to keep risk to a satisfactory level
B3 Risks to businesses from water scarcity	• Long-term water resource planning • Drought planning • Networks management to maintain resilience • Dialogue with regulators on abstraction	• Publication of plans, following detailed analysis of risk and stakeholder engagement • Promotion of water efficiency

Additionally, the following items of relevance featured in UKCCRA 2017, but not UKCCRA 2022:

Risks of sewer and surface water flooding due to heavy rainfall	• Drainage and waste water management plans • Infiltration reduction plans • Modelling sewer catchments • Topographic mapping; rainfall modelling. • Monitoring networks and overflows • Work with lead local flood authorities on surface water management • Promoting sustainable drainage methods • Property level protection	• Sewer sealing to reduce groundwater infiltration • Sewer maintenance, e.g., jetting • Improvements at individual storm overflows (SOs) • Behavioural engagement to reduce sewer blockages • Sewer separation where possible and effective
Potential benefits to water, transport, digital and energy infrastructure from reduced frequency of extreme cold events	• Levels of benefit not assessed • Extreme weather business continuity arrangements • Response to future cold wave events informed by learning points from the 2018 'Beast from the East'	• No action linked to reduced frequency

Assessing risks related to our greenhouse gas emissions

We have not undertaken any formal assessments of risks related to greenhouse gas emissions. However, the following risks are apparent to us.

Financial and fiscal

Since the mid-1990s our electricity use has increased significantly due to higher quality standards which often requires energy intensive treatment such as mechanical aeration and ultraviolet disinfection. Concerted energy efficiency work has been necessary to prevent even higher energy use. Our electricity consumption is also extremely sensitive to the weather. High rainfall increases the volume of sewage moving through our sewerage network, and heatwaves increase public water demand and the energy required for treating and pumping water.

With this backdrop, the economic and financial rationale for reducing our carbon footprint is becoming more compelling. We used 14.7 gigawatt hours of renewable electricity and used 30.3 gigawatt hours in heat. This reduces our need to purchase energy.

Regulatory

Through a performance commitment agreed with Ofwat, we pay customers £19,500 for every kilotonne of carbon dioxide equivalent emissions if we exceed our annual target. Carbon footprint reporting is also required for our Annual Report to Ofwat, for Streamlined Energy and Carbon Reporting to Companies House and as part of the UK Emissions Trading Scheme. Our annual reporting to Ofwat will extend to embodied carbon emissions from 2022-23 onwards.

Market / investor pressures

We are seeing more interest in our carbon footprint than has been the case historically, from institutional investors, fund managers and ratings agencies. In response we will provide an initial disclosure via the Carbon Disclosure Project during 2022.

Customers and other stakeholders

The BEIS public attitudes tracker shows that concern about climate change has risen steadily over the last 10 years. In the most recent survey (winter 2021-22), 85% of people said they were concerned about climate change, with 43% saying they were very concerned. Alongside, in a survey conducted in autumn 2021 by Business in the Community and YouGov, 72% of respondents said it is important that the businesses they buy from take climate action. We believe that there will be growing expectation that we reduce our carbon footprint and increase our resilience to climate risks, alongside other areas of environmental delivery.

Quantification of emissions

We are confident in the level of emissions related to energy and transport. However, emissions of methane and nitrous oxide (within scope 1) are much less certain, as they are estimated by water companies in the absence of direct measurement methods. Work is underway nationally to better quantify methane and nitrous oxide, and initial findings suggest that historically they have been underestimated. As things stand, our reported nitrous oxide emissions (historically around 9 kt CO2e per year) have doubled due to a recommended change of an accounting procedure. Looking ahead, it is probable that the emission factor for nitrous oxide emitted from every kilogramme of nitrogen in the sewage that we receive, will be revised upwards.

A literature review carried out in 2020 for UK Water Industry Research, and the base assumptions used by the Intergovernmental Panel on Climate Change, suggest that a more accurate estimate of nitrous oxide emissions overall could be four to eight times higher than reported historically. For now, monitoring work by UK water and sewerage companies will provide more accurate estimates of nitrous oxide emissions at water recycling centres and we expect a revised set of emissions factors in two to three years' time, at which point we will need to revise our overall carbon footprint calculation.

The second main uncertainty involves emissions associated with construction materials and products and services that we consume via our supply chain. While we are working to gain a better high-level understanding of these scope 3 emissions, we understand the calculations involved often carry many assumptions and estimates. For example, the carbon footprint of one tonne of steel or cement can vary substantially depending on the types of energy used, the place where it was manufactured, the distance it has travelled to reach us, and the mode of transport used.

Managing our greenhouse gas emissions

We use various methods for managing our greenhouse gas emissions.

Avoiding emissions

- Our ongoing programme of leakage reduction and customer demand management is focused on protecting water supplies. This has also reduced energy consumed and our carbon footprint. Leakage reductions achieved during the last 20 years mean that our annual carbon footprint is two kilotonnes less than it would have been.
- We have an extensive catchment management programme that promotes farming practices that reduce fertiliser and pesticide use. This has helped us to avoid additional energy and resource-intensive water treatment at specific sites.
- We have adopted technologies that enable video-conferencing and remote working as an alternative to travelling to other locations. More flexible work patterns and improved connectivity will further reduce business mileage and commuting.
- Our sister company GENeco has been a pioneer in the introduction of vehicles of different sizes running on biomethane. We have started installation of electric charging points and are trialling the use of compressed natural gas for large vehicles, instead of diesel. This may be switched to biomethane at a later date.

Optimisation

- Maintaining the efficiency of equipment at treatment sites and in pumping networks is an important way of controlling energy use. We do this using advanced monitoring and targeting systems, which help us identify sites using more electricity than they should and carrying out focused remedial work as a result.
- We are exploring potential methods for monitoring and control of nitrous oxide from sewage treatment. This will be informed by trials in the UK and overseas of systems that combine sensors and data analysis software.
- We use route optimisation software to improve the efficiency of journeys and are trialling systems to improve driver behaviour with benefits for safety as well as fuel efficiency.

Renewable energy

- Using anaerobic digestion of sewage sludge , we sell excess capacity biogas to a third party to either generate electricity (at five of our sludge treatment centres) or is refined into biomethane (at Bristol and Trowbridge) that can be injected into the gas grid or used as a renewable fuel for transport.

- We operate medium and small-scale hydro turbines at three sites and we have solar photovoltaic panels on the roofs of our Operations Centre and Sutton Bingham water treatment centre.
- We are assessing our operational sites and landholding for further solar generation potential as well as suitable candidate sites to take renewable generation from beyond our landholdings

Our net zero carbon route map sets out how we plan to address our operational emissions during the 2020s and signals the need for tackled embodied carbon emissions. If we were to continue current carbon management work, with no additional efforts, we would expect to see our carbon footprint fall (on a like-for-like basis) during the 2020s. This will be due to two main factors. Firstly, the continuing decarbonisation of grid electricity across the UK. Secondly, the decarbonisation of road vehicles with the sale of new petrol and diesel cars and vans to be banned from 2030.

However, these would be insufficient for reaching net zero emissions. We will need to pursue a wide range of opportunities for cutting carbon that will require additional effort and investment (especially during 2025-30). These will include some readily available options, using established methods and known technologies, which have a favourable balance of costs and carbon reduction benefits. Beyond these are more innovative options involving emerging science and technology; it is likely that these will need to play a part if we are to achieve a net zero carbon position.

Integrating climate-related risks into our overall risk management process

Our resilience action plan (approved by our Audit and Risk Committee on behalf of the Board and audited by Mott MacDonald) outlines our approach to risk management. As part of the plan, we are building an integrated resilience framework into our existing risk management procedures. Our approach aligns with Ofwat's concept of 'Resilience in the Round' and considers the resilience of our operational, corporate and financial systems. Our resilience approach will allow us to focus our effort on the areas where improvement is needed to maintain or strengthen our resilience.

We carry out horizon scanning to identify emerging shocks and stresses; climate change is one of the 10 stresses identified in our resilience action plan and is linked to some of the shocks such as power failure, extreme weather and flooding.

We manage risk at strategic, tactical and operational levels, each of which involves resilience assessments. Climate change scenarios and extreme weather events are involved in some of these, such as the analyses underlying our Water Resource Management Plan and Drainage and Waste Water Management Plan.

We use a hierarchy of interventions to systematically encourage the development of mitigations which (1) tolerate risk, (2) improve operations, (3) collaborate with stakeholders and customers to address the root causes (4) optimise existing assets using new technologies or (5) build smarter solutions (TOCOB). Potential mitigations are appraised using a capitals based service measures framework, which we have developed to capture the risk to service and value of investing to our customers, environment and operations. In this way we aim to ensure that our investment decisions can deliver against our performance commitments and resilience metrics.

Metrics and targets

We have a number of performance commitments and key performance indicators that are related to climate change risk and are reported annually. They include the following.

Water supply

- Compliance with abstraction licences
- Water supply restrictions
- Water supply interruptions
- Avoided water use from water efficiency measures
- Water quality compliance; Events Risk Index; water quality customer contacts
- Leaks repaired within 24 hours

Waste water

- Properties at risk of sewer flooding
- Sewer flood risk score
- Internal flooding per 10,000 connected properties
- External flooding per 10,000 connected properties
- Sewer collapses per 1,000km

Company

Operational greenhouse gas emissions

Our scope 1, 2 and 3 emissions can be found in our Directors' Report on pages 108 and 109.

Outlook

Following the initial analysis, the Company expects that while there will be additional costs to meeting climate change adaptation, the Company's business model together with its sustainable funding strategy provide a solid platform for the Company to meet these challenges.

The strategic report was approved by the Board of Directors on 21 September 2022 and signed on its behalf by:

Ruth Jefferson – Group General Counsel
Claverton Down
Bath
BA2 7WW

Directors' report

The Directors have pleasure in presenting their report and the audited financial statements (subsequently referred to as accounts) for the year to 30 June 2022.

The Directors consider the annual report and accounts taken as a whole, to be fair, balanced and understandable and it provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

In reaching decisions the Board, individually and collectively, takes account of the requirements of s.172 of Companies Act 2006 and the impact of decisions on the Company's stakeholders.

Principal activities

The main activities of the Company are the supply of water and the treatment and disposal of waste water.

Results

The trading results for the year ended 30 June 2022 and the Company's financial position at that period end are shown in the attached financial statements. The Company has generated revenue of £517.8m during the year (2021 - £516.9m) resulting in a profit before taxation of £54.0m (2021 – £75.2m). For further detail on the results for the year see page 68.

The Directors consider the trading performance for the year to be adequate and they are confident of the future prospects of the Company.

Going concern

The Directors have considered the financial position of the Company and have concluded that they will be able to meet their liabilities as they fall due. For these purposes this is taken to mean a period of 12 months from the date of approval of these accounts to 30 September 2023. In coming to this conclusion, the directors have evaluated the impact post the pandemic on revenues and debt collectability and reviewed the financing requirements of the Company for the 12-month period from the date of the approval of these accounts to 30 September 2023.

The Directors have noted there is a need for refinancing debt falling due within 12 months, in particular a £50m index linked bond due in July 2023. In order to facilitate this repayment, the Company secured a £75m term loan facility in February 2022. The Company also continues to have access to £225m of bank facilities if required.

The impact of high inflation has had a negative effect on the Company's index linked debt and by association the interest cover ratios. In light of this, the Company has agreed a covenant amendment with its lenders for the testing periods to the 31 March 2024. After this date the covenants will revert to their original status pending an ongoing renegotiation of the covenant calculation.

As part of these financial statements, a long-term viability statement has been prepared which extends to March 2030 and against which 27 scenarios of varying severity have been modelled, all of which included the impact of the pandemic. In the few most severe cases where multiple shocks were modelled, the impacts were short lived and did not affect the underlying viability of the Company during the going concern period.

Therefore, the Directors have prepared the accounts on a going concern basis.

Environment, social purpose and governance

Wessex Water Services Ltd has a vision that guides our progress towards being a responsible and sustainable water company, ensuring that our activities meet the demands of our environmental, social and governance stakeholders and responsibilities now and in the future.

Ethical policy

We are determined to maintain our reputation as a Company that observes the highest standards of personal and corporate integrity by adhering to a strict code of business ethics. We aim to be the best and value everyone's contribution in our pursuit of excellence.

We are honest in the way we conduct our business. We treat one another, our customers and the environment with respect.

Our people

It takes great people and great teamwork to provide water and sewerage services to nearly three million customers, 24 hours a day, seven days a week. That is why we encourage and reward our employees for their contribution to achieving our aims. We seek their ideas and put them into practice, celebrate success at our annual awards and encourage them to go the extra mile with our GEM scheme. In addition, our People Programme is a dedicated programme of initiatives to address current and future strategic people priorities in areas including resourcing, talent management, reward and recognition, future working, diversity and employee wellbeing.

Our apprenticeship strategy is proving successful for both the Company and the local community, offering secure employment opportunities across our region.

We are committed to promoting an inclusive workforce that reflects the cultures and diversity of the Wessex Water region, and to fostering a culture where everyone can thrive, inclusive of every gender, ethnicity, race, age, ability, sexual orientation and social background. This is ongoing work.

Employment

Wessex Water Services Ltd is an equal opportunities employer. No person or group of persons applying for a job with the Company is treated less favourably than any other person or groups of persons because of their gender, race, class, colour, nationality, ethnic origin, marital status, sexual orientation, age, trade union membership or activity, religious belief or physical or mental disability.

Selection procedures and criteria ensure that individuals are selected and promoted on the basis of their relevant merits and abilities. These procedures are monitored and regularly reviewed.

Where necessary, the Company provides staff with ongoing professional development to enable them to compete or qualify for positions, or to progress, within the Company.

Streamlined energy and carbon reporting

Global GHG emissions and energy use data for year to 30 June 2022

	2021-22		2020-21		unit
	UK & offshore	Global (excl. UK & offshore)	UK & offshore	Global (excl. UK & offshore)	
Energy consumption used to calculate emissions	334,551,494	-	350,022,985	-	kWh
Emissions from activities for which the company is responsible including combustion of fuel and operation of facilities (Scope 1)	57,402		53,079		t CO_2e
Emissions from purchase of electricity, heat, steam and cooling purchased for own use (Scope 2)	46,445		52,067		t CO_2e
Total gross Scope 1 & Scope 2 emissions	103,847		105,146		t CO_2e
Emissions outside of operational control (Scope 3)	10,636		6,861		t CO_2e
Gross emissions	**114,483**		**112,007**		t CO_2e
Exported renewable energy	(1,392)		(1,562)		t CO_2e
Total annual net emissions	**113,091**		**110,445**		**t CO_2e**

	2021-22	2020-21	Calculation
Intensity metric 1	158	167	kg t CO2e / Ml water treated
Intensity metric 2	223	195	kg t CO2e / Ml sewage treated (flow to full treatment)
Intensity metric 3	459	427	kg t CO2e / Ml sewage treated (water distribution input

Methodology

The emissions data presented here are calculated using the most recent edition of the water industry's Carbon Accounting Workbook which incorporates UK emissions factors for the relevant year. The workbook is updated and maintained annually through UK Water Industry Research (UKWIR). For energy consumption, data is extracted from in-house systems for power, liquid fuels and financials which are then converted using the appropriate UK conversion factor.

The data presented follows the annual reporting period April-March to align with Wessex Water's regulatory reporting year. However, emissions reported here differ from those used to calculate our Ofwat performance commitment value; the latter is calculated using the 2018-2019 edition of the Carbon Accounting Workbook, and BEIS' 2017 forecast for grid electricity carbon intensity for 2021-2022.

Energy efficiency measures

The company is committed to the sustainable use of the natural resources which we rely on for our water and sewage operations. We are acutely aware that our processes to treat, distribute and supply potable water, and to pump and treat waste water are inherently energy intensive. Therefore, we continually seek ways to use energy more efficiently so we can reduce energy use, optimise our assets and increase resilience. Below are examples of energy efficiency measures delivered within the year:

- continual development of real-time process monitoring
- improving benchmarking capabilities (kWh/m2) for key assets
- optimising pump performance through testing programme
- upgrade on PLCs, inlets and pumping stations
- trialling passive solutions such as shade balls to minimise energy intensive treatment
- optimising combined heat and power output.

The Modern Slavery Act 2015

Wessex Water is committed to meeting the aims of the Modern Slavery Act 2015. We strongly oppose slavery and human trafficking in our supply chains and in any part of our business. To be trusted to do the right thing is one of our core values. We would never knowingly engage with suppliers or contractors involved in slavery or human trafficking and our processes are designed to actively identify potential slavery risks. In accordance with the requirements of the Act we have published on our website a slavery and human trafficking statement 2020.

Environment policy

The Company protects conserves and improves the environment and operates in a socially responsible manner. This is important to our colleagues, customers and shareholder. Working practices are continually revised as improved techniques and technologies become available. The environment policy is reviewed annually.

Research and development

The Company carried out research and development in support of existing activities to improve the reliability and effectiveness of water and waste water services.

Market value of land and buildings

In the opinion of the Directors, the market value of land and buildings of the Company exceeds the book value of these assets at 30 June 2022.

Suppliers

We need to maintain relationships with suppliers who meet our high standards and demonstrate that they operate in accordance with recognised standards that uphold human rights and safety, prohibit modern slavery and promote sustainable sourcing.

The payment policy in respect of suppliers is to agree the payment terms for transactions in advance and to make payments in accordance with those terms. At 30 June 2022, trade creditors represented approximately 20 days trade purchases (2021 – 24 days).

The Company does not follow any specific external code or standard on payment policy.

Community and charitable donations

We aspire to be responsible members of our community as it reflects our aim of doing the right thing. It is also important to colleagues, customers and our shareholder.

During the year £652,044 was donated to UK charities predominantly via the Wessex Community Fund (2021 – £737,739), of which £320,000 (2021 – £225,306) was donated to local debt advice agencies to help provide debt and financial advice to customers in our area who are struggling to pay their water bills.

Disclosure of information to auditor

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all the steps that ought to have been taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

Following a resolution of the Board Ernst & Young LLP were re-appointed as the auditor of the Company for the current financial year.

By order of the Board

Ruth Jefferson
Group General Counsel

21 September 2022

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements (subsequently referred to as accounts) in accordance with applicable United Kingdom law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Company's financial statements in accordance with UK adopted international accounting standards.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss for that period.

In preparing these financial statements the Directors are required to:

- select suitable accounting policies in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance;
- in respect of the company's financial statements, state whether UK adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is appropriate to presume that the Company will not continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Company financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a strategic report and Directors' report, that comply with that law and those regulations. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

Directors' responsibility statement

The Directors confirm, to the best of their knowledge:

- that the financial statements, prepared in accordance with UK adopted international accounting standards give a true and fair view of the assets, liabilities, financial position and profit for the Company; and
- that the annual report, including the strategic report, includes a fair review of the development and performance of the business and the position of the Company together with a description of the principal risks and uncertainties that they face; and
- that they consider the annual report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position, performance, business model and strategy.

Independent Auditor's Report to the members of Wessex Water Services Limited

Opinion

We have audited the financial statements of Wessex Water Services Limited Limited for the year ended 30 June 2022 which comprise Income Statement, the Statement of Other Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and the Statement of Cash Flows and the related notes1 to 32, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards.

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 30 June 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- We gained an understanding of the process undertaken by management to perform the going concern assessment, including their assessment of risk and evaluation of the ongoing economic uncertainty and associated inflationary pressures, including discussion with management to ensure all key factors were taken into account.
- We obtained management's forecast cash flows and covenant calculations covering the period from the date of signing to 30 September 2023 and we agreed these to the Board and regulatory approved budgets and forecasts.
- We tested the mathematical accuracy of the cash flows, as well as the calculation of the forecast covenants.
- We considered the Company's access to available sources of liquidity and agreed available facilities to underlying agreements and the extent of drawings thereunder to external confirmations.
- We performed the forecast covenant testing and considered any indicator of breach.
- We understood and challenged management by reperforming and building our own point of estimate, in respect of the assumptions used in the going concern assessment and reverse

stress test reflecting their principal risks and uncertainties and considering the impact these risks would have on liquidity and on compliance with financial covenants, and whether the scenarios have no more than a remote possibility of occurring.

- We understood and challenged the Board's controllable mitigation plans and the forecast impact on the ability of the business to operate within its financial covenants. We obtained supporting documentation to evaluate the plausibility and achievability of management's mitigation plans considering actions delivered to date.
- We compared forecast future cashflows to historical data, ensuring variations are in line with our expectations, such as historical performance, and understanding of the business and considered the reliability of past forecasts.
- We considered the results of other audit procedures and other knowledge obtained in the audit and whether it was consistent with or contradicted management's assumptions.
- Inquired of management as to their knowledge of events or conditions beyond the period of their assessment that may cast significant doubt on the entity's ability to continue as a going concern
- We assessed the appropriateness of disclosures within the Annual Report and Accounts.

Our key observations

- In February 2022, the Company secured a £75 million term loan facility, providing the Company with access to funds to repay the £50 million index linked bond due in July 2023.
- The Company also has £225 million of revolving bank facility available to draw upon during the going concern period, £95 million of which has been drawn down at 30 June 2022.
- The impact of high inflation has had a negative effect on the Company's index linked debt and by association the interest cover ratios. The Company has agreed a covenant amendment with its lenders for the testing periods to 31 March 2024. After this date the covenants will revert to their original status pending an ongoing renegotiation of the covenant calculation.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of 12 months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 111 , the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are:

- International Accounting Standards
- Financial Reporting Council (FRC)
- Tax legislation (Governed by HM Revenue and Customs)
- General Data Protection Regulation
- The UK Bribery Act
- Anti-Money Laundering Legislation
- Health & Safety Legislation
- Wates Principles
- Ofwat regulations
- The Water Act 2003
- Environment Act 1995

- We understood how Wessex Water Services Limited is complying with those frameworks by making enquiries of management to understand how the company maintains and communicates its policies and procedures in these areas. We evaluated the entity level control environment through discussions with management and company in-house legal counsel, inspections and observations in the control environment to understand procedures implemented by management to reduce the opportunities for fraudulent transactions.

- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by inquiring with management and those charged with governance and performing a walkthrough of the financial statement closing process. We understood the programmes and controls that the company has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those programmes and controls. We determined revenue recognition to be a fraud risk due to management override of controls, therefore we tested manual journal entries posted to revenue, focusing on journals around the year end, and also performed year end cut off procedures. Further, we performed overall analytical procedures to assess the fairness of the overall financial performance and the position as at and for the year ended. In relation to management override we used data analytics to sample from the entire population of journals, identifying specific transactions which did not meet our expectations based on specific criteria, to investigate to gain an understanding and agree to source documentation.

- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved making enquiries of key management and in-house legal counsel, reviewing key policies, inspecting legal registers and correspondence of non-compliance from the relevant authorities and reports from any external legal teams, and reading board meeting minutes. We performed journal entry testing to ensure that there are no unusual legal or penalty expenses incurred during the year that haven't been disclosed and to ensure that the management is in compliance with the applicable framework. For any non-compliance noted, we assessed the accounting implications and read the financial statements to evaluate the appropriateness of the disclosures.

- The Company operates in the water sector which is highly regulated. As such the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of an expert where appropriate.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Paul Mapleston (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Bristol, 21 September 2022

Financial statements

Income Statement

For the year ended 30 June 2022

	Note	**2022 £m**	2021 £m (Restated, Note 2)
Revenue	*3,4*	**517.8**	516.9
Charge for bad and doubtful debts	*25*	**(15.6)**	(13.0)
Other operating costs		**(363.9)**	(354.0)
Total operating costs	*5*	**(379.5)**	(367.0)
Other Income		**5.9**	9.2
Operating profit	*3*	**144.2**	159.1
Financial income	*8*	**0.1**	0.4
Financial expenses	*8*	**(90.3)**	(84.3)
Net financing expense		**(90.2)**	(83.9)
Profit before tax		**54.0**	75.2
Taxation	*9*	**(10.9)**	(111.0)
Profit/(loss) for the year		**43.1**	(35.8)

As there are no non-controlling interests, the profit/(loss) for the year is wholly attributable to the owners of the parent company.

Statement of Other Comprehensive Income

For the year ended 30 June 2022

	Note	**2022 £m**	2021 £m (Restated, Note 2)
Profit/(loss) for the year		**43.1**	(35.8)
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Remeasurements of defined benefit liability	*20*	**96.4**	80.5
Income tax on items that will not be reclassified to profit or loss	*9*	**(24.1)**	(54.0)
Other comprehensive income for the year, net of income tax		**72.3**	26.5
Total comprehensive income/(loss) for the year		**115.4**	(9.3)

As there are no non-controlling interests, the comprehensive income/(loss) for the year is wholly attributable to the owners of the parent company.

Statement of Financial Position
At 30 June 2022

	Note	2022 £m	2021 £m (Restated, Note 2)	2020 £m (Restated, Note 2)
Non-current assets				
Property, plant and equipment	*11,12*	**4,023.6**	3,926.0	3,789.1
Intangible assets	*13*	**50.1**	48.0	53.0
Investments in subsidiaries	*14*	**-**	-	-
Retirement benefit surplus	*20*	**33.5**	-	-
		4,107.2	3,974.0	3,842.1
Current assets				
Inventories	*15*	**5.2**	4.1	4.1
Trade & other receivables	*16*	**194.8**	193.3	191.1
Corporation tax receivable	*16*	**10.5**	6.9	2.6
Other financial assets		**-**	-	98.0
Cash and cash equivalents	*17*	**-**	328.3	32.3
		210.5	532.6	328.1
Total assets		**4,317.7**	4,506.6	4,170.2
Current liabilities				
Bank overdraft	*18*	**(10.9)**	-	-
Other interest-bearing loans and borrowings	*18*	**(16.0)**	(391.0)	(8.4)
Trade & other payables	*19*	**(177.7)**	(183.3)	(159.0)
Provisions	*22*	**(1.2)**	(0.1)	(0.2)
		(205.8)	(574.4)	(167.6)
Non-current liabilities				
Other interest-bearing loans and borrowings	*18*	**(2,445.8)**	(2,286.1)	(2,366.1)
Contract liabilities	*19*	**(5.4)**	(5.5)	(6.2)
Retirement benefit deficit	*20*	**(0.8)**	(76.1)	(165.1)
Deferred grants and contributions	*21*	**(309.8)**	(299.9)	(293.1)
Deferred tax liabilities	*23*	**(603.0)**	(564.5)	(403.7)
		(3,364.8)	(3,232.1)	(3,234.2)
Total liabilities		**(3,570.6)**	(3,806.5)	(3,401.8)
Net assets		**747.1**	700.1	768.4
Equity				
Share capital	*24*	**-**	-	-
Retained earnings		**747.1**	700.1	768.4
Total equity		**747.1**	700.1	768.4

The notes on pages 123 to 168 form an integral part of these financial statements.
These financial statements were approved by the Board of Directors on 21 September 2022 and were signed on its behalf by:

Colin Skellett, Director

Statement of Changes in Equity

For the year ended 30 June 2022

	Note	Share capital (Note 24) £m	Retained earnings £m	Total equity £m
Balance at 1 July 2020		-	770.1	770.1
Effect of change in accounting policy		-	(1.7)	(1.7)
Balance at 1 July 2020 (restated)		-	768.4	768.4
Total comprehensive income for the year				
(Loss) for the year		-	(34.5)	(34.5)
Other comprehensive income		-	26.5	26.5
Total comprehensive (loss) for the year		-	(8.0)	(8.0)
Transactions with owners, recorded directly in equity				
Dividends	*10*	-	(59.0)	(59.0)
Total contributions by and distributions to owners		-	(59.0)	(59.0)
Balance at 30 June 2021		-	701.4	701.4
Balance at 1 July 2021		**-**	**701.4**	**701.4**
Effect of change in accounting policy		**-**	**(1.3)**	**(1.3)**
Balance at 1 July 2021 (restated)		**-**	**700.1**	**700.1**
Total comprehensive income for the year				
Profit for the year		**-**	**43.1**	**43.1**
Other comprehensive income		**-**	**72.3**	**72.3**
Total comprehensive profit for the year		**-**	**115.4**	**115.4**
Transactions with owners, recorded directly in equity				
Dividends	*10*	**-**	**(68.4)**	**(68.4)**
Total contributions by and distributions to owners		**-**	**(68.4)**	**(68.4)**
Balance at 30 June 2022		**-**	**747.1**	**747.1**

Included in retained earnings are £522.3m of undistributable reserves (2021 - £529.4m) created on first time adoption of IFRS when restating infrastructure assets to fair value.

Statement of Cash Flows
For the year ended 30 June 2022

	Note	**2022 £m**	2021 £m (Restated, Note 2)
Cash flows from operating activities			
Profit/(loss) for the year		**43.1**	(35.8)
Adjustments for:			
Depreciation and amortisation	*5*	**134.8**	126.4
(Gain) on disposal of property, plant and equipment	*5*	**(2.7)**	(6.0)
Financial income	*8*	**(0.1)**	(0.4)
Financial expense	*8*	**90.3**	84.3
Taxation	*9*	**10.9**	111.0
		276.3	279.5
(Increase) in trade and other receivables		**(1.4)**	(4.7)
(Increase) in inventories		**(1.1)**	-
(Decrease)/increase in trade and other payables		**(0.8)**	21.5
(Decrease) in provisions and employee benefits		**(12.4)**	(10.9)
		(15.7)	5.9
Tax paid		**-**	(7.9)
Net cash from operating activities		**260.6**	277.5
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**3.4**	10.1
Interest received		**0.2**	0.4
Acquisition of property, plant and equipment		**(210.5)**	(255.9)
Acquisition of intangible assets		**(11.7)**	(3.8)
Sale of financial instruments		**-**	98.0
Proceeds from infrastructure charges and capital contributions		**5.4**	9.1
Net cash from investing activities		**(213.2)**	(142.1)
Cash flows from financing activities			
Proceeds from new loans		**145.0**	294.7
Interest paid		**(72.8)**	(67.9)
Repayment of borrowings	*18*	**(391.0)**	(8.0)
Payment of lease liabilities	*12*	**(0.2)**	(0.7)
Dividends paid		**(67.6)**	(57.5)
Net cash from financing activities		**(386.6)**	160.6
(Decrease)/increase in cash and cash equivalents		**(339.2)**	296.0
Cash and cash equivalents at 1 July		**328.3**	32.3
Cash and cash equivalents at 30 June	*17,18*	**(10.9)**	328.3

Notes to the financial statements

1. Accounting policies

1.1 Basis of preparation

Wessex Water Services Limited (the 'Company') is a private company incorporated, domiciled and registered in England in the UK. The registered number is 2366648 and the registered address is Wessex Water Operations Centre, Claverton Down, Bath, BA2 7WW.

The Company financial statements have been prepared and approved by the Directors in accordance with UK adopted international accounting standards.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Judgements made by the Directors, in the application of these accounting policies, that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 32.

Group accounts have not been prepared as under section 400 of the Companies Act 2006 the Company and its subsidiary are included in the consolidated financial statements of Wessex Water Ltd (see note 30).

These financial statements present information for the company only as a single entity.

1.2 Measurement convention

The financial statements are prepared on a cost basis and presented in pounds sterling which is the company's functional and presentational currency.

1.3 Going concern

The Directors have considered the financial position of the Company and have concluded that they will be able to meet their liabilities as they fall due. For these purposes this is taken to mean a period of 12 months from the date of approval of these accounts to 30 September 2023. In coming to this conclusion, the directors have evaluated the impact post the pandemic on revenues and debt collectability and reviewed the financing requirements of the company for the 12-month period from the date of the approval of these accounts to 30 September 2023.

The Directors have noted there is a need for refinancing debt falling due within 12 months, in particular a £50m index linked bond due in July 2023. In order to facilitate this repayment, the Company secured a £75m term loan facility in February 2022. The Company also continues to have access to £225m of bank facilities if required.

The impact of high inflation has had a negative effect on the Company's index linked debt and by association the interest cover ratios. In light of this, the Company has agreed a covenant amendment with its lenders for the testing periods to the 31 March 2024. After this date the covenants will revert to their original status pending an ongoing renegotiation of the covenant calculation.

As part of these financial statements, a long-term viability statement has been prepared which extends to March 2030 and against which 27 scenarios of varying severity have been modelled, all of which included the impact of the pandemic. In the few most severe cases where multiple shocks were modelled, the impacts were short lived and did not affect the underlying viability of the company during the going concern period.

Therefore, the Directors have prepared the accounts on a going concern basis.

1. Accounting policies *(continued)*

1.4 Foreign currency

Transactions in foreign currencies are translated into sterling at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

1.5 Financial instruments

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and bank deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient. The Company initially measures a financial asset at its fair value plus transaction costs. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Subsequent measurement

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Company. The Company measures financial assets at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and;
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to expected credit loss. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Company's financial assets at amortised cost includes intercompany loans repayable in more than 12 months, and trade receivables.

1. Accounting policies *(continued)*

1.5 Financial instruments *(continued)*

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Company's statement of financial position) when:

- the rights to receive cash flows from the asset have expired, or;
- the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Company's financial liabilities include trade and other payables and loans and borrowings.

Subsequent measurement – loans and borrowings

This is the category most relevant to the Company. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

This category generally applies to interest-bearing loans and borrowings. For more information, refer to note 18.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

1. Accounting policies *(continued)*

1.6 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Leases in which the Company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Where land and buildings are held under leases the accounting treatment of the land is considered separately from that of the buildings.

Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and less accumulated impairment losses.

Under IFRS 15 sewers adopted at nil cost to the Company are included in property, plant and equipment at a fair value, which is the estimated cost of construction and depreciated at the same rate as infrastructure assets.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

- buildings and operational assets 10 to 80 years
- infrastructure assets 60 to 150 years
- plant, machinery and vehicles 2 to 30 years
- office and IT equipment 3 to 10 years

Infrastructure assets comprise these eight components:

Impounding reservoirs 150 years, raw water mains 100 years, treated water mains 100 years, communication pipes 60 years, sewers 125 years, sewage pumping stations 60 years, combined sewer overflows 80 years and sea outfalls 60 years.

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

1.7 Intangible assets

Intangible assets that are acquired by the company are stated at cost less accumulated amortisation and less accumulated impairment losses.

Amortisation
Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

- Specialised computer software 10 years
- In-house computer software development 5 years
- Other computer software 3 years

1.8 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

1. Accounting policies *(continued)*

1.9 Impairment excluding inventories and deferred tax assets

Financial assets (including receivables)

For trade receivables and contract assets that are expected to have a maturity of one year or less, the Company has applied the practical expedient and followed the simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., customer type, payment method, rating and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Company's historical observed default rates. The Company will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., average earnings) are expected to deteriorate over the next year which can lead to an increased number of defaults in the sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Company's trade receivables and contract assets is disclosed in Note 25.

The Company considers a financial asset in default when contractual payments are 80 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

1. Accounting policies *(continued)*

1.10 Employee benefits

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit pension plans and other post-employment benefits are calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets are deducted. The Company determines the net interest on the net defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability.

The discount rate is the yield at the reporting date on bonds that have a credit rating of at least AA that have maturity dates approximating the terms of the Company's obligations and that are denominated in the currency in which the benefits are expected to be paid.

Re-measurements arising from defined benefit plans comprise actuarial gains and losses and the return on plan assets. The Company recognises them immediately in other comprehensive income and all other expenses related to defined benefit plans in employee benefit expenses in profit or loss.

When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised immediately in profit or loss when the plan amendment or curtailment occurs.

The calculation of the defined benefit obligations is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Company, the recognised asset is limited to the present value of benefits available in the form of any future refunds from the plan or reductions in future contributions and takes into account the adverse effect of any minimum funding requirements.

The Company's employees are members of the Wessex Water Ltd Group pension scheme. The Company recognizes a cost equal to its contribution payable for the period. The assets of the scheme are held separately from those of the Group. The scheme has been closed to new members since 2009.

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement in the periods during which services are rendered by employees.

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

1. Accounting policies *(continued)*

1.11 Provisions

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

1.12 Deferred grants and contributions

Grants and contributions in respect of specific expenditure on non-infrastructure property, plant and equipment are treated as contract liability and recognised in the income statement over the expected useful economic lives of the related assets.

Grants and contributions relating to infrastructure assets are amortised over the appropriate useful economic life (see 1.6).

Sewers adopted at nil cost to the Company are shown in deferred income at a fair value, which is the estimated cost of construction, and amortised at the same rate as infrastructure assets are depreciated.

1.13 Revenue

Supply of water and sewerage services

The nature of the water industry in the UK is such that revenue recognition is subject to a degree of estimation. The assessment of water sales to customers is based on internal data where final settlement data is not yet available. At the end of each period, amounts of water delivered to customers are estimated and the corresponding billed and unbilled revenue is assessed and recorded in Revenue. For the purpose of the judgement various factors are considered such as seasonality, historic billing profiles, leakage data and general economic conditions.

The company, under the license granted by the Government, has the right to supply water and sewerage services to customers, together with an obligation to maintain and develop the network and ensure its continued availability. Revenue from contracts with customers is recognised when control of these goods or services are transferred to the customer at an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services.

For metered customers this amount is determined by the meter reading. For unmetered customers, the amount to which the Company has a right to receive is determined by the passage of time during which the customer occupies a property within the Company’s licensed region. Revenue represents income receivable in the ordinary course of business, excluding VAT, for services provided. Revenue is recognised to the extent that it is probable that economic benefits will flow to the Company.

Variable consideration

Unbilled receivables are considered to be a variable consideration which is not constrained as the Company considers it to be highly probable that a significant amount will not be reversed after year end. Unbilled receivables and the variable consideration are estimated using the most likely outcome approach.

1. Accounting policies *(continued)*

1.13 Revenue *(continued)*

Other revenue - Developer Services

These are services related to the obligation under statute to allow property developers to establish an authorised connection to the water and/or sewerage network. In obtaining the connection the developer may require the Company to undertake one or more of the of the following:

(i) Connections and meter installation in exchange for payment;

(ii) Requisitions of water mains in exchange for payment; and

(iii) Adoptions of water and waste water mains.

The developer is also required to pay infrastructure charges being a contribution to network reinforcement.

Period over which performance obligations are satisfied

From the perspective of the Company these activities are not separable nor distinct and instead form a bundle of activities necessary to establish an authorised connection from which the network access can be obtained. Also, the Company has an additional obligation under statute to keep the connection in place for all current and future occupiers and facilitate ongoing access to the network for as long as the property requires service provision. Consequently, revenue from Developer Services will be deferred over the shorter of expected period of service provision or the need to replace the assets at the end of their useful life (typically in the range 60 to 125 years).

Financing component

Under IFRS 15 the transaction price needs to be adjusted if the timing of payments provides the customer or supplier with a significant benefit of financing the transfer of goods or services. This is not the case for Developer Services as the timing difference does not arise as a result of the provision of finance, but rather comes as a consequence of the nature of the regulatory environment.

Other Revenue - general

Other Revenue which includes income from related parties is recognised by reference to each distinct performance obligation promised in the contract with customer. Depending on the substances of the respective contract with the customer, revenue is recognised when the performance obligation is satisfied, which may be at a point in time or over time.

1.14 Expenses

Operating lease payments

Lease payments on short-term leases and leases of low value assets are recognised as expenses on a straight-line basis over the lease term.

IFRS16 lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Variable lease payments that do not depend on an index or a rate are recognised as expenses. In addition, depreciation is charged on a straight-line basis on a right-of-use asset recognised at the inception of the lease (or the date of adoption of IFRS 16 if later).

1. Accounting policies *(continued)*

1.14 Expenses *(continued)*

Financing income and expenses

Financing expenses comprise interest payable, finance charges on shares classified as liabilities and finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the income statement (see foreign currency accounting policy).

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use, are capitalised as part of the cost of that asset. Financing income comprises interest receivable on funds invested, dividend income, and net foreign exchange gains.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

1.15 Taxation

Tax on the profit for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

1.16 Dividends

Dividends are proposed by the Board and immediately afterwards are authorised by the shareholder and are therefore recognised as a liability in the accounts until paid.

1.17 Contract balances

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Company performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration.

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Company transfers goods or services to the customer, a contract liability is recognised when the payment is made, or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Company performs under the contract.

1. Accounting policies *(continued)*

1.18 Leases

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Company as a lessee

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

i) Right-of-use assets

The Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

- land and property 4 to 97 years
- motor vehicles and other equipment 3 to 4 years

If ownership of the leased asset transfers to the Company at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. The right-of-use assets are also subject to impairment. Refer to the accounting policies in section (1.9) Impairment of non-financial assets.

ii) Lease liabilities

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating the lease, if the lease term reflects the Company exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

The Company's lease liabilities are included in Interest-bearing loans and borrowings (see Note 18).

1. Accounting policies *(continued)*

1.18 Leases *(continued)*

iii) Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases that are low value. Lease payments on short-term leases and leases of low value assets are recognised as expense on a straight-line basis over the lease term.

Company as a lessor

Leases in which the Company does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

1.19 Software-as-a-Service (SaaS)

SaaS arrangements are service contracts providing the Company with the right to access the cloud provider's application software over the contract period. Costs incurred to configure or customise, and the ongoing fees to obtain access to the cloud provider's application software, are recognised as operating expenses when the services are received.

Some of the costs incurred relate to the development of software code that enhances or modifies, or creates additional capability to, existing on-premise systems and meets the definition of, and the recognition criteria for, an intangible asset. These costs are recognised as intangible software assets and amortised over the useful life of the software on a straight- line basis. The useful lives of these assets are reviewed at least at the end of each financial year, and any change accounted for prospectively as a change in accounting estimate.

1.20 Adopted IFRS not yet applied

There are no adopted IFRS not yet applied in these financial statements

2. Changes in accounting policies and disclosures

During the year, the Company revised its accounting policy in relation to upfront configuration and customisation costs incurred in implementing SaaS arrangements in response to the IFRS Interpretations Committee agenda decision clarifying how IFRS Standards apply to these types of arrangements. The new accounting policy is shown in note 1.19. Historical financial information has been restated to reflect the impact of the change.

Retrospective restatement

As disclosed above, the Company revised its accounting policy in relation to SaaS arrangements during the year as a result of the implementation of agenda decisions issued by the IFRS Interpretations Committee.

2. Changes in accounting policies and disclosures *(cont.)*

Comparative financial information has been restated to reflect the impact of the change in accounting policy, as follows.

(Decrease)/increase	**30 June 2021**	**1July 2020**
	£m	**£m**
Statement of financial position		
Intangible assets	**(5.6)**	(5.4)
Prepayments	**2.6**	3.7
Total assets/net assets	**(3.0)**	(1.7)
Retained earnings	**(3.0)**	(1.7)
Total equity	**(3.0)**	(1.7)
Statement of comprehensive income		
Operating costs	**2.1**	-
Depreciation and amortisation	**(0.8)**	-
Profit before tax	**(1.3)**	-
Statement of cash flows		
Profit for the year	**(1.3)**	-
Depreciation and amortisation	**(0.8)**	-
Prepayments	**2.1**	-
Payments to suppliers and employees	**1.3**	-
Net cash generated by operating activities	**1.3**	-
Acquisition of intangible assets	**(1.3)**	-
Net cash used in investing activities	**(1.3)**	-

Note 1.19 describes the Company's accounting policy in respect of customisation and configuration costs incurred in implementing SaaS arrangements. In applying the Company's accounting policy, the directors made the following key judgements that may have the most significant effect on the amounts recognised in financial statements.

Capitalisation of configuration and customisation costs in SaaS arrangements

Part of the customisation and configuration activities undertaken in implementing SaaS arrangements may entail the development of software code that enhances or modifies or creates additional capability to the existing on-premises software to enable it to connect with the cloud-based software applications (referred to as bridging modules or APIs). Judgement was applied in determining whether the additional code meets the definition of, and the recognition criteria for, an intangible asset in IAS 38 Intangible Assets. During the year, the Company recognised £0 (2021: £0) as intangible assets in respect of customisation and configuration costs incurred in implementing SaaS arrangements.

Determination whether configuration and customisation services are distinct from the SaaS access

Costs incurred to configure or customise the cloud provider's application software are recognised as operating expenses when the services are received. In a contract where the cloud provider provides both the SaaS configuration and customisation, and the SaaS access over the contract term, the directors applied judgement to determine whether these services are distinct from each other or not, and therefore, whether the configuration and customisation costs incurred are expensed as the software is configured or customised (i.e., upfront), or over the SaaS contract term.

Taxation impact

The change in accounting policy will result in an additional deduction on the first day of the current accounting period. As the assets have been treated as intangible assets for book and tax purposes, the adjustment should crystalise a one-off tax deduction. The introduction of the prepayment creates a deferred tax impact on the first day of the current accounting period. As the initial prepayment is unwound, this will create an additional tax deduction at that time. Any future additions to the prepayment will be treated as normal and will not require any further specific adjustment for tax.

3. Segmental information

Operating segments are reported in a manner consistent with internal reporting provided to the Board.

The water business comprises the regulated water and waste water services undertaken by Wessex Water.

	2022	2021
	£m	£m
Turnover		
Regulated	**509.9**	504.2
Unregulated	**7.9**	12.7
	517.8	516.9
Operating profit		
Regulated	**144.2**	160.4
Unregulated	**-**	-
	144.2	160.4
Net assets		
Regulated	**747.1**	703.1
Unregulated	**-**	-
	747.1	703.1

For management purposes, the Company is organised into units based on the business environment it operates in and has two reportable segments, Regulated and Unregulated.

The Board monitors the operating results of business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on a combination of turnover, operating profit and net asset value and is measured consistently with the consolidated financial statements.

4. Revenue from contracts with customers

Current year	**House-hold £m**	**Non-house-hold £m**	**Total £m**
Wholesale revenue - Water Supply			
Unmeasured	**45.9**	**1.5**	**47.4**
Measured	**76.7**	**43.3**	**120.0**
	122.6	**44.8**	**167.4**
Wholesale revenue - Waste Water			
Unmeasured	**93.8**	**2.1**	**95.9**
Measured	**152.8**	**49.4**	**202.2**
	246.6	**51.5**	**298.1**
Retail revenue			
Unmeasured	**8.7**	**-**	**8.7**
Measured	**24.7**	**-**	**24.7**
	33.4	**-**	**33.4**
Other revenue			
Regulated			**11.0**
Unregulated			**7.9**
Total revenue			**517.8**

Prior year	House-hold £m	Non-house-hold £m	Total £m
Wholesale revenue - Water Supply			
Unmeasured	47.6	1.5	49.1
Measured	78.3	39.1	117.4
	125.9	40.6	166.5
Wholesale revenue - Waste Water			
Unmeasured	96.0	1.9	97.9
Measured	152.5	41.2	193.7
	248.5	43.1	291.6
Retail revenue			
Unmeasured	10.1	-	10.1
Measured	25.9	-	25.9
	36.0	-	36.0
Other revenue			
Regulated			10.1
Unregulated			12.7
Total revenue			516.9

4. Revenue from contracts with customers (continued)

In accordance with IFRS 15, revenue has been disaggregated based on what is recognised in relation to the core services of supplying clean water and the removing and treating of waste water. Each of these services is deemed to give rise to a distinct performance obligation under the contract with customers, though following the same pattern of transfer to the customer who simultaneously receives and consumes both of these services over time

Residential retail charges relate solely to the margin applied to the wholesale amounts charged to residential customers. The wholesale charges and retail margin are combined in arriving at the total revenues relating to water and waste water services provided to household customers

Other revenues comprise a number of smaller non-core income streams including those relating to activities, typically performed opposite property developers, which impact the Company's capital network assets including activities that facilitate the creation of an authorised connection through which properties can obtain water and waste water services.

Contract balances

Contract assets of £4.2m (2021: £3.3m) are included in the statement of financial position under trade and other receivables, see note 16. At the year-end there were liabilities for receipts in advance relating to contracts of £66.1m (2021: £58.2m), see note 19.

5. Operating costs and auditor's remuneration

	Note	**2022 £m**	2021 £m (Restated, Note 2)
Employee costs	*6*	**133.8**	130.5
Power		**33.5**	32.6
Raw Materials and consumables		**14.6**	14.8
Business rates		**25.0**	24.5
Charge for bad and doubtful debts	*25*	**15.6**	13.0
Service charges		**6.5**	6.5
Depreciation of property, plant & equipment	*11*	**126.7**	119.9
Depreciation on ROU assets	*12*	**0.2**	0.6
Depreciation of intangible assets	*13*	**9.5**	9.1
Property, plant & equipment written off		**1.6**	0.7
Short-term lease rentals	*12*	**6.8**	4.7
Hire of plant and machinery		**0.4**	0.3
Infrastructure maintenance		**20.8**	22.8
Ofwat licence fee		**1.2**	1.7
Cost of finished goods and w.i.p.		**5.8**	6.4
Charges from other group companies		**13.6**	16.1
Other operating costs		**73.0**	65.4
		488.6	469.6
Own work capitalised		**(109.1)**	(102.6)
		379.5	367.0
Other income			
(Gain) on disposal of property, plant and equipment		**(2.7)**	(6.0)
Amortisation of deferred income	*21*	**(3.2)**	(3.2)
		(5.9)	(9.2)

5. Operating costs and auditor's remuneration *(continued)*

During the year the following fees were charged by the auditors:

	2022	2021
	£000	£000
Fees payable to the Company's auditor for:		
Audit of these financial statements	**50**	45
Other assurance services	**298**	217
	348	262

Fees payable for the audit of the Company's annual accounts include £5,000 (2021: £570) for out-of-pocket expenses incurred for the delivery of the audit.

Other assurance services include certain agreed upon procedures performed by Ernst & Young LLP in connection with the Company's regulatory reporting requirements for Ofwat.

6. Staff numbers and costs

The average number of employees (including directors) during the year was as follows:

	Number of employees	
	2022	2021
Average number of employees	**2,542**	2,502

The aggregate payroll costs of these employees was:

	2022	2021
	£m	£m
Wages and salaries	**103.8**	102.9
Social security costs	**13.2**	11.2
Pension costs - defined contribution	**6.6**	6.0
Pension costs - defined benefit	**10.2**	10.4
	133.8	130.5

7. Directors' remuneration

	2022	2021
	£000	£000
Total Directors' remuneration including benefits in kind	**2,351**	2,369
Remuneration of highest paid Director	**491**	520

Details of Directors' remuneration can be found in the Governance Report. Directors' remuneration is in respect of four Executive Directors, six Non-Executive Directors and six YTL appointed Directors (2021 – four Executive Directors, seven Non-Executive Directors and six YTL appointed Directors).

8. Finance income and expense

Recognised in the income statement

	2022 £m	2021 £m
Finance income		
Interest receivable on short-term bank deposits	**0.1**	0.4
Total finance income	**0.1**	0.4
Finance expense		
To subsidiary company	**(86.7)**	(78.7)
Net interest on net defined benefit pension plan liability	**(1.1)**	(2.5)
On bank loans and leases	**(8.5)**	(7.4)
Interest capitalised	**6.0**	4.3
	(90.3)	(84.3)
Net interest payable	**(90.2)**	83.9

In accordance with IAS 23 borrowing costs of £6.0m (2021 - £4.3m) associated with the funding of eligible capital projects have been capitalised at an average interest rate of 3.8% (2021 – 3.7%).

9. Taxation

Recognised in the income statement

	2022	2021
	£m	£m
Current tax expense		
Current year	**(0.6)**	9.8
Adjustments for prior years	**(2.9)**	(5.6)
Current tax (credit)/expense	**(3.5)**	4.2
Deferred tax expense		
Origination and reversal of temporary differences	**12.1**	6.0
Change in tax rate	**-**	95.3
Adjustments for prior years	**2.3**	5.5
Deferred tax expense	**14.4**	106.8
Total tax expense	**10.9**	111.0

Taxation recognised in other comprehensive income

	2022	2021
	£m	£m
Revaluation of property, plant and equipment		
Remeasurements of defined benefit liability	**(24.1)**	(20.1)
Change in tax rate	**-**	(33.9)
Tax expense/(credit)	**(24.1)**	(54.0)

Reconciliation of effective tax rate

	2022	2021
	£m	£m
Profit/(loss) for the year	**43.1**	(34.5)
Total tax expense	**10.9**	111.0
Profit excluding taxation:	**54.0**	76.5
Tax using the UK corporation tax rate of 19% (2021 - 19%)	**10.3**	14.5
Impact of rate change	**-**	95.3
Rate difference on current year earnings	**2.9**	1.4
Impact of Capital allowance super deduction	**(1.8)**	-
Non-deductible expenses	**0.5**	0.9
Other	**(0.4)**	(1.0)
(Over) provided in prior years	**(0.6)**	(0.1)
Total tax expense	**10.9**	111.0

The statutory rate of corporation tax was 19% for the current and prior period. The prior period reflects the increase to 25% of the statutory rate of corporation tax from 1 April 2023. This resulted in a £95.3m charge to the income statement and a £33.9m charge to Other Comprehensive Income being reflected in the year to 30 June 2021.

10. Dividends

The dividend policy is to declare dividends consistent with the Company's performance and prudent management of the economic risk of the business.

Dividend payments are reviewed and approved on a quarterly basis by the Board after taking into account both current and projected business performance.

In particular the Board takes into account:

- the company's current and projected performance in delivering the level of service customers expect from an efficient water and sewerage company and that where that level of service has not been delivered, that customers have been adequately compensated
- that the company is delivering the required quality and environmental outputs and making sufficient investment in its infrastructure to maintain and, where necessary, increase resilience
- that the correct amount of tax has been paid
- that the Company has met any unexpected additional expenditure needs that may have arisen during the year to date, as new operational risks emerge
- the level of regulatory gearing and its comparison with Ofwat's expectations pertaining at the time
- the sufficiency of distributable reserves.

The company will maintain a solid investment grade credit rating at all times.

	2022	2021
	£m	£m
Interim dividends for the current year	**53.6**	45.0
Final dividend for the current year	**14.8**	14.0
	68.4	59.0

11. Property, plant and equipment

	Land & buildings £m	Infra-structure assets £m	Plant & equipment £m	Motor vehicles £m	Office & IT equipment £m	Assets under construction £m	Total £m
Cost							
Balance at 1 July 2020	946.3	2,298.9	1,937.6	44.4	45.8	-	5,273.0
Transfer between categories	(0.9)	(48.5)	(187.6)	-	(8.3)	245.3	-
Additions in year	-	-	-	-	-	260.4	260.4
Transfers on commisioning	55.1	75.9	137.5	7.3	3.1	(278.9)	-
Disposals	(4.6)	(0.1)	(33.4)	(8.0)	-	-	(46.1)
Cost of ROU assets	1.0	-	-	0.3	-	-	1.3
ROU assets terminated	-	-	(1.1)	-	-	-	(1.1)
Balance at 30 June 2021	996.9	2,326.2	1,853.0	44.0	40.6	226.8	5,487.5
Balance at 1 July 2021	996.9	2,326.2	1,853.0	44.0	40.6	226.8	5,487.5
Transfer between categories	-	-	(4.7)	(0.1)	-	4.8	-
Additions in year	-	7.5	0.2	-	-	218.7	226.4
Transfers on commisioning	22.0	65.5	95.3	5.5	5.2	(193.5)	-
Disposals	(1.2)	(3.7)	(2.1)	(4.0)	(8.9)	-	(19.9)
Cost of ROU assets	0.1	-	-	0.3	-	-	0.4
ROU assets terminated	-	-	-	-	-	-	-
Balance at 30 June 2022	1,017.8	2,395.5	1,941.7	45.7	36.9	256.8	5,694.4
Depreciation and impairment							
Balance at 1 July 2020	(324.7)	(126.3)	(984.3)	(26.1)	(22.5)	-	(1,483.9)
Transfer between categories	-	-	-	-	-	-	-
Depreciation charge for the year	(15.5)	(21.4)	(73.3)	(5.3)	(4.4)	-	(119.9)
Depreciation on disposals	2.3	-	33.0	6.5	-	-	41.8
Depreciation on ROU assets	(0.1)	-	(0.5)	-	-	-	(0.6)
Depreciation on ROU assets terminated	-	-	1.1	-	-	-	1.1
Balance at 30 June 2021	(338.0)	(147.7)	(1,024.0)	(24.9)	(26.9)	-	(1,561.5)
Balance at 1 July 2021	(338.0)	(147.7)	(1,024.0)	(24.9)	(26.9)	-	(1,561.5)
Transfer between categories	-	-	0.1	(0.1)	-	-	-
Depreciation charge for the year	(16.2)	(22.4)	(78.1)	(5.3)	(4.7)	-	(126.7)
Depreciation on disposals	0.5	0.1	4.9	3.2	8.9	-	17.6
Depreciation on ROU assets	(0.1)	-	-	(0.1)	-	-	(0.2)
Depreciation on ROU assets terminated	-	-	-	-	-	-	-
Balance at 30 June 2022	(353.8)	(170.0)	(1,097.1)	(27.2)	(22.7)	-	(1,670.8)
Net Book Value							
At 1 July 2020	621.6	2,172.6	953.3	18.3	23.3	-	3,789.1
At 30 June 2021	658.9	2,178.5	829.0	19.1	13.7	226.8	3,926.0
At 30 June 2022	**664.0**	**2,225.5**	**844.6**	**18.5**	**14.2**	**256.8**	**4,023.6**

11. Property, plant and equipment *(continued)*

Infrastructure assets comprise a network of systems of mains and sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines, sea outfalls and infrastructure investigations and studies.

Included in infrastructure assets at cost is £705.1m fair value adjustment on first time adoption of IFRS.

There is no impairment loss recognised in these financial statements (2021 - £nil).

Cumulative borrowing costs capitalised and included above were £24.5m (2021 - £18.5m).

Included in freehold land and buildings above is an amount of £15.6m (2021 - £15.5m) in respect of land which is not depreciated.

12. Leases

Company as a lessee

The Company has lease contracts for various items of property, plant, machinery, vehicles and other equipment used in its operations. Leases of plant and machinery generally have lease terms between 3 and 15 years, while motor vehicles and other equipment generally have lease terms between 3 and 5 years. The Company's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the Company is restricted from assigning and subleasing the leased assets. There are several lease contracts that include extension and termination options and variable lease payments, which are further discussed below.

The Company also has certain leases of machinery with lease terms of 12 months or less and leases of office equipment with low value. The Company applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases. Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period:

	Land & buildings £m	Plant & equipment £m	Motor vehicles £m	Total £m
As at 1 July 2021	1.8	-	0.3	2.1
Additions	0.1	-	0.3	0.4
Depreciation charge	(0.1)	-	(0.1)	(0.2)
As at 30 June 2022	**1.8**	**-**	**0.5**	**2.3**

12. Leases *(continued)*

Set out below are the carrying amounts of lease liabilities (included under interest-bearing loans and borrowings) and the movements during the year:

			£m
As at 1 July 2021			2.1
Additions			0.4
Accretion of interest			-
Payments			(0.2)
As at 30 June 2022			**2.3**
Current	Note	18	0.1
Non-current	Note	18	2.2

The maturity analysis of lease liabilities is also disclosed in Note 18.

The following are the amounts recognised in profit or loss:

	2022 **£m**	2021 £m
Depreciation expense of right-of use assets	**0.2**	0.6
Expenses relating to short-term leases	**6.8**	4.7
	7.0	5.3

The Company had total cash outflows for leases of £0.2m in 2022 (£0.7m in 2021). The Company also had non-cash additions to right-of-use assets and lease liabilities of £0.4m in 2022 (£1.3m in 2021).

Company as a lessor

The Company has entered into operating leases consisting of certain land and buildings. Rental income recognised by the Company during the year is £0.7m (2021: £0.9m).

Future minimum rentals receivable under non-cancellable operating leases as at 30 June 2022 are as follows:

	2022 **£m**	2021 £m
Within one year	**0.4**	0.5
After one year but not more than five years	**1.5**	1.7
More than five years	**1.4**	1.6
	3.3	3.8

13. Intangible assets

	Software development £m	Assets In Development £m	Total £m
Cost			
Balance at 30 June 2020	80.8	-	80.8
Adjusted for SaaS	(6.9)	-	(6.9)
Balance at 1 July 2020 (restated)	73.9	-	73.9
Additions (restated)	4.1	-	4.1
Balance at 30 June 2021 (restated)	78.0	-	78.0
Balance at 1 July 2021 (restated)	78.0	-	78.0
Transfer between categories	(9.9)	9.9	-
Transfer on commissioning	6.3	(6.3)	-
Additions	-	11.7	11.7
Disposals	(0.2)	-	(0.2)
Balance at 30 June 2022	74.2	15.3	89.5
Amortisation and impairment			
Balance at 30 June 2020	(22.4)	-	(22.4)
Adjusted for SaaS	1.5	-	1.5
Balance at 1 July 2020 (restated)	(20.9)	-	(20.9)
Amortisation charge for the year (restated)	(9.0)	-	(9.0)
Balance at 30 June 2021 (restated)	(29.9)	-	(29.9)
Balance at 1 July 2021 (restated)	(29.9)	-	(29.9)
Amortisation charge for the year	(9.5)	-	(9.5)
Balance at 30 June 2022	(39.4)	-	(39.4)
Net Book Value			
At 1 July 2020	53.0	-	53.0
At 30 June 2021	48.1	-	48.1
At 30 June 2022	**34.8**	**15.3**	**50.1**

14. Investments in subsidiaries

The Company has an investment of £13,001 (2021 – £13,001) in 100% of the ordinary share capital of a subsidiary company Wessex Water Services Finance Plc, whose registered address is Wessex Water Operations Centre, Claverton Down, Bath, BA2 7WW.

15. Inventories

	2022 £m	2021 £m
Raw materials and consumables	**5.2**	4.1
	5.2	4.1

There was no write-down of inventories to net realisable value in either year.

16. Trade and other receivables

	2022 £m	2021 £m (Restated, Note 2)
Amounts receivable from customers	**119.8**	121.2
Owed by immediate holding company	**17.5**	17.5
Owed by fellow subsidiary companies	**22.4**	22.9
Owed by other group companies	**0.2**	0.3
Owed by associate companies	**1.4**	0.9
Prepayments	**18.4**	18.2
Corporation tax	**10.5**	6.9
Contract cost assets	**4.2**	3.3
VAT receivable	**5.3**	7.4
Other debtors	**5.6**	1.6
	205.3	200.2

Trade receivables are expected to be recovered in no more than 12 months.

All outstanding related party receivable balances are owed on commercial terms and arise through normal business operations. The company has considered the present value of the contractual cash flows and compared this to a prudent assessment of the present value of the cash flows that are expected to be received. Having performed this assessment, the company has determined that no material expected credit loss provisions are required as at year-end for related party balances owed

Contract cost assets

	2022 £m	2021 £m
Balance at 1 July	**3.3**	2.0
Incurred during the year	**6.7**	7.7
Recognised as costs during the year	**(5.8)**	(6.4)
Balance at 30 June	**4.2**	3.3

17. Cash and cash equivalents

	2022 £m	2021 £m
Short-term bank deposits	**-**	310.0
Cash at bank and in hand	**-**	18.3
	-	328.3

18. Other interest-bearing loans and borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Company's exposure to interest rate and foreign currency risk, see note 25(e).

	2022 £m	2021 £m
Current liabilities		
Bank overdraft	**10.9**	-
Bank loans and facilities	**15.9**	90.9
Current portion of finance lease liabilities	**0.1**	-
Loans owed to subsidiary company	**-**	300.1
	26.9	391.0
Non-current liabilities		
Bank loans and facilities	**504.0**	374.7
Finance lease liabilities	**2.2**	2.1
Loans owed to subsidiary company	**1,939.6**	1,909.3
	2,445.8	2,286.1

Finance lease liabilities

Finance lease liabilities are payable as follows:

	Minimum lease payment 2022 £m	**Interest 2022 £m**	**Principal 2022 £m**	Minimum lease payment 2021 £m	Interest 2021 £m	Principal 2021 £m
Less than one year	**0.1**	**-**	**0.1**	-	-	-
Between one and five years	**0.9**	**(0.1)**	**0.8**	0.7	(0.1)	0.6
More than five years	**1.8**	**(0.4)**	**1.4**	2.1	(0.6)	1.5
	2.8	**(0.5)**	**2.3**	2.8	(0.7)	2.1

18. Other interest-bearing loans and borrowings *(continued)*

Terms and debt repayment schedule:

	Currency	Nominal interest rate	Year of maturity	Issue Value 2022 £m	Carrying amount 2022 £m	Issue Value 2021 £m	Carrying amount 2021 £m
EIB loans	Sterling	0.74%-2.36%	2023-25	**200.0**	**200.0**	275.0	275.0
KfW Bank loans	Sterling	1.161%	2026	**176.0**	**174.9**	192.0	190.6
Revolving credit	Sterling	1.671%	2025	**145.0**	**145.0**	-	-
Loans owed to subsidiary company							
Fixed	Sterling	5.375%	2028	**200.0**	**199.1**	200.0	198.9
Fixed	Sterling	5.750%	2033	**350.0**	**346.9**	350.0	346.7
Fixed	Sterling	4.000%	2021	**-**	**-**	300.0	300.1
Fixed	Sterling	1.500%	2029	**250.0**	**248.0**	250.0	247.7
Fixed	Sterling	1.250%	2036	**300.0**	**295.2**	300.0	294.9
Index Linked	Sterling	3.520%	2023	**50.0**	**87.0**	50.0	84.1
Index Linked	Sterling	2.186%	2039	**50.0**	**75.7**	50.0	69.4
Index Linked	Sterling	1.750%	2046	**75.0**	**117.1**	75.0	113.1
Index Linked	Sterling	1.750%	2051	**75.0**	**117.1**	75.0	113.1
Index Linked	Sterling	1.369%	2057	**75.0**	**117.0**	75.0	113.1
Index Linked	Sterling	1.374%	2057	**75.0**	**117.0**	75.0	113.2
Index Linked	Sterling	1.489%	2058	**50.0**	**73.2**	50.0	71.7
Index Linked	Sterling	1.495%	2058	**50.0**	**73.2**	50.0	71.7
Index Linked	Sterling	1.499%	2058	**50.0**	**73.1**	50.0	71.7
				2,171.0	**2,459.5**	2,417.0	2,675.0

Note: Bank overdrafts and leases are excluded from this schedule.

The Index-linked Bonds accrue annually in line with the Retail Prices Index each year.

During the year the Company completed the conversion of all of its LIBOR based debt instruments to the Sterling Overnight Index Average (SONIA).

Maturity

At the year end the maturity profile of the Company's interest-bearing financial instruments was:

	2022 £m	2021 £m
Less than 1 year	**15.9**	391.0
More than 1 year and less than 2 years	**102.9**	15.9
More than 2 year and less than 5 years	**488.1**	358.8
More than 5 years	**1,852.6**	1,909.3
	2,459.5	2,675.0

18. Other interest-bearing loans and borrowings *(continued)*

Changes in liabilities arising from financing activities

	1st July 2021 £m	Cash flows £m	New leases £m	Other £m	30th June 2022 £m
Current interest bearing loans and borrowings (excluding items listed below)	391.0	(391.0)	-	15.9	15.9
Current obligations under finance leases and hire purchase contracts	-	(0.2)	0.3	-	0.1
Non-current interest bearing loans and borrowings (excluding items listed below)	2,284.0	72.2	-	87.4	2,443.6
Non-current obligations under finance leases and hire purchase contracts	2.1	-	0.1	-	2.2
Total liabilities from financing activities	**2,677.1**	**(319.0)**	**0.4**	**103.3**	**2,461.8**

	1st July 2020 £m	Cash flows £m	New leases £m	Other £m	30th June 2021 £m
Current interest bearing loans and borrowings (excluding items listed below)	7.9	(8.0)	-	391.1	391.0
Current obligations under finance leases and hire purchase contracts	0.5	(0.7)	0.2	-	-
Non-current interest bearing loans and borrowings (excluding items listed below)	2,365.1	226.8	-	(307.9)	2,284.0
Non-current obligations under finance leases and hire purchase contracts	1.0	-	1.1	-	2.1
Total liabilities from financing activities	**2,374.5**	**218.1**	**1.3**	**83.2**	**2,677.1**

The ‘Other’ column includes the effect of reclassification of the non-current portion of interest-bearing loans and borrowings, including obligations under leases and hire purchase contracts to current due to the passage of time and the effect of accrued but not yet paid interest on interest-bearing loans and borrowings. The Company classifies interest paid as cash flows from financing activities.

19. Trade and other payables

	2022 £m	2021 £m
Current		
Amounts payable to suppliers	**16.3**	21.7
Owed to subsidiary company	**27.2**	36.2
Owed to other group companies	**1.3**	1.3
Dividend	**14.8**	14.0
Other creditors	**6.4**	4.5
Taxation and social security	**3.2**	3.0
Accrued expenses	**48.6**	49.9
Contract Liabilities	**59.9**	52.7
	177.7	183.3
Non-current		
Other non-current liabilities	**5.4**	5.5
	183.1	188.8

Analysis of Contract Liabilities

	2022 £m	2021 £m
At 1 July	**58.2**	55.2
Deferred during the year	**59.9**	52.7
Recognised as revenue during the year and included at the beginning of the year	**(52.8)**	(49.7)
At 30 June	**65.3**	58.2

The contract liabilities within current payables all relate to performance obligations due to be settled within the following 12 months. Non-current contract liabilities relate to performance obligations due to be settled over a 15-year period from June 2016.

20. Retirement benefits

Pension plans

	2022 £m	2021 £m
Fair value of scheme assets	**632.9**	744.5
Present value of defined benefit obligations	**(599.4)**	(819.7)
Net surplus/(liability) for defined benefit obligations	**33.5**	(75.2)
Unfunded and compensatory added years pension	**(0.8)**	(0.9)
Total retirement benefits	**32.7**	(76.1)

20. Retirement benefits *(continued)*

The Company sponsors a funded defined benefit pension plan for qualifying UK employees. The plan is administered by a separate Board of Trustees which is legally separate from the Company. The Trustees are composed of representatives of both the employer and employees. The Trustees are required by law to act in the interest of all relevant beneficiaries and are responsible for the investment policy with regard to the assets plus the day-to-day administration of the benefits.

Under the plan, employees are entitled to annual pensions on retirement using an accrual rate, final pensionable salary and service. Benefits are also payable on death and following other events such as withdrawing from active service. No other post-retirement benefits are provided to these employees.

Liabilities for an unfunded arrangement and a compensatory payment for added years' service are held outside the defined benefit scheme. The Company also operates a defined contribution section within the main pension scheme.

Profile of the scheme

The defined benefit obligation includes benefits for current employees, former employees and current pensioners. Broadly, about 26% of the liabilities are attributable to current employees, 15% to former employees and 59% to current pensioners. The Scheme duration is an indicator of the weighted-average time until benefit payments are made. For the Scheme as a whole, the duration is approximately 17-18 years reflecting the appropriate split of the defined benefit obligation between current employees (duration of c23-24 years), deferred members (duration of c23-24 years) and current pensioners (duration of c13 years).

Funding requirements

UK legislation requires that pension schemes are funded prudently. The last funding valuation of the Scheme was carried out by a qualified actuary as at 30 September 2019 and showed a deficit of £157.0 million. The Company is paying deficit contributions of:

- £16.6m by 1 July 2022
- £18.4m by 1 July 2023; £20.2m by 1 July 2024; £22.0m by 1 July 2025
- £23.8m by 1 April 2026;

which, along with investment returns from return-seeking assets, is expected to make good this shortfall by 1st April 2026. The next funding valuation is due no later than 30 September 2022 at which progress towards full funding will be reviewed.

The Company also pays contributions of 24.6% of pensionable salaries in respect of current accrual and non-investment related expenses, with active members paying a further 7.4% of pensionable salaries on average. A contribution of £16.6m is expected to be paid by the Company during the year ending on 30 June 2023.

Risks associated with the scheme

Asset volatility – the liabilities are calculated using a discount rate set with reference to corporate bond yields; if assets underperform this yield, this will create a deficit. The Scheme holds a significant proportion of growth assets (equities including a diversified growth fund and a global absolute return fund) which, though expected to outperform corporate bonds in the long-term, create volatility and risk in the short term. The allocation to growth assets is monitored to ensure it remains appropriate given the Scheme's long-term objectives.

20. Retirement benefits *(continued)*

Changes in bond yields – a decrease in corporate bond yields will increase the value placed on the Scheme's liabilities for accounting purposes, although this will be partially offset by an increase in the value of the Scheme's bond holdings.

Inflation risk – the majority of the Scheme's benefit obligations are linked to inflation and higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect against extreme inflation). The majority of the assets are either unaffected by or only loosely correlated with inflation, meaning that an increase in inflation will also increase the deficit.

Life expectancy – the majority of the Scheme's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the liabilities. The Trustees insure certain benefits payable on death before retirement.

Reporting at 30 June 2022

The results of the latest funding valuation at 30 September 2019 have been adjusted to the balance sheet date taking account of experience over the period since 30 September 2019, changes in market conditions, and differences in the financial and demographic assumptions. The present value of the defined benefit obligation, and the related current service cost, were measured using the Projected Unit Cost Method.

The principal assumptions used to calculate the liabilities under IAS 19 are set out below. The major assumptions used by the actuary were:

	30.06.22	30.06.21
Rate of increase in salaries – long term	**1.90%**	1.90%
Rate of increase in pensions		
- WWPS and 1/80ths members	**2.90%**	2.90%
- MIS members	**2.50%**	2.50%
- Reduced level members	**2.10%**	2.10%
- Post 88 GMP	**2.10%**	2.10%
Discount rate	**3.80%**	1.90%
Inflation assumption – RPI	**3.00%**	3.00%
Inflation assumption – CPI	**2.50%**	2.50%

Mortality assumptions:

The mortality assumptions are based upon the recent actual mortality experience of Scheme members and allow for expected future improvements in mortality rates.

	2022 Male years	**2022 Female years**	2021 Male years	2021 Female Years
Life expectancy - current age 60	**25.9**	**28.5**	25.9	28.4
Life expectancy - current age 40	**47.2**	**49.7**	47.1	49.6

20. Retirement benefits *(continued)*

The mortality table adopted is based upon 105% of standard tables S3P(M/F)A adjusted to allow for individual years of birth. Future improvements are assumed to be in line with the CMI 2018 core projection, with a long-term improvement rate of 1.0% p.a. for all members.

Members are assumed to take four times their pre-commutation pension as cash at retirement.

Sensitivity analysis

The key assumptions used for IAS 19 are: discount rate, inflation and mortality. If different assumptions are used, this could have a material effect on the results disclosed. The sensitivity of the results to these assumptions are set out below. For the purposes of these sensitivities it has been assumed that the change in the discount rate and inflation has no impact on the value of Scheme assets.

A reduction in the discount rate of 0.1% would increase the scheme liabilities by £10.0m from £599.4m to £609.4m, reducing the scheme surplus to £23.5m.

An increase in the inflation assumption of 0.1% would increase the scheme liabilities by £7.8m from £599.4m to £607.2m, reducing the scheme surplus to £25.7m.

An increase in life expectancy of 1 year would increase the scheme liabilities by £19.9m from £599.4m to £619.3m, reducing the scheme surplus to £13.6m.

The sensitivity information shown above has been prepared using the same method as adopted when adjusting the results of the latest funding valuation to the balance sheet date. This is the same approach as has been adopted in previous periods.

The value of the assets:

	2022 **£m**	2021 £m
Equities	**200.9**	311.1
Property	**46.7**	41.8
Government Bonds	**167.9**	107.2
Corporate Bonds	**186.3**	257.3
Other	**31.1**	27.1
	632.9	744.5

20. Retirement benefits *(continued)*

The amounts recognised in comprehensive income:

	2022 £m	2021 £m
Operating cost – service cost		
Current service cost	**9.3**	10.1
Administration expenses	**0.9**	0.6
Past service cost	**-**	0.1
Financing cost		
Interest on net benefit liability	**1.1**	2.5
Pension expense recognised in Income Statement	**11.3**	13.3
Re-measurements in OCI		
Return on plan assets (in excess of) that recognised in net interest	**121.7**	(62.7)
Actuarial (gains) due to changes in financial assumptions	**(230.1)**	(6.9)
Actuarial losses/(gains) due to liability experience	**12.0**	(10.9)
(Gains) recognised in OCI	**(96.4)**	(80.5)
(Gains) recognised in Income Statement and OCI	**(85.1)**	(67.2)

Changes to the present value of the defined benefit obligations during the year

	2022 £m	2021 £m
Opening defined benefit obligation	**819.7**	839.1
Current service cost	**9.3**	10.1
Interest expense on defined benefit obligation	**15.7**	13.6
Actuarial (gains) due to changes in financial assumptions	**(230.1)**	(6.9)
Actuarial losses/(gains) due to liability experience	**12.0**	(10.9)
Net benefits paid out	**(27.2)**	(25.4)
Past service (credit)	**-**	0.1
Closing defined benefit obligation	**599.4**	819.7

20. Retirement benefits *(continued)*

Changes to the fair value of scheme assets during the year

	2022 **£m**	2021 £m
Opening fair value of scheme assets	**744.5**	675.0
Interest income on scheme assets	**14.6**	11.1
Re-measurement (losses)/gains on scheme assets	**(121.7)**	62.7
Contributions by employer	**23.6**	21.7
Net benefits paid out	**(27.2)**	(25.4)
Administration costs incurred	**(0.9)**	(0.6)
Closing fair value of scheme assets	**632.9**	744.5

Additional analysis:	**2022** **£m**	2021 £m
Actual return on scheme assets		
Interest income on scheme assets	**14.6**	11.1
Re-measurement (losses)/gains on scheme assets	**(121.7)**	62.7
Actual return on scheme assets	**(107.1)**	73.8
Analysis of amounts recognised in Other Comprehensive Income		
Total re-measurement gains	**96.4**	80.5
Total gain	**96.4**	80.5

21. Deferred grants and contributions

	Requisi-tions £m	Other contribu-tions £m	Adopted sewers £m	Infrastr-ucture charges £m	Total £m
Balance at 1 July 2020	33.1	28.1	102.4	129.5	293.1
Reclassifications	-	-	-	-	-
Received during the year	2.3	4.3	0.9	2.5	10.0
Amortised in year	(0.3)	(0.6)	(1.0)	(1.3)	(3.2)
Balance at 30 June 2021	35.1	31.8	102.3	130.7	299.9
Balance at 1 July 2021	35.1	31.8	102.3	130.7	299.9
Reclassifications	-	-	-	-	-
Received during the year	1.9	1.1	7.7	2.4	13.1
Amortised in year	(0.3)	(0.5)	(1.1)	(1.3)	(3.2)
Balance at 30 June 2022	**36.7**	**32.4**	**108.9**	**131.8**	**309.8**

Amortised amounts are offset against depreciation charges in the income statement.

22. Provisions

	Claim costs	Restructuring costs £m	Total £m
Balance at 1 July 2021	-	0.1	0.1
Provisions made during the year	1.1	0.2	1.3
Provisions used during the year	-	(0.2)	(0.2)
Balance at 30 June 2022	**1.1**	**0.1**	**1.2**
Non-current	-	-	-
Current	1.1	0.1	1.2
	1.1	**0.1**	**1.2**

In the ordinary course of business, the Company is sometimes subject to claims and potential litigation, whether from regulatory bodies, individuals or particular groups, related to one off matters. The Directors consider that, where it is possible to be estimated, a reasonable and appropriate position has been taken in reflecting such items in these Financial Statements in the note above.

It is not currently possible to estimate the financial effect and likely timing of any associated outflow of some matters, given that some are in early stages of discussion, the limited likelihood of the claims against the Company being successful, or the potential range of possible outcomes, and accordingly no provision has been made in the Financial Statements. No reasonably possible financial outcome that would be significant to the Financial Statements has been identified in relation to these remaining matters at the date of the issue of these Financial Statements.

23. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Liabilities		Assets		Net	
	2022	2021	**2022**	2021	**2022**	2021
	£m	£m	**£m**	£m	**£m**	£m
Property, plant and equipment	**640.0**	624.6	**(45.1)**	(42.9)	**594.9**	581.7
Employee benefits	**8.4**	-	**-**	(17.2)	**8.4**	(17.2)
Provisions	**-**	-	**(0.3)**	-	**(0.3)**	-
Tax (assets) / liabilities	**648.4**	624.6	**(45.4)**	(60.1)	**603.0**	564.5
Net of tax liabilities/(assets)	**(45.4)**	(60.1)	**45.4**	60.1	**-**	-
Net tax (assets) / liabilities	**603.0**	564.5	**-**	-	**603.0**	564.5

Movement in deferred tax during the year

	1 July 2021 £m	**Recognised in income £m**	**Recognised in OCI £m**	**30 June 2022 £m**
Property, plant and equipment	**581.7**	**13.2**	**-**	**594.9**
Employee benefits	**(17.2)**	**1.5**	**24.1**	**8.4**
Provisions	**-**	**(0.3)**	**-**	**(0.3)**
	564.5	**14.4**	**24.1**	**603.0**

Movement in deferred tax during the prior year

	1 July 2020 £m	**Recognised in income £m**	**Recognised in OCI £m**	**30 June 2021 £m**
Property, plant and equipment	434.9	107.3	39.5	581.7
Employee benefits	(31.2)	(0.5)	14.5	(17.2)
Provisions		-	-	
	403.7	106.8	54.0	564.5

24. Capital and reserves

	2022	2021
	£	£
Issued, allotted, called up and fully paid		
Ordinary shares of £1each	**1**	1
	1	1
Shares classified as liabilities	**-**	-
Shares classified in shareholders' funds	**1**	1
	1	1

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

25. Financial instruments

(a) Fair values of financial instruments

Fair value is the amount at which a financial instrument could be exchanged in an arms-length transaction between informed and willing parties, other than a forced or liquidation sale. The fair value of short term and floating rate borrowings approximate to book value. The fair value of long-term fixed rate borrowings has been calculated using market values or discounted cash flow techniques.

The IFRS 13 fair value hierarchy is a categorisation relating to the extent that the fair value can be determined by reference to comparable market values. The hierarchy ranges from level 1 where instruments are quoted on an active market through to level 3 where the assumptions used to derive fair value do not have comparable market data.

The fair values of long-term fixed-rate inter-company borrowings are classified as level 1 in the IFRS 13 fair value hierarchy and have a carrying value of £1,089.2m and a fair value of £998.4m. The fair values of long-term index-linked inter-company borrowings are classified as level 1 in the IFRS 13 fair value hierarchy and have a carrying value of £850.4m and a fair value of £1,081.0m. Bank loans are classified as level 2 and have a carrying value of £530.8m and fair value of £530.8m. All other loans and leases are classified as level 2 and have a carrying value and fair value of £2.3m.

It is the Company's policy to recognise all the transfers into the levels and transfers out of the levels at the date of the event or change in circumstances that caused the transfer. No liabilities are classified as level 3.

25. Financial instruments *(continued)*

(a) Fair values of financial instruments *(continued)*

Set out below is a comparison, by class, of the carrying amounts and fair values of the Company's financial instruments, other than those with carrying amounts that are reasonable approximations of fair values:

	Carrying amount 2022 £m	**Fair value 2022 £m**	**Level 1 2022 £m**	**Level 2 2022 £m**	Carrying amount 2021 £m	Fair value 2021 £m	Level 1 2021 £m	Level 2 2021 £m
Financial liabilities								
Interest-bearing loans and borrowings:								
Fixed rate borrowings	**1,189.2**	**1,098.4**	**998.4**	**100.0**	1,488.3	1,618.9	1,518.9	100.0
Floating rate borrowings	**433.1**	**433.1**	**-**	**433.1**	367.7	367.7	-	367.7
Indexed-linked borrowings	**850.4**	**1,081.0**	**1,081.0**	**-**	821.1	1,132.5	1,132.5	-
Total financial liabilities	**2,472.7**	**2,612.5**	**2,079.4**	**533.1**	2,677.1	3,119.1	2,651.4	467.7

The management assessed that the fair values of cash and short-term deposits, trade receivables, trade payables, bank overdrafts and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

(b) Credit risk

Financial risk management;

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's receivables from customers and investment securities.

Other financial assets are short term deposits with terms of more than three months. The counterparties have a credit rating of A1+/P1 or A1/P1, and hence there is no exposure to credit risk for these values.

Cash and cash equivalents are short term deposits with counterparties that have a credit rating of A1+/P1 or A1/P1, and hence there is minimal exposure to credit risk for these values.

25. Financial instruments *(continued)*

(b) Credit risk *(continued)*

	2022	2021
	£m	£m
Other financial assets	**-**	-
Cash and cash equivalents	**-**	328.3
	-	328.3

The concentration of credit risk for amounts receivable from customers at the balance sheet date by geographic region was:

	2022	2021
	£m	£m
South West England	**119.8**	121.2
	119.8	121.2

Billed and unbilled receivables are from domestic and business customers. No individual customer or industrial sector has a material balance outstanding at either year end, aside from £11.8m from Water 2 Business Ltd, a fellow subsidiary in the water industry.

No credit risk exists in relation to amounts owed by fellow group companies.

Set out below is the information about the credit risk exposure on the Company's trade receivables using a provision matrix.

	2022	2021
	£m	£m
Billed receivables	**92.1**	93.5
Unbilled receivables	**69.2**	64.1
Expected credit losses	**(41.5)**	(36.4)
	119.8	121.2

	Gross 2022 £m	**ECL rate 2022 %**	**ECL 2022 £m**
Less than 1 year	**111.9**	**9.5%**	**(10.6)**
1 to 2 years	**16.2**	**50.0%**	**(8.1)**
2 to 3 years	**13.6**	**55.9%**	**(7.6)**
3 to 4 years	**12.0**	**63.3%**	**(7.6)**
More than 4 years	**7.6**	**100.0%**	**(7.6)**
	161.3	**25.6%**	**(41.5)**

25. Financial instruments *(continued)*

	Gross 2021 £m	ECL rate 2021 %	ECL 2021 £m
Less than 1 year	111.2	12.1%	(13.4)
1 to 2 years	16.8	32.7%	(5.5)
2 to 3 years	14.1	42.6%	(6.0)
3 to 4 years	10.2	60.8%	(6.2)
More than 4 years	5.3	100.0%	(5.3)
	157.6	23.1%	(36.4)

The expected credit loss rate resulting from varying billing and payment methods was as follows;

	Measured Billing			**Unmeasured Billing**		
Payment Method	**Direct Debit %**	**Normal %**	**Other %**	**Direct Debit %**	**Normal %**	**Other %**
Less than 1 year	10.1%	12.4%	20.7%	27.8%	16.2%	13.6%
1 to 2 years	25.5%	30.7%	28.9%	26.7%	29.0%	20.3%
2 to 3 years	18.3%	42.6%	40.0%	3.7%	39.1%	29.7%
3 to 4 years	24.4%	57.9%	58.4%	12.4%	53.7%	52.4%
More than 4 years	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

The movement in the expected credit loss allowance in respect of trade receivables during the year was as follows:

	2022 £m	2021 £m
Balance at 1 July	**(36.4)**	(44.6)
Written off	**10.1**	22.6
Adjustment for non-paying customers	**0.8**	(1.4)
Non-payers subsequently becoming payers	**(0.4)**	-
Charge to profit and loss	**(15.6)**	(13.0)
Balance at 30 June	**(41.5)**	(36.4)

The expected credit loss policy is shown in the accounting policies (note 1.9).

(c) Cash flow hedges

The Company does not have any cash flow hedges (2021 – none).

25. **Financial Instruments** *(continued)*

(d) Liquidity risk

Financial risk management

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company is a regulated utility with a five-year settlement with the industry regulator, which allows it to plan to a certain degree of accuracy the financial obligations in the medium term. The Company has also secured long-term funding through bonds issued by its subsidiary company. This means that the need to obtain additional finance has been spread over future years and is not considered onerous in any one regulatory period.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the effect of netting agreements:

	Carrying amount	**Contractual cash flows**	**Year 1**	**Years 2 to 5**	**Over 5 years**
	2022 £m	**2022 £m**	**2022 £m**	**2022 £m**	**2022 £m**
Non derivative financial instruments					
Lease liabilities	**2.3**	**2.8**	**0.1**	**0.9**	**1.8**
Secured bank facilities	**530.8**	**559.6**	**37.3**	**522.3**	**-**
Inter-company loans	**1,939.6**	**3,798.3**	**55.3**	**308.8**	**3,434.2**
Total financial instruments	**2,472.7**	**4,349.8**	**92.7**	**832.0**	**3,436.0**

	Carrying amount	Contractual cash flows	Year 1	Years 2 to 5	Over 5 years
	2021 £m	2021 £m	2021 £m	2021 £m	2021 £m
Non derivative financial instruments					
Lease liabilities	2.1	2.8	-	0.7	2.1
Secured bank facilities	465.6	484.0	96.4	387.6	-
Inter-company loans	2,209.4	3,851.5	365.3	293.8	3,192.4
Total financial instruments	2,677.1	4,338.3	461.7	682.1	3,194.5

25. Financial instruments *(continued)*

(e) Market risk

There is no exposure to equity or foreign currency risk, the interest rate risk is shown below.

Interest rate risk

At the year end the interest rate profile of the Company's interest-bearing financial instruments was:

	2022	2021
	£m	£m
Fixed rate instruments	**1,189.2**	1,488.3
Floating rate instruments	**433.1**	367.7
Index linked instruments	**850.4**	821.1
	2,472.7	2,677.1

The Company policy is to keep a significant proportion of total financial instruments in each of the three categories.

Sensitivity

The floating rate instruments are sensitive to interest rate movements. If there was a 1% increase in interest rates on those floating rate instruments at the balance sheet date, there would be an additional interest charge to the income statement of £4.3m.

Inflation sensitivity

Index linked bonds are sensitive to movements in the inflation rate. A 1% increase in the inflation rate at the balance sheet date would result in an additional interest charge to the income statement of £8.5m.

26. Capital management

For the purpose of the Company’s capital management, capital includes issued capital, share premium and all other equity reserves attributable to the equity holders. The primary objective of the Company’s capital management is to maximise the shareholder value.

The Company manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the financial covenants. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Company monitors capital using a gearing ratio, which is net debt divided Regulatory Capital Value (RCV). The Company’s policy is to keep the gearing ratio below 70%. The Company includes within net debt interest bearing loans and borrowings, less cash and short-term deposits, excluding discontinued operations.

	2022	2021
	£m	£m
Cash at bank	**-**	(18.3)
Short term deposits (less than 3 months)	**-**	(310.0)
Bank overdraft	**10.9**	-
Bank Loans	**519.9**	465.6
Finance leases	**2.3**	2.1
Bonds	**1,939.6**	2,209.4
Total Net Debt	**2,472.7**	2,348.8
RCV at 30 June	**3,696.7**	3,355.2
Gearing	**66.9%**	70.0%

The RCV for each regulated water and sewerage company is published by Ofwat here: ***https://www.ofwat.gov.uk/publication/regulatory-capital-values-2022/***

In order to achieve this overall objective, the Company's capital management, among other things, aims to ensure that it meets financial covenants attached to the interest-bearing loans and borrowings that define capital structure requirements. Breaches in meeting the financial covenants would permit the bank to immediately call loans and borrowings. There have been no breaches of the financial covenants of any interest-bearing loans and borrowing in the current period.

No changes were made in the objectives, policies or processes for managing capital during the years ended 30 June 2022 and 2021.

27. Commitments

Capital expenditure contracted but not provided at 30 June 2022 was £129.1m (2021 - £50.3m).

The Company has guaranteed Bonds of £1,939.6m (2021 - £2,209.4m) issued by its wholly owned subsidiary company Wessex Water Services Finance Plc.

The Company has provided performance guarantees on its own behalf of £0.2m (2021 – £0.2m).

28. Contingencies

Claims under the Environmental Information Regulations 2001 (EIR)

The Company has been notified of a potential claim under the EIR relating to charges levied for drainage and water searches carried out since 2004, which it is argued should have been provided free of charge. The potential value of the claims is unclear, as very little detail has been provided, however the company intends to defend all claims.

Innovation competition

As part of the regulatory settlement for 2020-2025 Ofwat established a £200 million Innovation competition to grow the water sector's capacity to innovate. The competition is to be funded from additional revenues collected from customer's bills, of which the Group's share is approx. £8 million.

Each year companies are invited to submit projects which if successful are awarded funding from the revenues already collected. If the company is unsuccessful the revenues are to be transferred to those companies that were successful. If at the end of the regulatory period the revenues have not been fully utilised the balance is returned to customers over the subsequent regulatory period.

Due to the uncertainty surrounding the nature, timing and value of any spend and the early stage of the competition, the Company does not believe a provision is appropriate.

Incident at Avonmouth Water Recycling Centre

Investigations into the incident at Avonmouth in December 2020 are ongoing and it is uncertain when they will be concluded. We continue to co-operate with the investigating authorities. No proceedings have been started and, as such, it is not possible to assess whether any financial penalties or related costs could be incurred.

Flow to full treatment investigation

In November 2021, Ofwat and the Environment Agency announced separate industry-wide investigations into Flow to Full Treatment at waste water recycling centres. Ofwat has since opened enforcement cases into five companies, including the Company. The Company continues to work with Ofwat and the Environment Agency as they gather further information to inform the investigations and next steps.

29. Significant transactions with related parties

There were no transactions with key management personnel.

Directors' emoluments have been disclosed in the Remuneration Committee Report.

There have been no transactions with pre-penultimate, penultimate and ultimate holding companies described in note 30.

All other transactions with related parties and balances at the year-end are summarised in the following table:

	2022	2021
	£m	£m
Sales of goods and services:		
Fellow subsidiaries	**81.8**	81.3
Other group companies	**0.4**	0.4
Immediate holding company	**4.0**	5.3
Associate companies	**1.1**	1.1
Purchase of goods and services:		
Fellow subsidiaries	**4.3**	4.5
Other group companies	**1.2**	2.6
Immediate holding company	**0.7**	1.4
Associate companies	**11.8**	12.7
Interest expense:		
Subsidiary	**86.7**	78.7
Year-end balances owing by:		
Immediate holding company	**17.5**	17.5
Fellow subsidiaries	**22.4**	22.9
Other group companies	**0.2**	0.3
Associate companies	**1.4**	0.9
Year-end balances owing to:		
Subsidiary	**1,966.8**	2,245.6
Other group companies	**1.3**	1.3
Immediate holding company	**14.8**	14.0

Terms and conditions of transactions with related parties

The sales to and purchases from related parties are made on terms equivalent to those that prevail in arm's length transactions.

At present the Company has no expected credit loss on intercompany receivables. The Company has assessed the amounts of future cash flows and probability of default and there is sufficient headroom that no material provision is required.

The Company has guaranteed Bonds of £1,939.6m (2021 - £2,209.4m) issued by its wholly owned subsidiary company Wessex Water Services Finance Plc. The bond proceeds are lent to WWSL on the same terms as the bonds themselves.

30. Ultimate parent company and parent company of larger group

The smallest group into which the financial statements of the Company are consolidated is that headed by Wessex Water Ltd, a company incorporated in England whose registered address is Wessex Water Operations Centre, Claverton Down, Bath, BA2 7WW.

The pre-penultimate, penultimate and ultimate holding companies are YTL Corporation Berhad, Yeoh Tiong Lay & Sons Holdings Sdn Bhd (both registered in Malaysia) and Yeoh Tiong Lay & Sons Family Holdings Ltd registered in Jersey.

The largest group in which the results of the Company are consolidated is that headed by YTL Corporation Berhad incorporated in Malaysia. The consolidated financial statements of these groups are available to the public and can be obtained from Menara YTL, 205 Jalan Bukit Bintang, 55100 Kuala Lumpur, Malaysia.

31. Subsequent events

The final dividend for the year was declared in June 2022 and paid in July 2022.

32. Accounting estimates and judgements

In preparing the financial statements and applying the accounting policies, the Company is required to make reasonable estimates and judgements based on the available information, the most significant of which are:

a) Defined benefit pension scheme deficit

In recognising the deficit on the balance sheet there are a number of assumptions concerning inflation, rate of increase of salaries and pensions, mortality rates and interest rates that can have a significant effect on the deficit recorded. These assumptions are discussed with independent qualified actuaries and disclosed in note 20 to the financial statements. The sensitivities around these assumptions are also reflected in the note.

b) Expected credit loss allowance

The expected credit loss on outstanding receivables is a key estimate under IFRS 9. We base our estimate of recoverability by grouping customers into similar economic profiles and applying a percentage loss rate based on forward looking judgements on the future collection rates that are likely to be achieved. In particular for the year ended 30 June 2022 this has included additional considerations of the possible impact of the ongoing economic uncertainty on the expected collection rates of outstanding receivables at the balance sheet date. These assumptions are discussed in note 25. A 1% reduction in collection rates would increase the expected credit loss allowance by £4.1m.

c) Revenue recognition

The unbilled income accrual from metered water services requires an estimation of the amount of commissioning unbilled charges at the period end. This is calculated using system generated information based on average customer volume usage. A 2% movement in average consumption equates to a £1m movement in the unbilled income accrual.

32. Accounting estimates and judgements *(continued)*

d) Asset lives

Assets recorded in the Company's fixed asset register are depreciated systematically using asset lives assigned to the classification of the asset into a number of standard asset types. These asset lives are subject to review based on historical performance, new technologies or new areas of capital investment. A reduction in the average asset life for property, plant and equipment of 1 year would increase the depreciation charge by £3m.

Significant judgements

f) Classification of capital expenditure

Due to the high value of capital expenditure the judgements made on the classification of expenses as operating or capital, and within capital between maintenance and enhancement, are key to the preparation of the accounts. The Company follows both accounting standards and guidelines issued by Ofwat in making these judgements.