WESSEX WATER SERVICES LIMITED

Annual Report and Financial Statements
30 June 2019

Registered in England and Wales No. 02366648

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STRATEGIC REPORT

Principle Activity

The principle activity of Wessex Water Services Ltd (WWSL) is as a regulated company licenced for the supply of clean water and treatment and disposal of waste water. WWSL operates in a region of 10,000 square kilometres in the south west of England.

Introduction

At Wessex Water, our aim is to give all customers excellent standards of service by providing high quality water and environmental services that protect health, improve the environment and give customers good value for money. We work hard to deliver the best levels of service and continually challenge ourselves to find better, cheaper ways of achieving this.

A great example is our introduction of the Wessex Water Marketplace, a hub where we publish the outcomes we need to achieve as an open question, allowing the market to propose solutions rather than asking for a price for a pre-determined answer. We'll work with the market to determine the best blend of solutions, sharing our data and being open and transparent in our assessment of the solutions.

Opening up our data, our challenges and our systems will mean that our customers, stakeholders and suppliers can be part of the solution to our future challenges.

Our customers and communities

We have recently published our plans for the period 2020-2025. This process started by asking all our customers what they wanted us to achieve in looking after the environment, delivering water efficiency, ensuring the highest water quality and minimising sewer flooding.

We received responses from more than 140,000 customers, which provided an excellent foundation for our plans. This prompted, for example, our ambition to be in the top 20 service providers in the UK, which is testament to the stretching nature of our plans.

It's critical that the communities we serve feel part of what we do and who we are – without their help and involvement, we cannot meet our stretching performance targets.

One area where we particularly need our communities to help us is in reducing blockages in our sewers. The vast majority of these are caused by people flushing wet wipes down their toilet or pouring fats down their kitchen sink. We need everyone to help us spread the message that we should only flush the three Ps – pee, poo and paper.

Our natural environment

Our region contains a wealth of rivers, streams, beaches and natural landscapes and is rich in wildlife with many areas protected by national and international designations. We work hard to protect and enhance the aquatic environment and our wider natural habitats.

As well as investing more than £105m in environmental improvements over the past year, we continue to make greater use of catchment-based approaches to understand and manage nutrients in the environment.

In the Poole Harbour catchment, we have been working with farmers to offset our nitrogen contributions from Dorchester water recycling centre. Through our EnTrade auctions we have consistently beaten our target of 40 tonnes reduced per year over the last three years. We also continue to support catchment partnerships across our whole region, involving dozens of projects and partners and hundreds of farmers and landowners.

We were rated as 'good' in the Environment Agency's annual environmental performance assessment for 2018, with all agreed National Environment Programme schemes completed and 100% compliance with both discharge permits and sewage sludge standards. The proportion of pollution incidents reported by us rather than other parties fell to 74%. This is just below the 75% threshold for an 'industry leading' rating. We have already made improvements to return us to 'industry leading' for 2019.

In the last year, we have also continued to make ourselves more resilient to external shocks by starting work on the second stage of our north Bristol sewer scheme – a major project that will support economic development and housing growth by transporting waste water for treatment at our Avonmouth water recycling centre.

STRATEGIC REPORT (continued)

Our people

We have a great team at Wessex Water – they live our ethics and values every day, treat our customers, the wider community, the environment and one another with respect.

Our long-term nature can be seen in the number of people who work with us for their entire career – we greatly value the experience and knowledge that comes from 30 or more years' work at Wessex Water. As these colleagues retire, they are passing on their skills and experience to new generations of apprentices. Our very successful apprentice programme has continued to grow and more than 90 young people have now joined our scheme this year.

Our financial stewardship

Under YTL's long-term stewardship we have always been structured and financed in a simple and transparent way that ensures we are financially resilient. Our gearing will continue at under 70% and we will continue to maintain a straightforward corporate structure. We pay our taxes, contributing more than £60m last year in corporation tax and business rates and other taxes, and are classed by HMRC as low risk.

The future

The coming years present opportunities that are both exciting and critical for the ongoing success of the UK's water industry.

We must work hard to bridge gaps in knowledge and lifestyle, bringing our local communities together to fight against plastics, pollutions and sewer blockages, and ensuring we value our water and use it wisely.

We must continue to invest in critical infrastructure, delivering the highest quality of service and performance at a price that offers value for money to all our customers.

Our customers and communities

We put customers at the heart of everything we do and encourage our people to go the extra mile whenever they can. Our customer service vision remains very simple. We aim to deliver the highest levels of customer satisfaction, make it easy for customers to deal with us and ultimately build trust and loyalty.

We've spoken to more than 140,000 customers recently to make sure we are focusing on what's important to them:

- excellent and reliable water and sewerage services at a price they can afford
- a service tailored to meet their individual needs
- choice and flexibility in the way they can communicate and interact with us
- a real person to answer the telephone
- resolving problems quickly and first time
- keeping them informed using their channel of choice
- checking they are happy with the outcome if they have a problem
- compensating without quibble if things go wrong.

Customer experience

We remain one of the top performers in the water sector for customer service. This is the final year of Ofwat's service incentive mechanism (SIM) and we are aiming to achieve top spot for this five-year period.

We consistently perform well on both satisfaction surveys and complaints handling, and we have exceeded our performance commitment target for this year on SIM. 92% of customers found it easy to resolve their problem this year, a slight drop on last year's score of 93%. Our customer excellence programme will conclude in the autumn of 2019 with new processes and IT systems fully implemented. These improvements will allow our teams to deliver improved customer experience, both in our call centres and face to face, and make it easier for customers to resolve any problems they have.

STRATEGIC REPORT (continued)

But we do not simply want to be the best for customer service in the water sector; we want customers to be as satisfied with our service as they are with the top household names. We have set ourselves the challenge of being both a top performer on Ofwat's new measure of customer experience (C-MeX), and being in the top 20 UK service providers by 2025 on the Institute of Customer Service's UKCSI survey.

To achieve this, we will deliver a more personalised and effortless service. To many we remain a silent provider, so we need to build stronger relationships with our communities and maximise engagement through bills, our website, magazine, literature, social media, signage and livery.

Going the extra mile remains our mantra for customer service and our own feedback surveys show that customers continue to score us highly on satisfaction, first-time resolution, employee conduct, knowledge and effort - 96% of customers rate our service as very good or good.

In September, the Consumer Council for Water confirmed that we still have the lowest number of complaints of the water and sewerage companies. Our teams have delivered a 2.7% reduction in unwanted contacts, a 4% reduction in billing complaints this year and we are resolving 95% of our complaints first time.

We continue to offer a full range of communication channels including personal telephone answering and, most importantly, choice for our customers. The number of customers opting for self-service, text messaging and web chat keeps growing. Our new look website went live at the start of 2019 and the number of customers signed up to e-billing is also growing, with more than 90,000 customers now using the service.

Our customer excellence programme will conclude during 2019 with new processes and IT systems introduced. This will allow our teams to deliver improved customer experience, both in our call centres and face to face.

We launched our new look bill in 2018 and this year we've made further improvements based on feedback from our online customer panel.

Keeping customers informed through proactive calls or text messages when we have problems on our network, such as a burst water main or when we are fixing a problem at their home or business, remains one of our key drivers of satisfaction.

We have recently increased our compensation levels for customers affected by supply interruptions, which has been praised by the Consumer Council for Water.

Our value for money score has remained stable with 69% of customers rating our service as very good or good value for money. While this is still a strong score, it is lower than we have achieved in the past. As there have been no significant changes in our bills, we put this down to the negative media attention on the water industry over recent months, particularly around nationalisation.

Compared to sectors outside water, our net promoter score is higher than many of the top UK household names. Our UK customer satisfaction index score shows we are towards the top of the utility sector and not far away from the top 50 companies across all sectors.

Customer engagement

We engage extensively with our customers and stakeholders, both in day-to-day business and for specific programmes of work. Our challenge group, the Wessex Water Partnership, oversees all our engagement and how it is used.

Our innovative engagement strategy – Your say, your future – continued last year as we finalised our business plan. We ran focus group discussions with customers on water quality measures and a larger scale online survey on the level of support for outperformance payments.

Our Young People's Panel of sixth formers recruited from schools and colleges across our region has just completed its third year. Last year's panel helped us design an innovative campaign to encourage younger people to care about the waste water system. We used their sewer misuse video and various other materials at several student events across the autumn. This year's panel focused on engaging communities and, in particular, how we can encourage younger people to drink tap water and how to develop and promote our water refill strategy.

STRATEGIC REPORT (continued)

Our Have your say online customer panel continues and this year we sought it's views on:

- acceptability and affordability of our business plan
- days, times and methods of contacting us
- our new bill design.

We follow up each survey with a newsletter to participants, published on our website, explaining the findings and what we are doing as a result. We have recently launched Trust Pilot for customers to provide direct feedback on our service.

Customers in vulnerable circumstances

Anyone can find themselves vulnerable at any time and we remain committed to providing extra care and help when and where it's most needed. Our approach to supporting customers in vulnerable circumstances has enabled us to retain the British Standard for Inclusive Service Provision, one of our performance commitments, for another year, along with the Louder than Words charter mark.

Every Customer Matters, our new look vulnerability strategy, was published alongside our business plan. Customer organisations and charities continue to endorse our model of customer care and the variety of support schemes available for their clients.

We continue to deliver the many and varied initiatives contained within the strategy to raise awareness of the support we offer, and increase take up. We have seen a 15% increase in the number of customers receiving support with their bills or debt and a 15% increase in the number of customers registered for Priority Services.

Making sure our people are able to deal with often complex situations is vital so we continuously update our specialist training in areas such as mental health. We have committed to be a dementia friendly utility and more than 800 of our employees are now Dementia Friends, the remainder due to be trained by the end of 2019.

We have developed strong partnerships with the two energy distribution network operators that cover our region, SSEN and WPD, and started a number of local data sharing projects with both. This means mutual customers who need Priority Services only need to register once. We continue to play an active role in the wider work to introduce data sharing at a national level by April 2020.

Our tap programme offers customers tailored solutions to their affordability problems via a range of schemes, and low rate tariffs to help them afford their charges and repay their debts, along with practical help to reduce their water and energy use. We deliver tap through longstanding and very effective partnerships with the debt advice sector, either face to face, or via telephone or online providers.

Under the guidance of our expert affordability advisory group, we are now helping more than 43,000 customers through tap. Just under 13,000 are receiving discounts of up to 90% through our main social tariff, Assist, and just over 17,000 low income pensioners are receiving a discount of around 20% on their bills through our Pension Credit discount.

We have launched nine new projects in hard to reach areas, predominantly working with foodbanks this year. We partner with the Quartet Community Foundation to deliver our Money Matters awards, which are now in their sixth year, and this year have provided grants to 10 different organisations delivering financial capability and money management projects across our region.

We are keen advocates of partnership working, not only with the debt advice community but also with other organisations and charities across our region who work with customers in vulnerable circumstances. We now have more than 100 partners.

Our online partner hub is, therefore, proving very popular, allowing partners to:

- obtain information on the support we offer
- request resources and application forms
- apply for schemes on behalf of their clients
- advertise and request our attendance at community events.

STRATEGIC REPORT (continued)

Community engagement

Our community engagement, aimed at keeping customers informed about what we do and involving them in our work, has expanded considerably over the last year to include a range of new initiatives.

Hydrate Feel Great

Our Hydrate Feel Great campaign has been promoting drinking tap water for healthy living with local public health organisations, foodbanks and Citizens Advice in Bath, Dorset, Somerset and Wiltshire.

We have supported and sponsored youth sports teams and dozens of locally organised five and 10km races with water and water refill bottles. Working in partnership with local communities and councils, we helped to provide public access to water refill points in Freshford and Bradford on Avon, Bath, Salisbury, Trowbridge and Weymouth.

Wild about Wessex

The Wild about Wessex scheme, set up to protect our natural environment for customer health, wellbeing and enjoyment, has supported the local Yellow Fish campaign to raise public awareness of drains connected directly to rivers and streams, protecting local river health.

And we supported Dorset Wildlife Trust to protect and encourage biodiversity through promoting water efficient planting for pollinators and insects

Wessex Water Force

More than 400 colleagues took part in the first year of the Wessex Water Force employee volunteer programme, using their day of volunteering to work with local charities across the region on everything from beach cleans, to painting a local school classroom and collecting Christmas trees for charity recycling.

The scheme was successfully relaunched for 2019 with a marketplace, attended by several of the charities we work with, to recruit new volunteers. Feedback was very positive both from the charities that benefit from support and the employees taking part in team days.

Community champions

As part of our community engagement programme, we identified members of our team willing to be a representative both for and to their local communities on our behalf in Wiltshire, Somerset, Dorset, South Gloucestershire, Bristol, Bath and BANES.

Community and environmental funding

Our community and environmental funding supported 46 groups across our region in the last year.

Our environmental Watermark awards included Curry Rivel in Bloom who received a grant of £300 towards a water supply, and the Companion Planting community organisation in Bristol who received £1,000 towards their Water Stories project. And we helped support stronger communities through our partnership work with local community foundations in Bristol, Wiltshire, Dorset and Somerset.

Recreation and events

We are reviewing all our recreational sites to ensure they are as accessible as possible, including working with organisations such as Dementia Adventure, reviewing signage and improving understanding and interpretation. We introduced family fishing sessions in association with the Angling Trust and organised events, such as the Clatworthy family and fishing day, attended by several local organisations

Education

Our longstanding free education service to schools continues to deliver topics associated with water, sewage, public health and environment.

Our three education advisers cover Bristol, Bath, Somerset, Wiltshire, South Gloucestershire and Dorset and not only visit schools, but also offer sessions at our education centres. Last year 35,212 children and students benefited from school visits and trips to water treatment and water recycling centres, where sessions included interactive presentations, demonstrations and hands-on science investigations. And as part of Wild about Wessex, our advisers promoted educational access for young people to our reservoirs.

STRATEGIC REPORT (continued)

Business retail market

The retail market enabling business customers to choose their retailer for water services has been running for two years. There are now 20 retailers active in our region, which includes five self-supply licensees and many national retailers.

Our performance as a wholesaler against the market performance framework has been strong with the company achieving all its targets. We are now looking at ways we can stretch our performance further during 2019-20.

The wholesale services team are enhancing experiences for retailers and their customers. Its focus on high standards of customer service and continuous improvement cycles has led to big improvements. The team has worked with retailers, the market operator and other key stakeholders on data and service improvements.

Water and sewerage

Through innovation we are helping to improve the resilience of our services and reduce disruption. Examples include:

- billion-point cloud – photographic surveying enabling underground shafts to be dug with high accuracy. This is a technique we used successfully on the recent Bournemouth coastal interceptor sewer
- sewer re-rounder – a device we helped develop that fixes partially collapsed pipes in situ, much like an arterial stent. Earlier this year this won the 2019 South West Institute of Water Innovation award.

Drinking water

We are committed to providing the highest quality drinking water to our customers. Our overall compliance with drinking water standards in 2018 was 99.96%.

Of the regulatory samples taken from customer taps, there were only nine failures out of approximately 26,000 tests for drinking water quality. These failures were all attributed to customers' internal plumbing and service pipes.

The number of customers contacting us about acceptability of water (taste, odour, illness and appearance contacts) fell slightly. It stands at just over 2,000 contacts from our 1.3 million customers to whom we supply water. This is above our target of 1,608 contacts. We aim to further reduce this figure through our ongoing mains rehabilitation work and optimising the way we supply water through our network.

Last year was the 42nd since we imposed any customer restrictions, such as hosepipe bans, on water use.

Sewage flooding minimised

When sewage escapes from sewers it can be devastating for our customers so reducing it remains one of our key objectives. Thankfully it is a very rare occurrence – the number of internal flooding incidents from our sewers last year was 1.43 incidents per 10,000 properties, compared to our target of 1.68.

This was the result of:

- our campaigns about the problems caused by flushing wet wipes down toilets
- explaining the issues caused by pouring fat down sinks
- planned operational maintenance
- the generally dry weather conditions in the region last year.

As most flooding incidents occur due to blockages caused by inappropriate substances poured down the sink (such as fat) or flushed down the toilet (such as wet wipes), we continue to focus on customer awareness and information.

In January 2019 the water industry introduced a new standard for wipes that can be labelled as 'Fine to Flush'. Only one manufacturer has to date produced a wipe that disintegrates quickly enough to gain this accreditation and we are encouraging others to follow. We have also written to all the major supermarkets requesting they only stock wet wipes that meet this new standard or are clearly marked with 'Do Not Flush'.

STRATEGIC REPORT (continued)

Last year we launched a new drainage and waste water management portal on our website, providing information to members of the public about long-term plans for our sewerage network as well as other useful information. The plans are being developed over the next three years and will all be clearly communicated.

Our natural environment

Our region contains many of the country's finest rivers and streams and we are focused on working with other stakeholders in continuing to protect and improve their condition.

We work hard to protect the environment in several ways:

- managing abstraction of water by cutting leakage, helping customers reduce usage and working with local communities
- surveying our wildlife-rich land and developing management plans to improve biodiversity, conservation and recreation
- working carefully to avoid harming wildlife as we undertake any projects
- offering grants to partners which help improve our catchment management
- introducing the Wessex Water Marketplace, a hub where we publish the outcomes we need to achieve as an open question, allowing the market to propose solutions rather than asking for a price for a pre-determined answer.

Our water citizenship project in Chippenham successfully engaged with the local community to enhance their relationship with their local water environment. The project involved workshops with local employees and community leaders, Home Check water efficiency visits and education on river water quality through a Yellow Fish volunteering day.

Wessex Water Marketplace

In April this year we launched the Wessex Water Marketplace, a hub to allow us to champion new, innovative ideas from within Wessex Water and outside, helping us to deliver the open system concept in our business plan. This will inspire innovation and encourage collaboration to deliver the best value for our customers and the environment.

At the heart of the Marketplace is an online platform marketplace.wessexwater.co.uk that allows us to interact with wider markets and share our data, posing challenges to the market as an open question. We'll work with the market to determine the best blend of solutions, sharing our data and being open and transparent in our assessment of the solutions.

Opening up our data, our challenges and our systems will mean that our customers, stakeholders and suppliers can be part of the solution to our future challenges. We will operate and procure solutions transparently, working with other providers where we can to develop sustainable answers to our challenges.

Our first two challenges have been published on the Marketplace platform. The first links to a proposed PR19 performance commitment, where we are asking for the market's help in reducing phosphorous levels in rivers in the Hampshire Avon catchment.

The second asks how best to communicate with our sites, now and into the future, as technology changes and previous infrastructure becomes obsolete in 2025. Future challenges will cover areas across the business, from leakage and water efficiency to waste water treatment options.

This builds on our work in the past, such as our industry leading approach to catchment management using EnTrade to partner with farmers to deliver environmental improvements, our participation in the bioresources market through GENeco and the partners we work with to serve our customers.

As a private company delivering essential public services, we want the way that we deliver to add much wider value to society. The Wessex Water Marketplace is our next step on this journey and we hope you will join us by bringing ideas and solutions that continue to improve services for current and future generations.

STRATEGIC REPORT (continued)

Water resources

Last year was characterised by a dry and hot summer and autumn. Catchment soils reached record levels of dryness, delaying the start of reservoir and groundwater refill and over the year we received only 80% of the rainfall we expect. At the start of 2019-20 reservoirs are full but some groundwater aquifers are at below average storage levels.

We met our performance commitment for the abstraction incentive mechanism at Mere. We didn't export any water from the catchment when groundwater was below the trigger threshold.

Following public consultation on our draft water resources management plan, in September 2018 we submitted a final version to Defra that is aligned with our business plan. The water resources plan sets out how we will maintain a balance between supply and demand while protecting the environment for the next 25 years.

We forecast a surplus for the full planning period and set out ambitious proposals to extend our water efficiency work with customers, pursue greater levels of metering and deliver leakage reductions of 15% in the first five years of the plan.

Our work with neighbouring companies and the Environment Agency on regional water resources planning through the West Country Water Resources group has gained momentum in 2018-19. We've developed a work programme to explore the most efficient use of water across company boundaries and are reviewing opportunities for new trading opportunities with Southern Water, supported by modelling and knowledge sharing.

Tackling leakage and improving water efficiency

Our Money Back guarantee scheme to encourage customers to switch to a meter has been in place for over a year now. More than 90% of customers have saved money as a result of changing to metered charges and we have been proactively contacting those who have paid more to offer water efficiency support to help bring their bills down.

We are committed to reducing the amount of treated water that is used unnecessarily or lost through leaks from our pipework. This maintains the resilience of our services, helps to keep bills affordable and leaves more water in the environment.

During 2018-19 we reduced leakage to below 67 Ml/d, which meets our target for the year and we met our target of fixing 80% of leaks reported to us in the same day.

We continued delivery of our Home Check water efficiency programme and made more than 6,000 visits to customer properties to fit water saving devices, fix simple plumbing leaks and offer tailored behavioural advice. We repaired nearly 5,000 of our customers' leaking pipes free of charge to help reduce their water use.

While we met our target for water saved through water efficiency promotion, average daily water use has increased to 147 litres per person, which is above our target. Per capita consumption is influenced by many variables which are outside our control, not least the weather – the heatwave conditions during much of summer 2018 saw demands rise by around 20%.

We will continue to update our leakage management practices as we seek to reduce leakage to 66.5 Ml/day by 2020 and, looking further ahead, deliver a 15% reduction by 2025 as pledged in our business plan.

Catchment-based approach

We use catchment-based strategies to deliver sustainable, cost effective solutions; this often means we can deal with the source of the problems not the symptoms. We are currently working with farmers at 20 sites to reduce nitrate levels in groundwater sources or to remove pesticide risks from reservoirs.

We have also taken a more catchment-based approach to understanding and managing nutrients (phosphorus and nitrogen) in the environment.

As part of our catchment permitting trial in the Bristol Avon catchment, we have been assessing the impact from our assets across the catchment rather than at specific sites. This has enabled us to deliver a greater level of phosphorus reduction – 40 tonnes against a target of 31 tonnes this year – at a lower overall capital cost.

STRATEGIC REPORT (continued)

In the Poole Harbour catchment we have been working with farmers to offset our nitrogen contributions from Dorchester water recycling centre. Through our EnTrade auctions we have consistently beaten our target of 40 tonnes reduced per year over the last three years.

Catchment partnerships

We support four catchment partnerships within our region, including co-hosting the Bristol Avon and Dorset partnerships. Since 2016, 14 projects have been delivered via the Bristol Avon catchment fund and have restored 64ha of habitat, improved 15km of river and engaged or supported more than 30 farmers.

Over the last year the Dorset catchment partnership has been involved in 38 projects across the three catchments – Poole Harbour, Stour and West Dorset Rivers and Coastal Streams. There are more than 20 partners involved with further engagement from over 500 people across the catchment, including more than 100 farmers/land owners.

We support Litter Free Coast and Sea project officers in both Dorset and Somerset. They deliver innovative engagement and awareness campaigns promoting behaviour change to residents, tourists and businesses on actions which can be taken to improve bathing water and beach quality.

Environmental performance

While 2018 was not a year of many extreme rainfall events, we have continued to invest in new major sewers in the north of Bristol as part of our plan to respond to climate change, as well as accommodating significant levels of new housing development.

The final phase of the £25m Frome Valley relief sewer was completed in 2018 and is now available to redirect flows from Yate around the north of Bristol to our water recycling centre at Avonmouth. Design work and consultation for the Trym relief sewer is well underway. This £60m investment, which will be completed during 2022-23, will provide additional storage and conveyance capacity to the west of Bristol and facilitate new development.

We have been delivering a programme to monitor overflows throughout our region by 2020 and have now installed event duration monitoring at 665 overflows, significantly ahead of the target of 498.

We were rated as 'good' in the Environment Agency's annual environmental performance assessment (EPA) with all agreed National Environment Programme (NEP) schemes completed and 100% compliance with both discharge permits and sludge standards.

We also achieved a reduction in total pollution incidents, but the proportion reported by us rather than other parties fell to 74%. This is just below the 75% threshold for an 'industry leading' rating. We have already made changes with the aim of returning us to 'industry leading' for 2019.

This year 96% of our bathing waters passed strict environmental standards. This is below our aspirational 100% target. Two beaches (Weston Main and Burnham Jetty) were assessed as having below standard water quality. Much of this is outside of our control but we have completed schemes in 2018-19 that could help the bathing water quality including constructing a 2,500m3 underground storage tank at West Quay car park and a 5,000m3 storage tank at Colley Lane, both in Bridgwater.

Environmental investigations

Our environmental investigations programme includes trials of novel techniques such as at Sutton Bingham reservoir where we are using radio frequency tags and time-lapse photography to monitor sediment movement.

Our programme of investigations enables us to better understand our regional environment and the effects of our activities. This means we can base any future investment decisions on sound data and evidence. We modelled the contribution of our assets to help with alternative catchment solutions such as catchment nutrient balancing in the Dorset Stour and Parrett and Tone.

Between 2015 and 2020 we are delivering 45 environmental investigations, with nine outputs delivered in 2018-19, seven relating to the chemical investigations programme, one water resources investigation and one water resources implementation scheme.

STRATEGIC REPORT (continued)

Many of our investigations are concluding and resultant data has been used as evidence to support improvements in our business plan for 2020-2025.

Wildlife and conservation

Before construction starts, we investigate any potential impact on the environment, wildlife, archaeology and geology. This includes checking for the presence of protected and rare species. The latest innovation has been to develop the ability to use a sniffer dog to support terrestrial great crested newt surveys.

Our proactive conservation programme is set out in our Biodiversity Action Plan (BAP), through which we aim to halt or reverse biodiversity loss on our land. Our compliance with the national Site of Special Scientific Interest (SSSI) target is now at 99.5% of SSSI-designated land in favourable or recovering condition of which 62.5% is in favourable condition. This exceeds the national target of 95% favourable or recovering with at least 50% favourable.

This year we continued work to achieve a company performance commitment to assess 100% of our eligible landholding for its biodiversity value by 2020. By the end of the financial year we had brought the total land assessed to more than 95% of over 2,000 ha of eligible land.

Reduced carbon footprint

Through our partnership with the University of Bath (the Water Innovation Research Centre), we currently have links with 12 PhD students. Projects include using computer modelling, fluid dynamics and advanced computer graphics to optimise aeration used in waste water treatment and improving plastics recovery from food waste and sewage.

One of our long-term sustainability goals is to be carbon neutral in our operations. Our net greenhouse gas emissions fell to 119 kilo-tonnes carbon dioxide equivalent in 2018-19.

This continues a trend of reductions that began 10 years ago and is our lowest annual operational carbon footprint since we began reporting in 1997. It also meant that we met our performance commitment for the year. As in previous years, it was achieved through a combination of energy efficiency improvements, renewable energy generation and the rapidly falling carbon dioxide intensity of UK grid electricity.

Our electricity use fell slightly from 2017-18 but remained close to the long-term average, mainly due to energy efficiency work cancelling out increasing energy use caused by tighter water and sewage treatment standards, and the operation of our regional water supply grid. This year, 25% of our electricity demand came from renewable energy generation on our sites.

Our people

We aim to be an employer of choice providing opportunities for people at all stages of their careers and providing development for all levels of talent.

Mental health first aiders (MHFA) have been trained to spot early signs and symptoms of mental health issues, offer initial help and guide a person towards support. We currently have around 100 qualified MHFAs across the business.

We actively provide learning and development opportunities for our people at all levels within our business to consolidate their learning and upskilling through further education and professional development programmes.

Promoting and encouraging diversity and inclusion has again been a key focus this year. We firmly believe the diversity of our workforce should reflect the diversity of the communities we serve.

- We develop leadership capability, nurturing and further developing talent from across the business
- We continue to enhance our early careers and graduate community, which is our talent pipeline for the future
- Apprenticeships remain a key element of our resourcing strategy to build and maintain a sustainable workforce
- We support local businesses by sharing our good practice and the success of our apprenticeship programmes

STRATEGIC REPORT (continued)

- Our People Programme is now embedded into our business with focus this year on mental health awareness and training of colleagues in mental health first aid
- We recognise that difference in personal characteristics is positive and brings a richness to our work environment that is essential to our continued success

Training

We have delivered 800 courses with an average of 3.4 days' development training per colleague.

A partnership with Weston College enables Wessex Water colleagues to achieve leadership and management qualifications in line with the National Apprenticeship Standards and this year 45 people leaders have started their studies.

Leadership and management training programmes continue to provide managers with the opportunity to develop their skills in this area. We run in-house development programmes for new and experienced managers as well as a full soft skills training programme and coaching and mentoring initiatives.

To support colleagues' physical and mental health wellbeing, we developed and launched our internal resilience building training programme. This has provided more than 300 leaders and colleagues with the skills to identify and manage their own stress levels and how best to support others.

This year we have focused on further developing our e-learning platform, iLearn, and through delivering a blended approach to learning we have delivered a record amount of training. Training is more accessible than ever before, offered through a mix of interactive courses, learning bites, video content and online training programmes.

Early careers

In March 2019, we welcomed the Minister of Skills and Apprenticeships as part of National Apprenticeship Week, during which we highlighted the need for schools to have a greater understanding of the employment opportunities within the water industry.

Encouraging widening participation in our early careers opportunities has been a key focus this year. To support social mobility we engage with young people excluded from traditional education through activities with pupil referral units and secure units.

We have significantly increased the appointment of people from BAME backgrounds to our early careers opportunities and supported the BAME 5 Cities Project with Bristol City Council.

Apprenticeship recruitment has been successful across the region with widespread interest and a significant increase in applicants for our technical apprenticeship roles. Almost 10% of our workforce currently undertake learning and development through apprenticeships, further or higher education. We work with the local community to promote apprenticeships as a valued and respected career pathway.

Of our technical apprenticeship applications, we have seen a significant increase over three years in our numbers of female graduates. Our work to engage larger numbers of women in the water industry continues.

We work closely with our education providers, Weston College and Bridgwater & Taunton College to develop the skills, knowledge and behaviours of colleagues to increase service quality and productivity within the business.

Diversity

We value the differences that a diverse workforce brings and are committed to creating and promoting an inclusive workplace for all employees and others who work with us as suppliers, contractors or customers.

We support and encourage flexible working where operationally feasible, ensuring it is accessible to our staff, increases motivation, promotes a better work-life balance and improves both performance and productivity.

This year we have undertaken a significant project on diversity and inclusion across the organisation, canvassing the views of more than 200 colleagues via workshops and interviews, assessing our gaps against best practice and formulating plans to continue improving our diversity and integration.

STRATEGIC REPORT (continued)

Culture

We have a strong, friendly and engaging culture, and colleagues enjoy working for us and with each other. We held an employee survey this year and 88% of colleagues rated us a good company to work for and 79% rated us a great place to work. Our employee engagement increased to 81%. Our people are important to us and we listen to their feedback and put action plans in place to address key areas of feedback.

Gender pay gap

All companies employing more than 250 employees are required to disclose their gender pay gap at 5 April each year.

The gender pay gap is the difference in average hourly pay received by men and women. The following data represents our gender pay gap figures as at 5 April 2019. It should be noted that the gender pay gap is different to equal pay, the right for men and women to be paid the same rate of pay for doing work that is of equal value.

Gender pay data	**2019**
Mean gender pay gap	4.9%
Median gender pay gap	4.6%
Mean gender bonus gap	20.7%
Median gender bonus gap	9.6%
Proportion of men paid a bonus	74.5%
Proportion of women paid a bonus	59.4%

What is the mean?

The mean gender pay gap is the difference in average hourly pay for men compared to women at all levels across Wessex Water.

What is the median?

The median represents the midpoint across a list of values in numerical order. If we list the average hourly pay in numerical order, the median is the middle number. The median pay gap is the percentage difference in average hourly pay for the middle man compared to the middle woman across Wessex Water.

Pay quartiles by gender

Our gender pay gap remains significantly lower than the UK average * and reflects gender distribution in job roles across our workforce rather than any equal pay issues. But, we recognise that there is further room for improvement.

We have a robust job evaluation process. We operate a framework of grades and pay ranges within each grade, and we are confident our approach on pay is not influenced by gender.

In common with many businesses with a predominance of STEM skills, the water industry is heavily male dominated. We recognise that diversity is a strength and we continue our efforts to create a diverse and inclusive environment to improve the representation of women within the industry and our business and the industry.

STRATEGIC REPORT (continued)

We value the differences a diverse workforce brings and are committed to creating and promoting an inclusive workplace for employees and all those who work with the company. We have clear areas of focus which we believe will contribute to reducing our gender pay gap. Current areas of focus include:

- reflecting the diversity of the community we serve
- community education
- apprenticeships, graduates and early careers
- promoting and encouraging flexible working
- improving all forms of diversity and inclusion at all levels.

We believe these areas of focus will have a positive impact on reducing our gender pay gap over time.

Health and safety

Our new lone worker protection system went live in June 2018. A Safe Hub app monitors around 1,600 colleagues with up to 750 users deemed to be at greater risk provided with a dedicated SOS fob.

The management of health and safety is critical to our success and is embedded across all business areas to ensure we maintain our position as a responsible, safe employer where all employees can work safely and reach their full potential.

Protecting the health, safety and welfare of our staff, contractors and customers is a shared responsibility and we continue to deliver a strong health, safety and welfare culture in our day-to-day operations.

Our target is for zero accidents and we monitor all accidents, incidents and observations reported by employees. The information we collect assists in determining problem areas or emerging trends and allows resources to be allocated to prevent accidents or illnesses.

For the 12 months to 31 December 2018:

- 601 incidents reported (an increase of 8% from 2017)
- nine incidents were reported to the Health and Safety Executive (HSE) with the loss of 201 days. This is in line with the company target and the three-year average (nine incidents and 295 days lost)
- no fatalities or life changing (permanently disabling) injuries
- one reportable dangerous occurrence
- no enforcement action from the Health and Safety Executive.

All incidents

Overall, 601 incidents were reported in the 12 months to 31 December 2018, including 133 near misses and 133 service strikes. The principal cause of all incidents after near misses and service strikes, remains as slips, trip and falls. This is in line with other companies and the national picture.

Reportable incident rate

This is the measure of the number of reportable incidents per 1,000 employees. There were 4.0 incidents, which is in line with the company target of 4.7.

Lost time incident rate

This includes all reported incidents involving staff that resulted in absence from work of one or more days. In 2018 there were 32 lost time incidents, an increase of 18% from 2017. The principal causes of lost time in 2018 were slips, trips and falls, and manual handling.

Enforcement action

There was no enforcement action from the HSE relating to breaches of health and safety legislation in 2018.

STRATEGIC REPORT (continued)

Health, safety and welfare strategy

We continue to embed a positive health, safety and welfare culture in our daily activities. This targets zero workplace accidents and supports our company aim to be a great place to work in which all employees can work safely and reach their full potential. Where possible we look to share innovation and best practice and learn from internally and externally reported incidents. To ensure we achieve this aim, our five-year health, safety and welfare strategy details performance measures in four strategic areas.

Performance against the strategy and each area is monitored by the Wessex Water Health and Safety Management group and reported to the Corporate and Social Responsibility committee.

External recognition

Our continued commitment to high safety standards and performance has been recognised in 2018 with Engineering and Construction awarded a Highly Commended in the RoSPA Construction Engineering Industry sector award. This demonstrates our consistency after winning the Sir George Earle trophy in 2016 and the Construction Engineering Industry sector award in 2017.

We were also recognised for our work at Hinkley Point C (HPC), receiving the EDF HPC Best Safety Performance – Local Supplier award in the 2018 HPC Excellence awards.

Financial performance

Introduction

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 intra-group funding to the Company with virtually all of 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 RCV, stands at 65%. On a pensions-adjusted basis, this figure rises to 69%, 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 with a view, when declaring dividends, to protect the company's existing credit ratings. The board remains committed to maintaining good 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 2016, showing a deficit of £160.9m. The company has agreed with the scheme's trustees a payment recovery plan in respect of the deficit comprising employer contributions of 21.7% and special contributions to reduce the deficit. The special contributions are £11.8m on 31 March 2020 and £11.8m plus inflation annually through to 31 March 2024. The company is committed to honouring the special contribution obligations it signed up to.

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.

The penultimate year of the AMP6 price review period saw a slight decrease in the profitability of the Company, with operating profit excluding exceptional items falling by £2.6m from £227.3m to £224.7m. There was an increase in turnover of £14.4m and a £17.0m increase in operating costs excluding exceptional items.

Revenue

Revenue increased by £14.4m or 2.7% from £541.6m to £556.0m. The revenue increase was in line with the price increase allowed by Ofwat as the impact of tariff switching and economic conditions was broadly neutral.

Total expenses

Total expenses (excluding exceptional items, depreciation and amortisation) increased by £17.3m from £207.5m to £224.8m as the increases in repair costs, site operations, pension costs and EA charges exceeded cost savings made.

Depreciation and amortisation

Depreciation costs decreased by £0.3m, from £106.8m to £106.5m. There was an increase in underlying depreciation from assets capitalised and a reduction in write-offs compared to the previous year.

STRATEGIC REPORT (continued)

Capital investment

In the regulatory year to 31 March 2019 we delivered gross capital expenditure for the penultimate year of the AMP6 programme of £250.4m, which was £36.4m higher than the £214.0m delivered in the previous year.

Interest charges

Net Interest charges increased from £86.1m last year to £93.2m this year. The £7.1 increase was split between an interest payable increase of £8.5m, a £0.2m decrease in interest receivable, and a £1.6m decrease in pension related costs.

The £8.5m increase in base interest costs was a result an increase in the cost of debt from 4.0% to 4.4% over the year and an increase in net debt over the year from £2,013.5m to £2,107.1m.

There is a prudent mix of debt between fixed rate, index linked and floating rate instruments. At the year-end the debt split was 45% fixed, 37% index linked and 18% floating, with the index linked debt based on either November or March RPI. The maturity of debt is generally long term with £1,249.4m of debt maturing after 2024.

Taxation charge

The Company has a statutory year-end of 30 June and the tax computation is prepared for the 12 months to 30 June each year. Corporation tax is paid quarterly. The current year corporation tax charge was £24.9m, which represents an effective tax rate of 19% in profits.

Dividends

Wessex Water's dividend policy is to declare dividends consistent with the Company's performance and prudent management of the economic risk of the business. The Board has agreed to ensure that gearing stays at or below 70% in order to maintain its current credit ratings and give the Company continued access to the capital markets.

Cashflow and gearing

Net debt (Total Financial Instruments as disclosed in note 24a) increased by £93.6m from £2,013.5m to £2,107.1m. This comprised:

- earnings before tax, interest and depreciation of £331.2m, less
- cash outflow from capital investment of £223.5m, less
- interest and tax payments of £82.6m, less
- working capital and bond accrual outflow of £30.7m, less
- dividend payments of £88.0m.

Taxation 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. But as a rule, we do not enter into complicated structures nor engage in any aggressive or artificial tax planning, as 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 so, 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 finance director 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 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.

STRATEGIC REPORT (continued)

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 keen to maintain 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.

In addition to corporation tax, the Company is also liable to a number of other taxes, which represent a cost to the business, including employer National Insurance contributions, business rates, environmental taxes and Insurance Premium Tax.

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, communicated and managed. 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. 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.

Any identified risk acts as a foundation for the separate corporate risk register. The Risk Management Group maintains and reviews all business risks; the corporate risk register includes emerging and strategic risks.

The Risk Management Group comprises senior managers from across the whole business. The risks are assessed by subject matter experts and subject to independent challenge from our risk experts. We assess risk based on their financial, social, and environmental impacts. Risks above our tolerance levels will have additional measures to reduce the risk exposure.

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

This RAG 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 RAG and the Board as they arise.

STRATEGIC REPORT (continued)

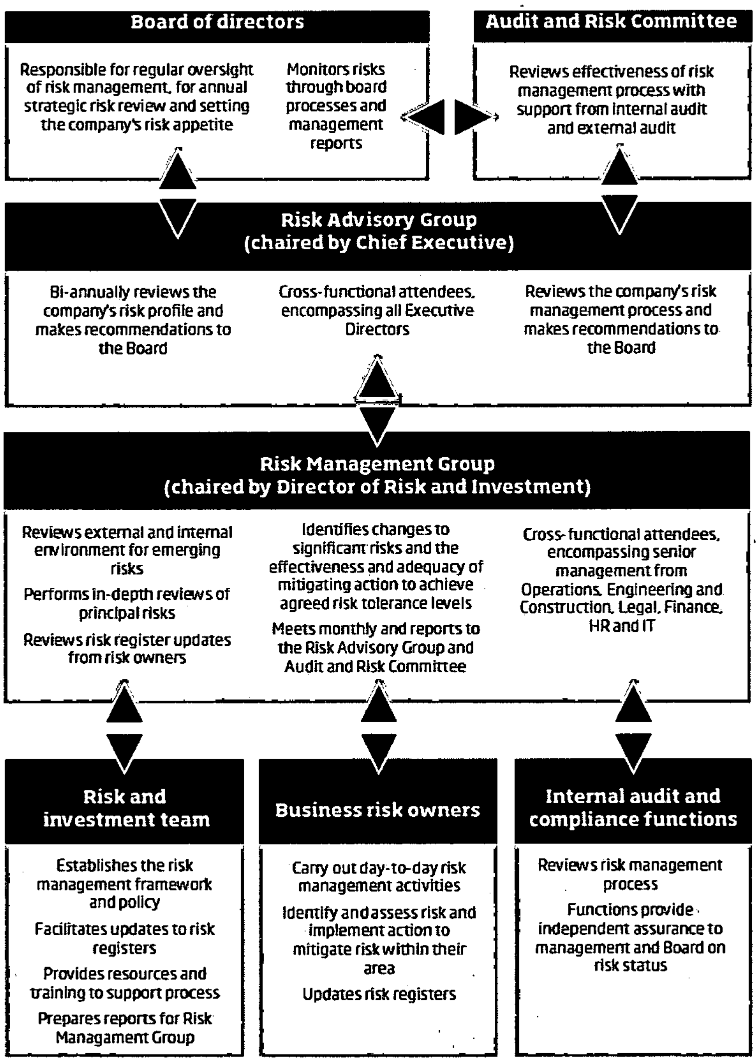
The CEO submits a bi-annual risk review paper to the Board for its review. This paper details the risk review process, identifies the current principal risks (listed below) to the business and the mitigation measures. It also records the status of emerging risks that have been identified.

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. Risks have been identified evaluated and managed in line with our processes throughout the year and up to the approval of the Annual Report and Accounts.

Risk management governance

The following table explains the governance structure for risk across the business. We continuously review and improve the risk management framework. Since the last review, the following changes have been made:

- the terms of reference of our quarterly Risk Management Group has been reviewed and the meeting frequency has been changed to monthly
- we have improved alignment with risk and internal assurance functions in prioritising risk-based audit and internal reviews
- we have undertaken a full review of our risk management framework, resulting in the initiation of a project to review risk management software applications.



STRATEGIC REPORT (continued)

Principal risks

While the corporate risk register holds 80-100 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.

In the last year, no new principal risks have been identified.

The Board has agreed the removal of one principal risk relating to the information management issues regarding the General Data Protection Regulation (GDPR). Its consideration as a principal risk was a result of the significant changes required to the company's processes and systems. GDPR risk is now monitored as part of our information security process. Changes to processes have been implemented with business as usual continuous monitoring in place supported by projects to deliver replacement systems through a privacy by design approach.

Brexit remains an emerging risk to the business. Over the past 12 months, we have developed a greater understanding of our risk in the event of a 'no-deal' Brexit and worked in collaboration with the rest of the water industry and the government to ensure our continued resilience. We continue to monitor this risk as the future outcome on Brexit remains highly uncertain.

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 trend
Political / regulatory action	Actions taken by Government or regulators that fundamentally change the operating environment in which we work, affecting the business and/or cash flows	Increasing
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
Widespread unfit water	External factors (i.e. contamination of supply or customer pipes) or internal factors (i.e. asset failure or poor operating performance) that results in the supply of unfit water affecting public health	Stable
Major pollution incident	External factors (i.e. sewer misuse or asset failure caused by a third party) or internal factors (i.e. asset failure or poor operating performance) that results in a major pollution incident significantly affecting the natural environment	Increasing
Health and safety	Failure of operational controls or an external hazard that affects the health and safety of employees, contractors or the public	Stable
Insider threat	A disgruntled, vulnerable or radicalised employee or contractor causes malicious damage to operational activities and/or the company's reputation	Stable

STRATEGIC REPORT (continued)

Principal risk	Description	Risk trend
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	Stable
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
Ability to raise finance	We are unable to fund the business sufficiently in order to meet our liabilities as they fall due	Stable

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.

In 2018 as part of the Company's business planning cycle the Directors considered an operational business plan that included financial projections up to 2030. This plan was submitted to the Water Services Regulation Authority (Ofwat) in September 2018 and updated in March 2019 following Ofwat's initial feedback. This plan included an assessment of financial resilience up to 2030.

The Directors have therefore determined that currently the period to 31 March 2030 is also an appropriate period over which to provide its Viability Statement.

For the most immediate term analysis up to March 2020 the Directors have taken into account:

- the current financial position of the Company, its cash deposits and available funds
- the expected turnover up to March 2020 from the customer charge rates 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
- that borrowing facilities in place are long term and maturing after 31 March 2020. The mix of borrowings is spread between fixed, floating and index linked, and that predictions of interest rate increases are moderate
- that working capital facilities provided by banks are in the process of being renewed.

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

- the principal risks as shown in the Annual Review summary
- 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 31 March 2020.

The Company's approach to the assessment and consideration of the full range of risks which includes common external risks that affect the water sector as whole as well as specific Company risks is detailed in the previous section of this Annual report and accounts document.

When considering financial viability over a longer time period, Directors considered the impact of the crystallization of the risks identified in the corporate risk register including those related to the wider Group, the wider economic situation and regulatory environment, thereby ensuring this viability statement covers operational, financial and regulatory risks and liabilities. The assumptions used in stress testing for this viability statement are consistent with this wider risk assessment reported elsewhere in the Company's accounts.

STRATEGIC REPORT (continued)

The variables and scenarios considered in the assessment that informed this viability statement included but were not limited to:

- inflation
- revenue variation
- expenditure
- costs associated with obligations not allowed for in the most recent price determination
- debt service requirements
- pension liabilities
- exceptional costs such as regulatory fines
- a credit rating downgrade, including one determined by a rating agency due to other group activities

Alongside this the Company developed and the Directors considered a series of credible scenarios where multiple risks are triggered concurrently. Scenarios were developed in consultation with the company Director of risk and investment, ensuring that the analysis correctly identified linked and compounded risks.

Scenarios were sensitivity tested against the Company business plan with reasonable, plausible and extreme levels of severity. These levels of severity are set having regard to 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 23 scenarios against the base case of the company published business plan, the most severe of which consider multiple concurrent and linked risks as follows.

Scenario Details and sensitivity testing

<table>
<tr><th>Scenario</th><th>Details and sensitivity testing</th></tr>
<tr><td>Wastewater incident</td><td rowspan="2">This might include a major pollution incident or the widespread distribution of unfit water. 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.</td></tr>
<tr><td>Water supply incident</td></tr>
<tr><td>Simultaneous water and wastewater incidents</td><td>As above but assumes incidents occur concurrently.</td></tr>
<tr><td>Macroeconomy</td><td>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.</td></tr>
<tr><td>Combined operational and macroeconomic shock</td><td>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.</td></tr>
</table>

STRATEGIC REPORT (continued)

Scenario	Details and sensitivity testing
New unfunded obligations and operational incident	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.
New unfunded obligations and macroeconomic shock	This scenario assumes sustained economic downturn in the UK leads to new obligations imposed that are not remunerated through customer bills in the regulatory price determination.

The scenarios are hypothetical for the purpose of creating outcomes that have the ability to threaten the viability of the Company; however, multiple control measures are in place to mitigate or prevent impacts. If these scenarios do arise various options are available to the Company in order to maintain liquidity so as to continue in operation. These include reducing any non-essential capital expenditure as well as not paying dividends. In this regard the Directors have paid particular attention to the Company's flexible dividend policy. 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 Directors noted that in a small number of scenarios regulatory gearing would exceed 75% and would breach the financial covenant in our bank facilities. In all cases however this could be resolved through the mitigations referred to above.

The Directors noted that in many of the scenarios tested credit metrics would imply that credit ratings may fall below the business plan target level. In making its assessment of financial viability over this extended time period the Directors primarily considered however 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 post mitigation.

In a small number of instances not all metrics are held above a level that is required to maintain an investment grade rating, even with the most available mitigating actions having been taken. Mitigating actions that are most available such as cuts in dividends in particular have limited impacts on interest cover ratios.

Where metrics implied a non-investment grade rating the Directors considered the circumstances that would give rise to these modelled scenarios more deeply. Having done so the Directors considered that in some scenarios the impact can be shown to be short-lived and would not reflect the underlying viability of the Company.

In one severe combined scenario the strain on interest covers has more longevity. This scenario results in significant and consistent overspends against the regulatory allowance while consumer prices remain depressed. The Directors have considered the past performance of company management in this regard which has shown a high degree of cost control. Directors consider therefore that it would be highly probable that a significant proportion of the adverse impact would have been caused by an unforeseen circumstance that could not have been avoided by prudent management action. The Directors would in these circumstances seek an adjustment to allowed turnover and believe that Ofwat would be required to allow this through the regulatory framework.

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.

STRATEGIC REPORT (continued)

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

- on the size of the statutory investment programme post 2025
- on the availability of finance capital
- that Ofwat will continue to perform its statutory duty to secure that the Company can finance the proper carrying out of its statutory functions, in particular through enabling the Company to secure a reasonable return on its capital at its Determinations in December 2019 and 2024
- the Company has an active and long-term shareholder, YTL, and is committed to long-term stewardship.

In March 2019 the Company submitted representations on Ofwat's initial assessment of the Company business plan, in particular, identifying shortfalls in Ofwat's assessment of the efficient cost required to deliver the Company's obligations which would result in reduced revenues over the period 2020 to 2025. The Directors have also prudently considered the financial viability of the Company on the equivalent basis were this shortfall to remain unchanged and revenues reduced without any corresponding reduction in obligations. Having considered viability according to the same criteria, the Directors are clear that they could not make a financial viability statement in the same terms except for the most immediate period considered up to March 2020. The Directors note however that the price review process is ongoing and have a reasonable expectation that these differences can be resolved during this time.

Board of Directors

Executive Directors

Colin Skellett – Chief Executive

Colin was appointed as chief executive of Wessex Water in 1988 and appointed to the board of Wessex Water Services Limited in 1989. He is currently group chief executive of Wessex Water, chairman of The Gainsborough Bath Spa Hotel and Thermae Bath Spa, non-executive chairman of European Connoisseurs Travel and chair of YTL Land and Property UK. Colin is vice-chair of Ventures' Educational Trust and chair of Merchants' Academy.

He has 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 is a former president of Bristol Chamber of Commerce, master of the Society of Merchant Venturers and chair of the Initiative for Bath & North East Somerset. He was chair of the West of England Local Enterprise Partnership from 2011 until early 2016.

Colin was involved in the formation of the charity WaterAid and served on its council for several years. Colin is a chartered chemist, holds an MSc in engineering and is a fellow of both the Royal Society of Chemistry and the Institute of Water and Environmental Management. In 2012, he was awarded an OBE to services to business and WaterAid and in 2015, an honorary doctorate in engineering from the University of the West of England. In 2019, Colin received an honorary degree in engineering from Bristol University.

Mark Watts – Finance Director

Mark is group finance director of YTL UK with overall responsibility for accounting, treasury, tax, pensions, procurement, fleet and unregulated businesses within the group. A member of the Association of Corporate Treasurers, Mark has extensive experience in international banking, treasury, fund raising and corporate finance.

He worked for a decade at Barclays International Bank before spending 19 years in the treasury department of Wessex Water followed by nine years as finance director. He was appointed to the board of Wessex Water Services Limited in March 2010 and is a trustee of the Wessex Water Pension Scheme. In addition, he holds a number of directorships within the YTL and Wessex Water companies in the UK but no external directorships outside the group.

Andrew Pymer – Managing Director

As managing director, Andy is responsible for the overall performance of the regulated business and for providing strategic advice and guidance to the board. A chartered civil engineer turned economist, he has more than 25 years' experience in the water sector, holding roles both overseas and in the UK. Andy was appointed managing director in 2016 having previously been Wessex Water's director of regulation and customer services since 2012 and head of regulation, policy and audit since 2002.

STRATEGIC REPORT (continued)

Andy was appointed to the board of Wessex Water Services in August 2012. Co-chair of Wessex Water's joint venture billing company, Pelican Business Services, he is also a council member for the industry trade association, Water UK. He is chair of Wessex WaterAid, which has raised more than £1.5m for the charity over the past 10 years.

Non-Executive Directors - Independent

Gillian Camm – Senior Independent Director

Gillian has had a lifelong career in change management, ranging from the implementation of significant change programmes through to the coaching and development of senior leaders in a variety of sectors. She has worked with organisations to improve their diversity and has had significant involvement in the recruitment of both executive and non-executive directors.

Appointed to the board of Wessex Water Services Limited in November 2011, Gillian chairs the corporate social responsibility committee and is a member of the Futures Panel and the following committees: audit, nominations and remuneration. She is also a member of the Affordability Advisory group, Money Matters panel and the Young People's panel. She is an observer on the Wessex Water Partnership.

Gillian was until recently the chair of the Leadership Foundation for Higher Education. She is a pro chancellor for the University of the West of England, a vice-president of Quartet Community Foundation, a member of the Merchant Venturers (where she is currently junior warden) and the Honourable Gloucestershire Company and a deputy lieutenant of Gloucestershire.

Gillian is also a Chair of Colston's Girls' School and a Director of Venturers Educational Trust. She has honorary degrees from the University of Bristol and the University of the West of England.

Huw Davies FCA

Huw was appointed as an independent non-executive director in September 2014. He is chair of the audit and risk committee, and chair of the Wessex Water Services pension trustee board. He is also a member of both the remuneration and nominations committees.

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

Fiona Reynolds DBE, CBE

Dame Fiona has run or chaired large and small charities, many of which were going through change; she has campaigned for progress on conservation and environmental matters; engaged millions of people in conservation causes and has a wide range of experience in public speaking, writing and the media.

She was appointed to the board of Wessex Water Services Limited in August 2012. In the same year she became master of Emmanuel College, Cambridge after a long career in the voluntary conservation movement, latterly as director-general of the National Trust from 2000-2012. At Wessex Water, she is chair of the Futures panel and a member of the audit committee, the corporate responsibility committee and the nomination committee.

Richard Keys

A chartered accountant and a former senior partner at PricewaterhouseCoopers, where he held a number of senior management positions including that of global chief accountant. His roles included responsibility for many top clients, both nationally and globally working closely with and advising boards, senior management and audit committees. His extensive business and financial experience developed during his 37 years at PWC encompassed corporate governance, audit, accounting, financial reporting, risk management, transaction support and consulting across many sectors including utilities (electricity and water), air transport, heavy industry, manufacturing and natural resources. Since 2010, he has enjoyed a portfolio of board roles ranging across banking, air transport, utilities, central government and education.

STRATEGIC REPORT (continued)

Richard was appointed to the Wessex Water Services Limited board in May 2016 and is a member of the audit, nomination, remuneration and corporate responsibility committees. He is also a non-executive director of Merrill Lynch International and a member of the governance, risk and audit committees; of NATS Holdings Ltd and chair of the audit and risk committee and a member of the transformation and nominations committees; and of the Department for Transport and chair of the group audit and risk assurance committee. Previously Richard was a nonexecutive director of Sainsbury's Bank plc and chair of the audit committee; of the Department for International Development and chair of the audit and assurance committee; a council member and chair of the audit and risk committee of the University of Birmingham. He is also chairman and non-executive director of Glaziers Hall Ltd and a liveryman of the Worshipful Company of Glaziers and Painters of Glass.

Non-Executive Directors - Shareholder

Francis Yeoh CBE (Chairman)

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.

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, YTL Land & Development 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 nonexecutive director of the Hong Kong and Shanghai Banking Corporation Limited.

Hong Yeoh

A director of YTL Corporation Berhad, Malaysia since 1985, Hong is managing director of YTL Power International Berhad and is responsible for YTL Group's utilities and construction divisions.

He has been a director of Wessex Water Services Limited since May 2002 and is chairman of the remuneration committee. He is a trustee of the YTL Foundation.

Mark Yeoh

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. He joined the YTL Group in 1989 and serves on the board of YTL Corporation Berhad, YTL Power International Berhad, YTL Land & Development Berhad, YTL Cement Berhad and YTL Vacation Club 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

Hann is executive director of YTL Power Generation Sdn Bhd and part of the business development team of YTL Power International Berhad. He has been a director of Wessex Water Services Limited since August 2012.

A graduate of Oxford University with a Master of Engineering in engineering science, Hann is executive director of YTL Power Generation Sdn Bhd and part of the business development team of YTL Power International Berhad. He also sits on the board of YTL PowerSeraya Pte Limited in Singapore.

David Barclay

As an investment banker, David assisted YTL Corporation with its acquisition of Wessex Water in 2002, and since then has been a director of Wessex Water Services Limited. His aim is to promote and defend high standards of integrity and corporate responsibility in the boardroom.

STRATEGIC REPORT (continued)

David is also a director of Wessex Water Limited, the holding company for Wessex Water Services, and YTL Land and Property Limited. A one-time chairman of the audit committee, he continues to serve as a member of the remuneration and nomination committees. David is currently deputy chairman of the British Library and a senior independent director of Wates Group Limited.

The Strategic Report was approved by the Board of Directors on 3 October 2019 and signed on its behalf by:

Mark Watts
Director

GOVERNENCE REPORT

Introduction

Wessex Water is committed to high standards of corporate governance. Under Condition F of its Instrument of Appointment as a water and sewerage undertaker (the "Licence") Wessex Water is required to conduct its water and sewerage business as if it were the Company's sole business as a public limited company. The Licence also requires Wessex Water to have particular regard to the UK Corporate Governance Code as approved for the purposes of the Listings Rules of the Financial Services Authority (the "Code"). The Code is not a rigid set of rules and provides general principles of best practice. The Code is made up of "Principles", "Provisions" and supporting guidance. The Provisions are subordinate to the Principles. Whilst the Code is generally regarded as embodying best practice in UK Corporate Governance, its main focus is the relationship between a listed company and its shareholders. Wessex Water has a single shareholder and, accordingly, it is able to address some issues more directly and completely than it could if it were a listed company with a diverse shareholder base.

The Company's focus is on complying with the Principles and spirit of the Code in its particular context as a private limited company with a single shareholder. In practice, the Company complies with the Principles and Provisions with only very limited exceptions. In those few areas where we have decided not to follow the precise requirements of the Code we explain why, and how good governance is nevertheless achieved.

Ofwat also publishes Board leadership, transparency and governance principles with which the Company complies. The principles published by Ofwat in 2014 were replaced on 1 April 2019 and Ofwat proposes that a new licence condition is introduced that will require the Company to meet certain governance objectives. Whilst the Company is not required to report against the new principles until 2020, as the Company considers that it meets the objectives, it has in this report demonstrated and explained how this is the case. To meet high standards of governance, and as a large private company, the Company also has regard to the Wates Principles.

The following parts of this Governance Report explain how good governance is at the heart of the Company's business and underpins the Company's relationships with its customers, shareholder, and other stakeholders. The Board regards it as fundamental to the long-term success of the Company to provide excellent customer service and satisfaction. Governance arrangements are kept under constant review. We continue to reflect best practice and maintain our position as a leading water and sewerage company for customer service and satisfaction. We have set out our commitment to best practice in our Code of Practice for Corporate Governance a copy of which is available on our website.

We believe that our governance arrangements ensure that the Company continues to operate effectively and efficiently to the benefit of our customers, shareholder, and other stakeholders, with clear accountability for decision making.

Governance Structures - The Board

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 including for the long term and is responsible for establishing the purpose, strategy, values and culture of the Company.

Reflecting the privileged position that the Company holds as a monopoly provider of essential public services, the purpose, 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 though which stakeholder interests can be represented and changing societal pressures can be understood by the Board, including the Wessex Water Partnership, the Futures Panel and the Catchment Panel, the role and responsibilities of which are described further in this report.

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.

GOVERNENCE REPORT (continued)

The Board periodically resets and publishes its vision, aims and strategy in a strategic direction statement and also as part of its five-year business plan for 2020 to 2025. The Board's processes ensure that the proposals contained within the business plan are consistent with its vision, aims and strategy for the long term. The activities of the Board that enabled it to be satisfied that the business plan is consistent with its long-term vision for the Company are set-out within the published plan which is available on the Company's website. The updated business plan affirms the board's vision for the Company to redefine public service by taking an approach that is not limited by its statutory obligations.

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 and key stakeholders. In particular, it seeks out the views of employees through regular surveys and by giving further opportunities for instant feedback. 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. Where there is evidence that behaviours are misaligned with the Company's purpose and values, the Board acts, through the executive, to correct this.

The Company has adopted and publicised to all its employees a whistleblowing policy for reporting instances of malpractice or inappropriate activity across all areas of business, including water regulation, health and safety, bribery, corruption and fraud. All reports are treated on a strictly confidential basis. Reports on whistleblowing are made to the Audit and Risk Committee and details are set out in the Audit and Risk Committee Report.

The Company has also 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 that breaching it will result in disciplinary action. No instances of a breach of the policy were recorded in the year.

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.

During the reporting year the Board composition was as shown on page 23.

The principal duties of the Board, the matters reserved for its decision and the terms of reference of its Committees are fully documented and published on the Company's website. The Board is fully focused on and has full responsibility for the activities of the Company and is responsible and accountable for the Company's strategy, values and culture. 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 policies, disposal of material assets, approval of the annual operating budgets, employee pension arrangements, significant changes in accounting policies and defence and settlement of material litigation.

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. 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.

All Board Committees report to the Board and final decisions are taken by the Board.

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.

Details of the Company's group structure can be found on page 31. Details of the Board Committees, including membership, number of meetings, and attendance are set out in the Committee reports on pages 33 to 55.

The Company's dividend policy and detail on dividends paid during the year are set out in the Notes to the Non-statutory accounts on page 89. Details of the Company's executive pay policy can be found on page 43.

GOVERNENCE REPORT (continued)

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 17 to 20.

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.

There are three Executive Directors. During the year there were four Independent Non-Executive Directors, which exceeds by one the current requirements of Condition P of the Licence. In addition, the experienced former Senior Independent Non-Executive Director is appointed as a Non-Executive Director. Four further Non-Executive Directors are appointed by the Company's sole shareholder, including the Chair, plus Kathleen Chew as an alternate director for Hann Yeoh.

This balance on the Board ensures a high level of engagement and dialogue with the Company's customers and shareholder. In this way, the Company complies with and exceeds the principles and spirit of the Code without the need for compliance with certain specific Provisions (including those in relation to the use of an annual general meeting to communicate with investors and encourage participation) which are not relevant to a company with a single shareholder.

The 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, led by the Senior Independent Director, form or participate in the various Company Committees, assess the integrity of financial information and whether financial controls and systems of risk management are robust and defensible, determine appropriate levels of remuneration for Executive Directors, assist in appointing and, if necessary, removing Executive Directors and assist in succession planning.

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.

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

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.

Due to the Company having a single shareholder, the Provisions in relation to Directors being subject to annual election by shareholders are of limited relevance and not applied.

The Company complied with the Code's Principles and Provisions as to the composition of the Board. Moreover, the Company exceeded the requirements of the Code (designed for listed rather than privately held companies) by having no fewer than four Non-Executive Directors during the reporting year who are directors or employees of the Malaysian holding company, thus enabling effective dialogue with the shareholder.

While the Board has a majority of Non-Executive Directors, it does not have a majority of Independent Non-Executive Directors as envisaged by the relevant Code Provision. In the context of a privately held company with a 100 percent shareholder, we consider it to be in accordance with good corporate governance practice for there to be a significant number, if not a majority, of shareholder representatives on the Board. In the Company's case, the shareholder appointed Non-Executive Directors (excluding the Chairman) are not a majority on the Board. Further, the Company has four highly capable and experienced Independent Non-Executive Directors.

The Board considers its current composition ensures an appropriate balance of skills, experience, independence and knowledge so that no single group can dominate decision taking and that the Board does not become too unwieldy.

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 gender diversity. All directors receive induction training on joining the Board and regularly update and refresh their skills and knowledge.

GOVERNENCE REPORT (continued)

The following were Directors during the year under review:

Executive Directors	Independent Non-Executive Directors	Shareholder Non-Executive Directors
Colin Skellett	Gillian Camm (Senior Non-Exec Director)	Francis Yeoh (Chair)
Mark Watts	Huw Davies	Hann Yeoh
Andrew Pymer	Fiona Reynolds	Hong Yeoh
James Rider	Richard Keys	Mark Yeoh
	James McKenna	David Barclay
	Kate Mingay	Kathleen Chew (alternate)

Chairman

Throughout the financial year under review Francis Yeoh was the Company's Chairman.

The Chairman leads the Board, ensuring its effectiveness while taking into account the interests of all stakeholders and promoting the highest standards of business ethics and governance. The Chairman is responsible for ensuring that Directors receive accurate, timely and clear information.

The Chairman also 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.

Any Director or the Company Secretary may request an item be included on the agenda.

Senior Independent Director

Gillian Camm is the Board's Senior Independent Director. Gillian is a member of all Board Committees and is responsible for leading the annual review of Board performance. As Senior Independent Director, Gillian would chair Board meetings if the Chairman were unavailable. The Senior Independent Director's role is to act as a sounding board for the Chairman 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. Gillian also attends the Wessex Water Partnership which acts as the Company's customer challenge group.

As the Senior Independent Director appointed in accordance with the Licence, Gillian 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. They 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 are 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 appointed after consultation with Ofwat and 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.

GOVERNENCE REPORT (continued)

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 Ofwat price reviews is desirable to facilitate scrutiny of Company performance against its business plan.

Independent Non-Executive Director	Appointed	Current term expires
Gillian Camm	01/11/2011	01/11/2018
Huw Davies	01/09/2014	01/09/2020
Fiona Reynolds	01/08/2012	30/09/2018
Richard Keys	01/05/2016	01/05/2019
James McKenna	03/06/2019	03/06/2022
Kate Mingay	03/06/2019	03/06/2022

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. In accordance with Code Provision B.3.2, terms of engagement are regulated by letters of appointment. Non-Executive Directors representing the Company's sole shareholder do not have formal terms of appointment and receive no payments from the company. In accordance with Code Provision B.4.1, all Directors are required to participate in an induction process to familiarise themselves with the Company's governance arrangements, business, regulatory framework and ethos. Introductory meetings are held with all Executive and Non-Executive Directors, the Company Secretary and senior managers across the Company's business.

Visits are made to the Company's principal offices and representative operational sites. The training and development needs of the Directors are reviewed annually by the Chairman.

During the reporting year, to ensure the retention of an appropriate balance of skills, experience and diversity on the Board, the Board has appointed two new Independent Non-Executive Directors (Kate Mingay and James McKenna) whose term of office began on 3 June 2019. Both candidates met with Ofwat prior to the formal appointments being made.

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 Chairman 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 may be required.

GOVERNENCE REPORT (continued)

Board attendance in the financial year under review was as follows:

Board Attendance 2018-19			
Colin Skellett	6/6	James Rider	6/6
David Barclay	6/6	Francis Yeoh	5/6
Gillian Camm	6/6	Hann Yeoh	6/6
Mark Watts	6/6	Hong Yeoh	6/6
Huw Davies	6/6	Mark Yeoh	6/6
Fiona Reynolds	5/6	Andrew Pymer	6/6
Richard Keys	6/6		

Board Committees and Advisory Panels

Four formal committees operated throughout the financial year under review:

- Audit and Risk Committee;
- Remuneration Committee;
- Nominations Committee; and
- Corporate Social Responsibility Committee.

These Committees operate under the authority of the Board and assist the Board in carrying out its duties. The Committees report back to the Board on decisions and actions taken together with any specific recommendations. 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 36 to 58.

The Board also receives reports from two liaison panels and a customer partnership panel, the Wessex Water Partnership, as part of the Company's commitment to stakeholder engagement.

The Wessex Water Partnership including our key organisational stakeholders, scrutinises and assesses the Company's delivery against customer related outcomes and performance commitment. The Partnership is independently chaired by Dan Rogerson who was previously Water Minister under the coalition Government. The Senior Independent Executive Director attends most meetings.

The Futures Panel is chaired by Fiona Reynolds. It keeps under review emerging issues facing all companies today (including sustainability, health and the environment). By invitation a range of external scientific and technical expertise is brought to this panel.

The Catchment Panel helps to inform the Company's decision making about sustainable land and water resource use in the context of the Company's services, constructed and natural assets and entitlements. The panel includes representatives of the Environment Agency, Natural England, the Drinking Water Inspectorate, the National Farmers' Union and the Country Landowners Association. The panel is chaired by Dr Richard Cresswell.

Board, Committee and Director Performance

The Board reviews its own performance and the performance of its Committees, the Chairman, the Executive Directors and the Independent Non-Executive Directors, annually in accordance with the Code. Generally, the Board will engage the services of an external consultant at least one year in three.

GOVERNENCE REPORT (continued)

Between external evaluations, reviews are facilitated by the Company Secretary. Evaluation of the Board considers 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. Any areas of improvement identified as part of the annual Board review are discussed and acted on.

For the financial year under review, a questionnaire was sent to relevant parties within the Company. The results were presented to Directors for discussion and several improvements were identified. In particular, the Board has considered its approach to the reporting and discussion of risk and will continue to monitor the effectiveness of the risk process. Following feedback on the reporting of Remuneration Committee decisions, membership of the Committee has been reviewed. The membership of all Board Committees will be reviewed following the appointment of two new Independent Non-Executive Directors.

Directors' remuneration

Details of Directors' remuneration are set out in the Remuneration Committee Report on pages 42 to 58.

Directors' Interests and Conflicts

Directors are aware of the requirement to disclose interests in contracts with the Company and any conflicts of interest. No such interests or conflicts were disclosed during the year.

Whistleblowing

The Company has adopted and publicised to all its employees a whistleblowing policy for reporting instances of malpractice or inappropriate activity across all areas of business, including water regulation, health and safety, bribery, corruption and fraud. All reports are treated on a strictly confidential basis. Reports on whistleblowing are made to the Audit Committee and details are set out in the Audit Committee Report.

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 that breaching it will result in disciplinary action. No instances of a breach of the policy were recorded in the year.

Procurement

The Company has in place procurement rules that ensure awards of contracts for works, services and supplies are made after compliance with the Utilities Contracts Regulations 2016 and 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 through the year that they have complied with the rules or to disclose non-compliance. No material instances of non-compliance were recorded during the year.

Group Structure

The Company's ultimate 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 on the next page 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 2019 was 49.68% owned by third-party shareholders and 50.32% owned by Yeoh Tiong Lay & Sons Family Holdings Ltd.

GOVERNENCE REPORT (continued)

All companies 100% owned unless stated	Principal activities	Company details
YTL Corporation Berhad	Investment holding and management company	Incorporated in Malaysia and quoted on the Main Market of Bursa Malaysia Securities Berhad
55.21%		
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 Limited	Investment holding company	Incorporated in Cayman Islands to look for global mergers & acquisitions in the utilities sector
YTL Utilities Holdings Limited	Investment holding company	Incorporated in Cayman Islands to look for global mergers & acquisitions in the utilities sector
YTL Utilities (UK) Limited	Investment holding company	Incorporated in United Kingdom, the acquisition vehicle for the purchase of the Wessex Water group of companies
Wessex Water Limited	Investment holding company	Incorporated in United Kingdom, also owns SC Technology AG, Wessex Water Enterprises Ltd and 50% of Bristol Wessex Billing Services Ltd
Wessex Water Services Limited	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, Mark Watts and David Barclay are Directors of Wessex Water Ltd. Colin Skellett and Mark Watts are directors of YTL Utilities (UK) Ltd.

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

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;
- to refrain from any action which would cause or may cause the company to breach any of its obligations under the Water Acts or the conditions of its Licence; and
- to ensure that at all times the Company's Board contains not less than three Independent Non- Executive Directors.

GOVERNENCE REPORT (continued)

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 Code of Practice for Corporate Governance; 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.

GOVERNENCE REPORT (continued)

Audit and Risk Committee Report

Audit and Risk committee attendance		**Current Length of Committee Service**
Gillian Camm	5/5	8 years
Huw Davies	5/5	5 years
Fiona Reynolds	5/5	7 years
Richard Keys	5/5	3 years

The members of the Audit and Risk Committee receive updates on financial reporting, the regulatory framework and performance throughout each financial year from appropriate sources.

During the year senior executives were invited to attend and/or present at meetings of the Committee including the Managing Director, Group Financial Director, Director of Regulation, the Director of Risk and Investment, the Group Financial Controller and the Group Head of Internal Audit. Our external audit partners from Ernst and Young LLP are invited to each meeting. Other senior management, our external technical auditors and Wessex Water Partnership representatives are invited to attend as required.

Composition

The Audit and Risk Committee comprises four independent Non-Executive Directors of the Board. The Chairman of the Board is not a member of the Audit and Risk Committee preserving the independence of the Committee. The four Non-Executive Directors have been members of the Audit and Risk Committee throughout the full year and comprise Huw Davies (Chairman), Gillian Camm, Fiona Reynolds and Richard Keys. The membership of the Audit and Risk Committee for 2019-20 is being reviewed following the appointment of two new Independent Non-Executive Directors.

The Board is satisfied that each of the Committee members is appropriately qualified and experienced to fulfil their role. Both Huw Davies and Richard Keys are nominated as having recent and relevant financial and auditing experience for the Committee.

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 subsequent Board, which it considered sufficient to enable it to discharge its duties effectively. Its work focused on:

- monitoring the integrity of the financial statement 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
- 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

GOVERNENCE REPORT (continued)

- 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

In accordance with Code Provision C.3.2 and C3.3, our Governance arrangements are available on the Company's website and provide full terms of reference for the Audit Committee.

In accordance with the Financial Reporting Council's code (Provision C.3.8), key issues discussed during the financial year under review included:

- preparedness and compliance with the Data Protection Act 2018
- detailed review of the Company's submission of the PR19 business plan
- detailed review of the Company's Information Assurance Statement and Information Assurance Plan in accordance with Ofwat's Company Monitoring framework
- company performance on a number of internal processes to deliver regulatory outputs and performance commitment data

The Audit and Risk Committee have discharged their responsibilities within the Financial Reporting Council's code (provision C1.1, C3.4) 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.

The Board review the principal risks twice a year and the company risk policy and process annually. Risk is assessed based on its financial, social and environmental impacts over the next five years and any impact on the next AMP period. The Company has a tiered governance structure to identify, scrutinise, challenge and mitigate risk. Our principal risks are detailed on pages 19 and 20.

Our external auditor (Ernst and 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 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. Where appropriate the Audit and Risk Committee is asked to approve the proposed management actions.
Oversight of Internal Audit and External Audit	The Audit and Risk Committee oversees the work of the Company's Internal Audit function. It monitors and reviews the effectiveness of the internal audit activities and manages the relationship with its external auditor. 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 total of 14 individual audit reports were submitted during the financial year. 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 Chairman at all times.

GOVERNENCE REPORT (continued)

Topic	Activity
External auditor	Ernst and Young LLP were appointed as the Company's external auditor at the end of 2017. The audit partner is invited to attend all Audit and Risk Committee meetings and has been present at all meetings during the year. The Audit and Risk Committee monitors the effectiveness of the external auditor throughout the year. Ernst and Young LLP were paid £170k for audit fees (£106k for March financial year and £64k for June financial year) and £11k for audit related assurance work. In addition, they were paid £100k for providing assurance on our PR19 submission during the financial year. The Audit and Risk Committee scrutinise the volume and value of non-audit work. 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 regarding audit fees in public interest entities and adhere to the Financial Reporting Council's code of ethics. The proportion of fees for non-audit services is compliant with EU Regulation 537 (currently 36% assessed over a three-year rolling period). Ernst and Young LLP also reports to Ofwat in respect of the Company's Annual Performance Report. As part of the assurance process for this Annual Review document the Audit and Risk Committee also receives a report from the Company's technical auditor on non-financial regulatory performance information including the performance commitment data. The current technical auditor (Mott McDonald) was appointed during 2015-16.

Further details of internal controls and risk management systems in relation to the financial reporting process can be found in more detail on pages 17 to 20.

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	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 and ensured that the methodology chosen was in accordance with IFRS 9.
Pension Deficit	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 International Financial Reporting Standards, the recharges from overhead to capital projects and the controls of the Company.
Misstatements	Management confirmed to the Audit and Risk Committee that they were no material misstatements or immaterial misstatements in the financial statements to achieve a particular presentation. The external auditor reported to the Audit and Risk Committee that in the course of their work no material misstatements had been found. The Audit and Risk Committee was satisfied that the external auditor had fulfilled its responsibilities to the Audit Committee and the Company.

GOVERNENCE REPORT (continued)

Nominations Committee Report

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

Francis Yeoh (Chair)

David Barclay

Gillian Camm

Huw Davies

Fiona Reynolds

Richard Keys

Hong Yeoh

The Nomination Committee is chaired by a Non-Executive Director appointed by the shareholder, by way of exception to the relevant Code Provision. The relevant Code Provision envisages a majority of the members being Independent Non-Executive Directors and the Chairman or an Independent Non-Executive Director chairing the Committee. This is intended to ensure a formal, rigorous and transparent procedure for the appointment of new Directors to the Board in the case of a listed company with disparate shareholders.

However, during the year the Company's Nomination Committee complied with the Principles and spirit of the Code and its composition reflects the requirements of a private company with a sole shareholder. The membership of the Nomination Committee for 2019-20 is being reviewed following the appointment of two new Independent Non-Executive Directors.

Role and Report on Activities

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

This report provides details of the role of the Nomination Committee and its work over the financial year under review.

The purpose of the Nomination Committee is to ensure that appropriate procedures are in place for the nomination, selection, training and evaluation of Directors. It reviews Board structure, size and composition.

The role of the Nomination Committee is to evaluate the balance of skills, experience, independence and knowledge on the Board.

During the reporting year there was no requirement for the Nomination Committee to meet as all matters relating to Board composition, including James Rider's departure, were considered by the full Board. The Nomination Committee did, however, lead the process for the appointment of two further Independent Non-Executive Directors.

GOVERNENCE REPORT (continued)

Corporate Responsibility Committee

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

Gillian Camm (Chair)

Fiona Reynolds

Richard Keys

Chaired by an Independent Non-Executive Director, the principal purpose of this Committee established in 2013 is to make recommendations to the Board about the Company's corporate and social obligations to its employees and other stakeholders. Executive and Non-Executive Directors, senior management and other external advisors are invited to attend meetings as required. The inclusion of 'Social' in the Committee's name during 2018-9 reflects the increasing emphasis on Wessex Water's social purpose moving forward.

Role and Report on Activities

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

Corporate responsibility is central to the values against which our business operates. The Company's long- term success depends on meeting the values of our customers, employees and other stakeholders.

During the year the Committee commented on and reviewed progress on diversity including areas of current focus to improve diversity and inclusion. This has included the formation of an executive level sub-group to steer company approaches identified through greater cross-company working and sharing best practice. The Committee has supported a significant project on Diversity and Inclusion across the organization, canvassing the views of more than 200 colleagues via workshops and interviews, assessing our gaps against best practice, formulating plans and recruiting advocates to continue improving our Diversity and Inclusion.

At each meeting, the diversity metrics have been reviewed and challenged by the Committee. It is recognised that progress is being made to attract, develop and retain a more diverse workforce but that it takes time for initiatives to show progress.

The Committee reviewed a number of reports throughout the year including the revisions to UK Corporate Governance Code and Executive Pay; reviewing current health, safety and wellbeing performance against company targets and action plans; assessing results from the staff survey and subsequent action plan and proposals to improve employee volunteering and community engagement. The Committee has been fully supportive of the newly formed Community Fund which will support a number of community and engagement projects helping to deliver a range of performance commitments during 2020 to 2025.

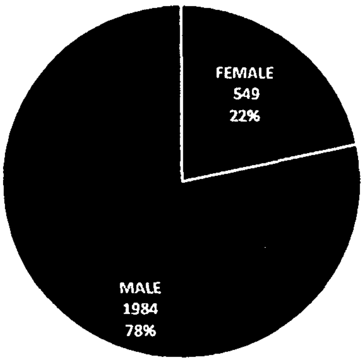
Sustainability has been a key area of interest for the Committee during the year. Focus has included: reviewing the company against the 17 UN Sustainable Development Goals; assessing the business against the B-Corp Impact Assessment and assessing company procurement rules and practices against our wider Sustainability Vision.

Corporate responsibility committee attendance	
Gillian Camm	2/2
Fiona Reynolds	2/2
Richard Keys	2/2

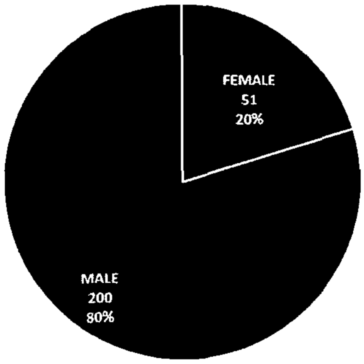
GOVERNENCE REPORT (continued)

Gender Diversity

Whole Workforce

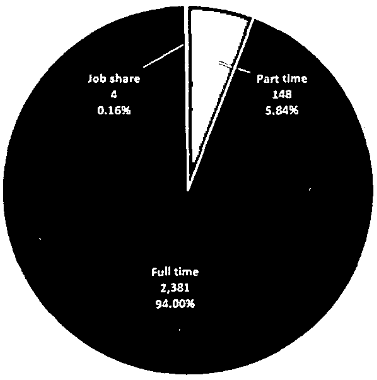


Leadership Grades (M)

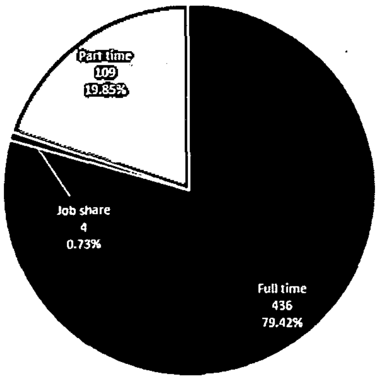


Part-time / Full-time Diversity

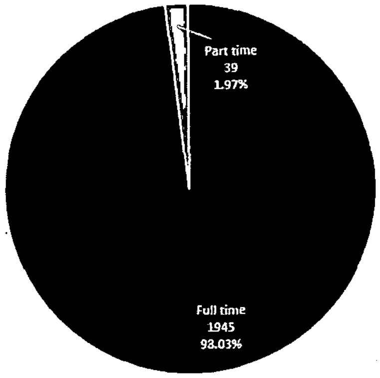
Whole workforce



Female

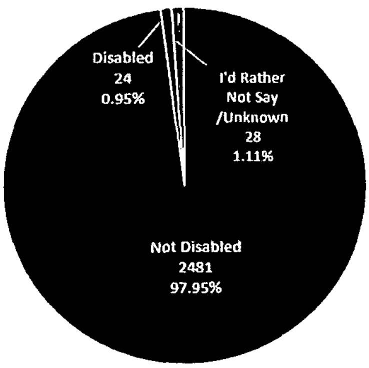


Male



Employees with a disability

Disability



GOVERNENCE REPORT (continued)

Remuneration Committee Report

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

Hong Yeoh (Chair)

David Barclay

Gillian Camm

Huw Davies

Mark Yeoh

Richard Keys

The Remuneration Committee is chaired by a Non-Executive Director appointed by the shareholder, by way of exception to the relevant Code Provision. The relevant Code Provision envisages at least three Independent Non-Executive Directors on the Remuneration Committee. This is intended to ensure a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual Directors in the case of a listed company with disparate shareholders. However, the Company's Remuneration Committee complies with the principles and spirit of the Code and reflects the requirements of a private company with a sole shareholder, resulting in a formal and transparent procedure for developing policy on executive remuneration. The membership of the Remuneration Committee for 2019-20 is being reviewed following the appointment of two new Independent Non-Executive Directors.

Role and Report on Activities

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

The Remuneration Committee determines, on behalf of the Board, the Company's policy on the 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 2019. The policy also applies to the remuneration of the Company's senior managers.

The Remuneration Committee met twice during the financial year under review. The Remuneration 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.

Salary and bonus levels were benchmarked against the Korn Ferry Hay Group Industrial and Service, National Utilities and South West Utilities market sectors with jobs sized in relation to scope, role responsibilities and impact to determine salary. The Remuneration 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 Remuneration Committee addressed the need to ensure that changes in senior executive remuneration are proportionate in the context of workforce pay. While 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 Remuneration Committee considered performance related executive pay in the context of Ofwat's "putting the sector back in balance". The Remuneration Committee also reviewed and approved the Company's gender pay gap report which was published on the Government website in December 2018.

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

GOVERNENCE REPORT (continued)

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 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 Remuneration Committee. Executive Directors have a target bonus set at 50% of base salary and their maximum bonus at 100% of base salary, of which a proportion is withheld until 2020 under LTIP arrangements.

During the year, the Remuneration 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 £18,500 for the year ended 30 June 2019. 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 Remuneration 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 Human Resources (Mark Nicholson) attend the Remuneration Committee meetings to provide advice and respond to specific questions. They did not participate in any discussion concerning their own remuneration.

No new Executive Directors were appointed during the year.

Remuneration Committee Attendance	
David Barclay	2/2
Gillian Camm	1/2
Huw Davies	2/2
Richard Keys	2/2
Hong Yeoh	2/2
Mark Yeoh	2/2

The remuneration policy for senior executives 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 just below the median when compared to industrial and service and national utilities market, supported by competitive base salary at or below market upper quartile. 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.

GOVERNENCE REPORT (continued)

Key Focus	Remuneration Policy
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.
Environment performance	KPIs within the annual bonus for all employees include environmental 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 Remuneration Committee continues to monitor variable pay arrangements for Executive Directors and senior managers. The Remuneration 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.

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

The auditor is required to report on this information.

James Rider stood down from the Board on 30 November 2018 and remains an employee of the Company until the completion of his notice period. In addition to his contractual entitlements he will receive a final settlement payment of £547,841.

GOVERNENCE REPORT (continued)

Relative importance of spend on pay

Note 7 to the accounts shows the total employment costs, excluding exceptional items, of the Company and the movement from last year.

	2018-19 £m	2017-18* £m	Movement £m	Movement %
Wages and salaries	98.3	90.1	+8.2	+9.1
Social security costs	10.1	9.5	+0.6	+6.3
Other pension costs	10.8	13.5*	-2.7	-20.0
Total employment costs	**119.2**	**113.1***	**+6.1**	**+5.4**
Charged to:				
Capital schemes	45.9	38.9	+7.0	+18.0
Operating costs	73.3	74.2*	-0.9	-1.2

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

Percentage of	2018-19 %	2017-18* %	Source
Turnover	21.4%	20.9%	Income statement
Profit before tax	90.6%	80.1%*	Income statement
Profit after tax	111.8%	97.6%*	Income statement
Dividends	135.5%	128.5%	Note 11
Capital expenditure	50.7%	46.7%	Cash flow statement

*Excluding exceptional pension credit of £35.9m during 2017-18.

GOVERNENCE REPORT (continued)

Remuneration Arrangements for Executive Directors 2018-19

The following table sets out a summary of the Company's Executive Directors' remuneration package, which comprises 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**
Base Salary	To attract and retain the high calibre Executive Directors and Senior Managers 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.
Taxable Benefits	To attract and retain high calibre Executive Directors and Senior Managers and to remain competitive in the market.
Pension	To attract and retain high calibre Executive Directors and Senior Managers and to remain competitive in the market.
Annual Bonus	To motivate and reward Executive Directors and Senior Managers for the achievement of demanding financial objectives and key strategic measures (including measures of customer satisfaction, service quality and environmental 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.
LTIP	To motivate and reward Executive Directors for the achievement of demanding financial objectives and key strategic measures (including measures of customer satisfaction, service quality and environmental performance) over the five-year regulatory period to promote the long-term success of the Company.
How operated in practice	
Base Salary	Reviewed annually and takes effect from 1 April. Review takes into consideration; • Individual responsibilities, experience and performance • Salary levels for similar sized roles in utilities and south west industrial and service markets • The level of pay increases awarded across the Company • Economic and market conditions • The performance of the Company Salaries are paid monthly.
Taxable Benefits	Benefits include: • Company car • Private medical insurance • Executive health screening • Private fuel allowance
Pension	All Executive Directors participate in the Company's defined benefit pension scheme. Executive Directors are also insured for a lump sum of up to four times their pensionable salary on death in service.

GOVERNENCE REPORT (continued)

How operated in practice	
Annual Bonus and Long-term Incentive Plan	The Board of Directors sets annual performance targets for the Company prior to the commencement of each new financial year. Company and individual performance against those targets is measured at the end of the financial year and the level of bonus payable is calculated at that point. Bonuses are paid in April. From 1 April 2015 the remuneration Committee established a Long-Term Incentive Plan for Executive Directors whereby 20% of any above target bonus element earned will be held back for payment at the end of AMP6 in 2020. The Company will match the value of the retained bonus payment, up to 100%. The long-term incentive payment will be paid to Directors in April 2020. The Committee has the discretion to and does consider the effect of corporate performance on environmental and governance risks when reviewing Executive Director and senior management bonuses to ensure variable remuneration incentivises and rewards appropriate behaviour. Part of the bonus may be forfeited for under performance in respect of customer service, environmental, regulation and employee related performance targets. Annual bonus is not pensionable.
Maximum opportunity	
Base Salary	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.
Taxable Benefits	N/A
Pension	21.7% of base salary
Annual Bonus	Maximum bonus opportunity is 100% of base salary.
Description of performance metrics	
Base Salary	N/A
Taxable Benefits	N/A
Pension	N/A
Annual Bonus	A combination of 30 key performance indicators relating to financial, customer, environment & assets and employee related measures and targets. An equal weighting is applied to each of the four categories. The committee has absolute discretion in making bonus payments.
Change to policy	
Base Salary	No change
Taxable Benefits	No change
Pension	No change
Annual Bonus	No change

GOVERNENCE REPORT (continued)

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

Component 2018/19	Colin Skellett Group CEO	Mark Watts Group FD	Andrew Pymer MD	James Rider COO
Target bonus (% of salary)	50	50	50	50
Maximum bonus (% of salary)	100	100	100	100
Actual bonus paid (% of salary)	54	61	40	49
Actual bonus held as LTIP (% of salary)	1	2	-	-
Share options (maximum)	Approved 87,000 Unapproved 1,913,000	Approved 87,000 Unapproved 913,000	Approved 87,000 Unapproved 913,000	Approved 87,000 Unapproved 913,000
Pension arrangement	Defined benefit - Pension in payment	Defined benefit - Pension in payment	Defined benefit - Pension deferred	Defined benefit
Benefits	See below	See below	See below	See below

Benefits were company car based on list price and CO2 emissions, fuel £4,310, private medical insurance £1,945 (family).

Base Salaries and Benefits

Executive Directors' remuneration is reviewed annually by the Remuneration 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 upper quartile position for high performers in similar roles in the relevant employment market) and internal relativities.

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 is benchmarked against the median position of the National Utilities market whilst we benchmark median pay and benefits against the South West Industrial and Service market for all fully qualified and experienced employees
- the Remuneration Committee reviewed 2018-19 salaries and determined that salaries for Executive Directors would remain at the same level as currently paid from 1 April 2019. The salaries for the rest of the Company increased by 3.2% which is in line with RPI.
- 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.

The Remuneration 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.

GOVERNENCE REPORT (continued)

Executive Directors' Bonuses

2018-19 scheme

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.

Bonus disclosed is in relation to the performance in the regulatory year and is paid in May.

The Company targets are 30 key performance indicators covering customer service, environmental and asset measures, employee matters and financial measures as shown below.

Customers – Service Incentive Mechanism service score / customers rating service good or very good / compliance with drinking water standards / customer contacts about drinking water quality / volume of water saved through water efficiency / properties suffering supply interruptions > 3 hours / volume of water leaked / customer reported leaks fixed within a day/restrictions on water use / internal flooding incidents per 10,000 properties / overall risk of flooding grid score.

Environment and Assets – EA's Environmental Performance Assessment / bathing waters passing EU standards / Biodiversity Action Plan landholding assessed and managed / greenhouse gas emissions / proportion of electricity self-generated / all regulatory outputs met / compliance with abstraction licences / monitoring of CSO's presenting a risk to the environment / river water quality improved.

Employees – H&S plan and accident statistics progress as assessed by Corporate Responsibility Committee / employee rating company as a good employer / compliance with training plan / staff turnover / diversity plan progress as assessed by Corporate Responsibility Committee.

Financial – profit after corporation tax / operational costs / net capital expenditure / cash flow before dividends / normal dividends declared.

The target bonus for the Executive Directors was calculated as follows:

Target Bonus 2018-19	**Colin Skellett Group CEO**	**Mark Watts Group FD**	**Andrew Pymer MD**	**James Rider COO**
Customer				
% of salary	10.0%	10.0%	10.0%	10.0%
Amount £	27,600	16,280	31,200	22,277
Environment and Assets				
% of salary	10.0%	10.0%	10.0%	10.0%
Amount £	27,600	16,280	31,200	22,277
Employees				
% of salary	10.0%	10.0%	10.0%	10.0%
Amount £	27,600	16,280	31,200	22,277
Financial				
% of salary	10.0%	10.0%	10.0%	10.0%
Amount £	27,600	16,280	31,200	22,277
Individual				
% of salary	10.0%	10.0%	10.0%	10.0%
Amount £	27,600	16,280	31,200	22,277
Total				
% of salary	**50%**	**50%**	**50%**	**50%**
Amount £	**138,000**	**81,400**	**156,000**	**111,385**

In the financial year under review, 27 of the 30 Company targets were achieved or bettered.

There was one marginal failure where net capital expenditure exceeded target due to advancement of spend and two failures, one relating to bathing waters not passing EU standards and one relating to Environmental Performance Assessment where the target was 'Leading'.

GOVERNENCE REPORT (continued)

The actual bonus payments are shown in the Directors' Emoluments table. The detail of how these bonus payments were calculated is shown below.

Actual Bonus 2018/19	Colin Skellett Group CEO	Mark Watts Group FD	Andrew Pymer MD	James Rider COO
Financial				
% of salary	10.9%	10.0%	10.0%	10.0%
Amount £	30,000	18,947	31,250	22,459
Customer				
% of salary	10.9%	10.0%	0.0%	9.2%
Amount £	30,000	18,947	0	20,664
Environment and Assets				
% of salary	10.9%	10.0%	10.0%	10.0%
Amount £	30,000	18,947	31,250	22,459
Employees				
% of salary	10.9%	15.0%	10.0%	10.0%
Amount £	30,000	28,421	31,250	22,459
Individual				
% of salary	10.9%	15.8%	10.0%	10.0%
Amount £	30,000	29,938	31,250	22,459
Total				
% of salary	**54.5%**	**60.8%**	**40.0%**	**49.2%**
Amount £	**150,000**	**115,200**	**125,000**	**110,500**

Annual bonus payments to Executive Directors are not pensionable.

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 dependant'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 21.7% contribution (21.7% 2017-18). 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.

GOVERNENCE REPORT (continued)

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.

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	01/04/2014	01/09/1989	12 months
Mark Watts	01/04/2014	16/03/2010	12 months
Andrew Pymer	21/07/2016	01/08/2016	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 Remuneration 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 July 2018 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.

GOVERNENCE REPORT (continued)

Directors' Emoluments

The table below shows the emoluments for the current year.

The auditor is required to report on the information in the following tables for 2018-19.

2018-19	Salary £000	Bonus £000	LTIP £000	Benefits £000	Pension £000	Loss of Office £000	Total £000
David Barclay	60	-	-	-	-	-	60
Gillian Camm	90	-	-	-	-	-	90
Huw Davies	84	-	-	-	-	-	84
Fiona Reynolds	72	-	-	-	-	-	72
Richard Keys	70	-	-	-	-	-	70
James McKenna	6	-	-	-	-	-	6
Kate Mingay	6	-	-	-	-	-	6
Colin Skellett	276	148	2	19	-	-	445
Mark Watts	189	111	4	18	-	-	322
Andrew Pymer	312	125	-	18	68	-	523
James Rider	225	111	-	23	49	548	956
Total	**1,390**	**495**	**6**	**78**	**117**	**548**	**2,634**

- No emoluments earned by Francis Yeoh, Hann Yeoh, Hong Yeoh, Mark Yeoh or Kathleen Chew.
- Benefits comprise private medical insurance, company car or car allowances and fuel benefits.
- Employer pension contributions may be received as payment into the Company pension scheme or as a cash benefit.
- Three Directors received emoluments for services to other Group Companies, Colin Skellett £467k, Mark Watts £495k and David Barclay £40k. 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.

The table below shows the emoluments for the prior year.

2017-18	Salary £000	Bonus £000	LTIP £000	Benefits £000	Pension £000	Loss of Office £000	Total £000
David Barclay	60	-	-	-	-	-	60
Gillian Camm	89	-	-	-	-	-	89
Huw Davies	83	-	-	-	-	-	83
Fiona Reynolds	71	-	-	-	-	-	71
Richard Keys	69	-	-	-	-	-	69
James McKenna	-	-	-	-	-	-	-
Kate Mingay	-	-	-	-	-	-	-
Colin Skellett	272	159	6	19	-	-	456
Mark Watts	187	121	7	19	-	-	334
Andrew Pymer	308	157	1	18	59	-	543
James Rider	218	110	-	23	42	-	393
Total	**1,357**	**547**	**14**	**79**	**101**	**-**	**2,098**

GOVERNENCE REPORT (continued)

Chief Executive

No remuneration was paid to the Chairman (2018 – £nil). The total remuneration for the Group Chief Executive (Colin Skellett) was:

	2018-19 £000	2017-18 £000	% change
Wessex Water Services Ltd			
Salary	276	272	+1.5%
Bonus	148	159	-6.9%
LTIP	2	6	-66.7%
Benefits	19	19	+0.0%
Other group companies			
Salary	184	181	+1.7%
Bonus	268	276	-2.9%
LTIP	2	4	-50.0%
Benefits	13	13	+0.0%
Total	**912**	**930**	**-1.9%**
All employees WWSL			
Wages and salaries	98,300	90,100	+9.1%
Social security costs	10,100	9,500	+6.3%
Other pension costs (17-18 excluding exceptional credit of £35.9m)	10,800	13,500	-20.0%
Total	**119,200**	**113,100**	**+5.4%**

* information in the table above is subject to audit

Comparison with remuneration increase for all employees:

The pay increase awarded to the employees of the Company on 1 April 2018, for the year 2018-19, was a 3.2% increase over the preceding year.

Executive Directors' Defined Benefit Pension Provision

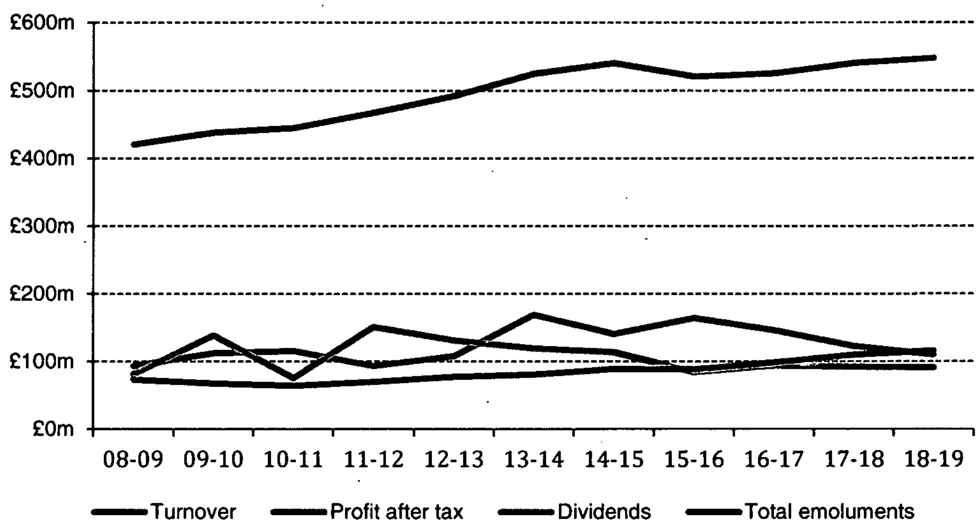
	Pension service completed in years (1)	Normal retirement date at 65	Accrued pension at 30/06/2018 £pa	Increase in accrued pension during the year £pa	Accrued pension at 30/06/2019 £pa
Colin Skellett (2)	41	13/06/2010	175,476	12,000	187,476
Mark Watts (2)	28	19/09/2026	70,000	4,591	74,591
Andrew Pymer (3)	23	18/08/2033	63,418	4,397	67,815

(1) Including transfers in and bonus years
(2) Pension in payment
(3) Deferred pension

GOVERNENCE REPORT (continued)

Remuneration Link to Performance

The chart below compares the movement over ten 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 Director's 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.

Share options held by Executive Directors at the start and end of the financial year, and the exercise price of those share options are shown in the table below:

	Opening number 01/07/2018	Exercise price RM	Date of grant	Exercise date	Expiry date	Closing number 30/06/2019
Colin Skellett	87,000	1.65	1/6/2012	1/6/2015	31/3/2021	87,000
Colin Skellett	1,913,000	1.38	1/6/2012	1/6/2015	31/3/2021	1,913,000
Mark Watts	87,000	1.65	1/6/2012	1/6/2015	31/3/2021	87,000
Mark Watts	913,000	1.38	1/6/2012	1/6/2015	31/3/2021	913,000
Andrew Pymer	87,000	1.65	1/6/2012	1/6/2015	31/3/2021	87,000
Andrew Pymer	913,000	1.38	1/6/2012	1/6/2015	31/3/2021	913,000

GOVERNENCE REPORT (continued)

* information in the table above is subject to audit

Approved options were granted at an exercise price of RM1.65. Unapproved options were granted at an exercise price of RM1.49, which was adjusted to RM1.41 following the distribution to all shareholders of one share for every 20 ordinary shares held in 2014, and to RM1.38 following the distribution to all shareholders of one share for every 50 ordinary shares held in 2017.

The share price at 30 June 2019 was RM0.82 or £0.16.

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.

	Opening number 01/07/2018	Closing number 30/06/2019
Mark Watts	388,030	388,030
Andrew Pymer	53,815	53,815

The share price at 30 June 2019 was RM0.82 or £0.16.

Remuneration Arrangements for Executive Directors 2019-20

Component	**Colin Skellett Group CEO**	**Mark Watts Group FD**	**Andrew Pymer MD**
Target bonus (% of salary)	50	50	50
Maximum bonus * (% of salary)	100	100	100
Share options (maximum)	Approved 87,000 Unapproved 1,913,000	Approved 87,000 Unapproved 913,000	Approved 87,000 Unapproved 913,000
Pension arrangement	Defined benefit - Pension in payment	Defined benefit - Pension in payment	Defined benefit - Pension deferred
Benefits	Company car or allowance, fuel and private medical insurance		

*Of which a proportion is withheld until 2020 under LTIP arrangements

Bonus scheme 2019-20

For 2019-20 there are 30 performance indicators set to reflect the corporate targets in the current regulatory period, as shown below:

Customers – Service Incentive Mechanism service score / customers rating service good or very good / compliance with drinking water standards / customer contacts about drinking water quality / volume of water saved through water efficiency / properties suffering supply interruptions > 3 hours / volume of water leaked / customer reported leaks fixed within a day / restrictions on water use / internal flooding incidents per 10,000 properties / overall risk of flooding grid score.

Environment and Assets – EA's Environmental Performance Assessment / bathing waters passing EU standards / Biodiversity Action Plan landholding assessed and managed / greenhouse gas emissions / proportion of electricity self-generated / all regulatory outputs met / compliance with abstraction licences / monitoring of CSO's presenting a risk to the environment / river water quality improved.

GOVERNENCE REPORT (continued)

Employees – H&S plan and accident statistics progress as assessed by Corporate Responsibility Committee / employee rating company as a good employer / compliance with training plan / staff turnover / diversity plan progress as assessed by Corporate Responsibility Committee.

Financial – profit after corporation tax / operational costs / net capital expenditure / cash flow before dividends / normal dividends declared.

Target Bonus 2019-20	Colin Skellett Group CEO	Mark Watts Group FD	Andrew Pymer MD
Customer			
% of salary	10.0%	10.0%	10.0%
Amount £	27,600	16,280	31,200
Environment and Assets			
% of salary	10.0%	10.0%	10.0%
Amount £	27,600	16,280	31,200
Employees			
% of salary	10.0%	10.0%	10.0%
Amount £	27,600	16,280	31,200
Financial			
% of salary	10.0%	10.0%	10.0%
Amount £	27,600	16,280	31,200
Individual			
% of salary	10.0%	10.0%	10.0%
Amount £	27,600	16,280	31,200
Total			
% of salary	**50%**	**50%**	**50%**
Amount £	**138,000**	**81,400**	**156,000**

Long term incentive scheme from 1 April 2015

The Remuneration Committee approved the establishment of a long-term incentive plan (LTIP) for Directors whereby 20% of any above target bonus element earned will be held back for payment at the end of AMP6 in 2020. The Company will match the value of the retained bonus payment, up to 100%. The LTIP will be paid to Directors in April 2020.

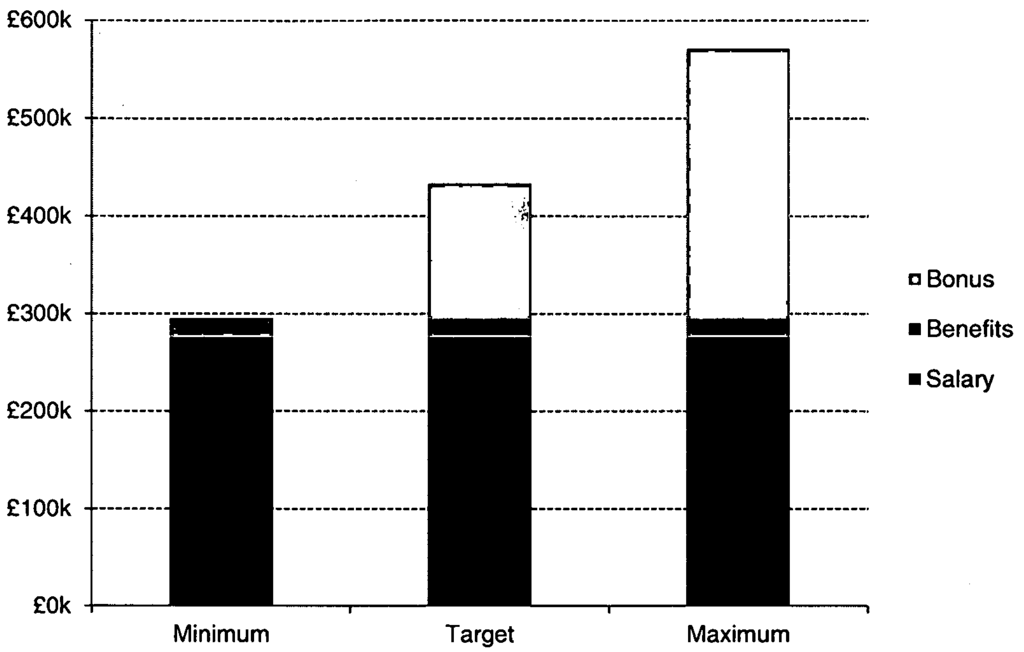
Amounts of bonus held back from Executive Directors under the LTIP scheme were as follows:

Bonus held back as LTIP	Colin Skellett Group CEO	Mark Watts Group FD	Andrew Pymer MD
2015/16	£10,608	£8,000	-
2016/17	£9,634	£8,430	£2,667
2017/18	£5,963	£7,370	£1,000
2018/19	£2,400	£4,096	-
Total	**£28,605**	**£27,896**	**£3,667**

GOVERNENCE REPORT (continued)

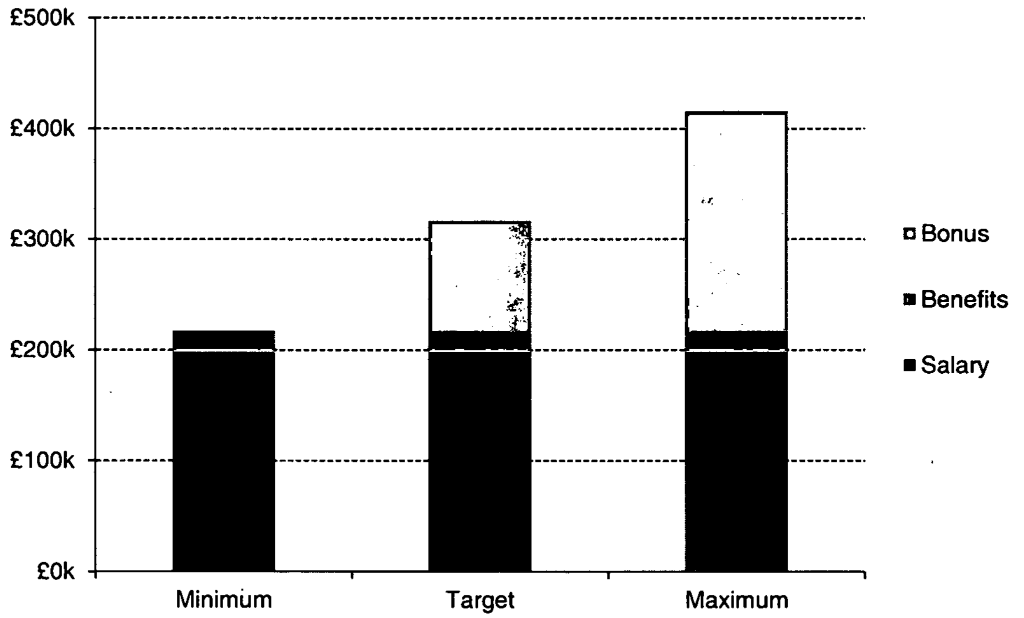
Illustrations of Remuneration Policy

A) Colin Skellett – Group CEO (using estimated 2019-20 data)



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

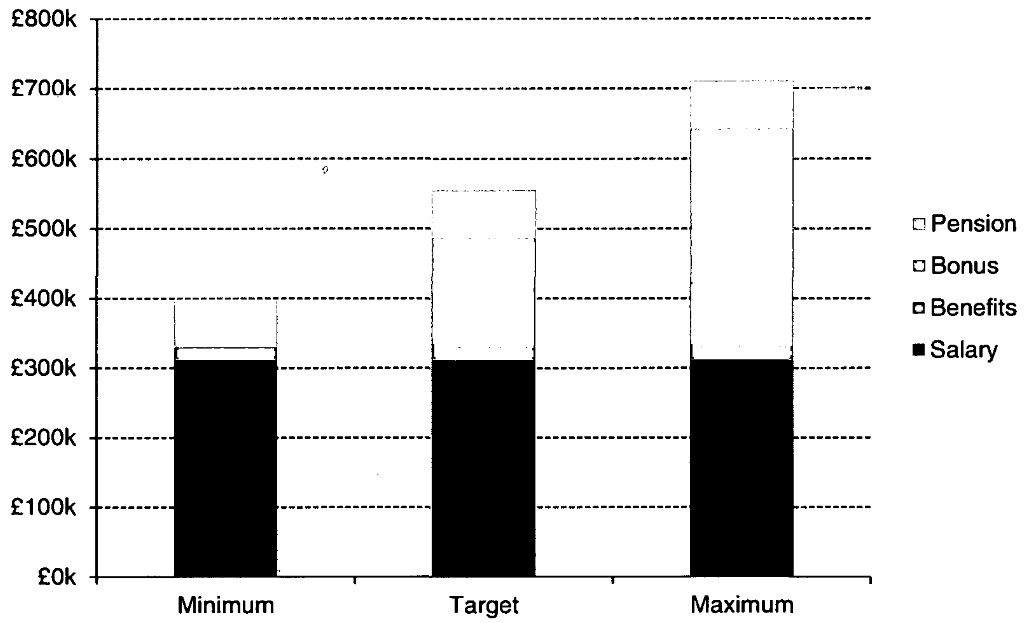
B) Mark Watts – Group FD (using estimated 2019-20 data)



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

GOVERNENCE REPORT (continued)

C) Andrew Pymer – MD (using estimated 2019-20 data)



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

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 2019.

The Directors consider the annual report and financial statements 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.

In December 2014 the industry regulator Ofwat announced the final price control determination for the five-year period to March 2020. The Directors accepted the price review for the five years to 2020. The Company has now published its plans for the period 2020 to 2025 which reinforces its long-term commitment to provide high quality water and environmental services.

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 the foreseeable future. For these purposes, the foreseeable future is taken to mean a period of at least 12 months from the date of approval of these accounts. Therefore, the Directors have prepared the accounts on a going concern basis.

Sustainability

Wessex Water Services Ltd has a sustainability vision that guides our progress towards being a sustainable water company. The sustainability vision is reviewed bi-annually.

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's 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. This year we launched our People Programme, 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.

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.

DIRECTORS' REPORT (continued)

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. In accordance with the requirements of the Act we have published on our website a slavery and human trafficking statement 2019.

Environment Policy

Wessex Water Services Ltd 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 2019.

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 2019 trade creditors represented approximately 29 days trade purchases (2018 – 26 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 £585,412 was donated to UK charities (2018 – £330,910) of which £215,404 (2018 – £224,690) 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
Claverton Down, Bath, BA2 7WW
3 October 2019

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT, THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law.

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 of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations or have no realistic alternative but to do so.

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 financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The Directors consider the annual report and financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and 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 for the year ended 30 June 2019 which comprise the Profit and Loss Account, the Balance Sheet, Statement of Cash Flows, the Statement of Comprehensive Income, the Statement of Changes in Equity and the related notes 1 to 32, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 30 June 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union.
- 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 below. 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 as applied to public interest entities, 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 principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report set out on pages 17 - 20 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation set out on page 20 in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement set out on page 59 in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements
- whether the directors' statement in relation to going concern required under provisions C.1.3 and C.2.2 is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation set out on page 20 in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Overview of our audit approach

Key audit matters	• Revenue Recognition • Valuation of Expected Credit Loss Provision • Classification of Costs between Operating and Capital Expenditure • Defined Benefit Pension Liability
Materiality	• Overall materiality of £6.6m which represents 5% of profit before tax.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Revenue Recognition (Revenue £556.0m, PY comparative £541.6m & Estimated Unbilled Income £66.1m, PY comparative £63.7m) *Refer to the Audit Committee Report (page 19); Accounting policies (page 74); and Note 5 of the Consolidated Financial Statements (page 84)* Revenue relates to the provision of water and sewerage services. ISAs (UK & Ireland) presume there is a risk of fraud relating to revenue recognition. This risk over revenue recognition arises in relation to the unbilled income accrual from metered water services. This income accrual requires an estimation of the amount of unbilled charges at the period end. This is calculated using a combination of system generated information, based on previous customer volume usage, together with management judgements as to the likely impact on usage of factors such as seasonal variations.	Our procedures include: • We obtained an understanding of the process for the supply of measured services, meter reading and related billing in order to assess the completeness of adjustments to reflect the accrual or deferral of revenue • We tested key controls linked to system generated information and around the estimation process for measured revenue • We compared the estimated unbilled income to bills raised post year end for a sample of customers, and compared management's history of estimating the unbilled income balance to bills raised in the subsequent year to assess the accuracy of the balance • For a selected sample we recalculated the estimated unbilled income based on customers' historical usage data	We concluded that the estimation process undertaken by management to calculate the measured unbilled income accrual reflects latest operational factors in the key assumptions and results in an acceptable income accrual.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
	• We performed analytical procedures by comparing revenue balances for the year against expectation and obtaining support for significant variances • We corroborated the key assumptions and estimates made by management in recognising revenue, by obtaining internal and external data on factors that influence demand from customers. • We tested whether contract terms and conditions were met and revenue recognised at the correct time in accordance with IFRS • We tested a sample of transactions to underlying bills We performed journal testing with increased attention on entries impacting revenue, particularly those raised close to the balance sheet date.	
Expected Credit Losses (£39.4 m, PY comparative £43.3 m) *Refer to the Audit Committee Report (page 19); Accounting policies (page 75); and included within Note 24 of the Financial Statements (page106)* The provision is calculated using a combination of system generated information on historic debt recovery rates and management's judgement of the future likely recovery rates. There is a risk that the assumptions, used by management in calculating the expected credit loss provision, may be susceptible to management bias or that data used/calculation may contain errors and the valuation of the provision against trade receivables may be therefore be misstated	Our procedures include: • We obtained an understanding of the Company's process for calculating the expected credit loss provision as at 30 June 2019, with a specific focus on the assumptions made by management in performing the calculation. • We analysed and assessed the controls testing performed by the service auditors in relation to controls over the integrity of data used by the Company in calculating the provision. We also performed our own substantive testing to ensure the completeness and accuracy of this data.	We concluded that the method used by the Company to calculate the expected credit loss provision results in an acceptable valuation of the provision.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
	• We challenged the assumptions used by management in determining the amounts provided against the different payment profiles and considered indicators of management bias. • We compared assumptions to historic collection rates and confirmed that these were being correctly used in the calculation. • We utilised collection information over the past five years, to determine an alternative assessment of the likely ultimate collection of debts existing at the balance sheet date and compared this to the provision recorded by management • Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.	
Classification of costs between operating and capital expenditure (Capital expenditure £256.3 m, PY comparative £242.3 million) *Refer to the Audit Committee Report (page 19); Accounting policies (page 75); and included within Note 12 of the Financial Statements (page 90)* The magnitude of Wessex Water's capital spend and the level of subjectivity in allocating costs between operating and capital expenditure result in there being a potential for error in the accounting for fixed assets.	Our procedures include: • We tested controls over the approval of the capital budget and the classification of expenditure for individual projects. • We sampled capital expenditure costs in the year and agreed the costs to underlying support, including timesheets, invoices and journal postings. • We made enquiries of project managers for a sample of projects to understand the nature of the work being undertaken, length of the construction period and any key risks which were present on the project.	We concluded that operating and capital expenditure had been correctly accounted for in the financial statements.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
	• We challenged management's assumptions used in allocating certain costs between capital and operating expenditure. Specifically, this has included assessing the appropriate	
Defined benefit pension liability (£131.1 m, PY comparative £126.8 m) *Refer to the Audit Committee Report (page 19); Accounting policies (page 75); and included within Note 19 of the Financial Statements (page 95)* Wessex Water Services Limited operates a retirement benefits scheme for its employees which is classified as a defined benefit scheme. The valuation of the defined benefit pension liability requires the use of a number of actuarial and other assumptions in deriving the final values. Given the inherent subjectivity in setting these assumptions there is a risk that the use of inappropriate assumptions may result in a material misstatement.	• With the assistance of our EY pension actuarial specialists we assessed the reasonableness of key assumptions, comparing these with external data. • We understood any key events / changes in the pension scheme during the current year. • Evaluated the Company's assessment of the accounting implications of the change in future pension increases. Assessed the Company's financial statement disclosures in relation to the defined benefit pension scheme.	We concluded that the assumptions selected by the Company to determine the defined benefit pension liability were all within our acceptable range

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the company and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed. All audit work was performed directly by the audit engagement team.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality
The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the company to be £6.6 million (2018: £7.1 million), which is 5% (2018: 5%) of profit before tax. We believe that profit before tax provides us with appropriate and generally accepted benchmark for materiality.

Performance materiality
The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the company's overall control environment, our judgement was that performance materiality was 75% (2018: 75%) of our planning materiality, namely £4.9m (2018: £5.3m). We have set performance materiality at this percentage due to a past history of few misstatements indicating a lower risk of misstatement in the financial statements.

Reporting threshold
An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.33m (2018: £0.35m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report set out on pages 1 - 61, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

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.

In connection with our audit of the financial statements, 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 audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. 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.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable set out on page 59** – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting set out on pages 36 - 38** – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code set out on page 27** – the parts of the directors' statement relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor (specifically C.1.1, C.2.1 and C.2.3 and C3.1 to C.3.8) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions on other matters as agreed in our Engagement Letter:

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared with the basis of preparation described therein.

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.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 61, 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.

Use of our report

This report is made solely to the company's directors, as a body, in accordance with our engagement letter dated 6 March 2018. 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

Paul Mapleston (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Bristol
Date: 3rd October 2019

Income Statement

For the year ended 30 June 2019

	Note	**2019**	2018	2018	2018
		£m	£m	£m	£m
			Before exceptional items	Exceptional items (Note 6)	Total
Revenue	*3,5*	**556.0**	541.6	-	541.6
Raw materials and consumables used		**(38.6)**	(35.6)	-	(35.6)
Staff costs	*7,8*	**(73.3)**	(74.2)	35.9	(38.3)
Depreciation and amortisation		**(106.5)**	(106.8)	-	(106.8)
Other expenses		**(112.9)**	(97.7)	-	(97.7)
Total expenses	*4*	**(331.3)**	(314.3)	35.9	(278.4)
Operating profit	*3*	**224.7**	227.3	35.9	263.2
Financial income	*9*	**0.1**	0.3	-	0.3
Financial expenses	*9*	**(93.3)**	(86.4)	-	(86.4)
Net financing expense		**(93.2)**	(86.1)	-	(86.1)
Profit before tax		**131.5**	141.2	35.9	177.1
Taxation	*10*	**(24.9)**	(25.3)	(22.7)	(48.0)
Profit for the year		**106.6**	115.9	13.2	129.1

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

Statement of Other Comprehensive Income

For the year ended 30 June 2019

	Note	**2019** **£m**	2018 £m
Profit for the year		**106.6**	129.1
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Remeasurements of defined benefit liability	*19*	**(9.8)**	32.5
Income tax on items that will not be reclassified to profit or loss	*22*	**1.7**	(5.5)
Other comprehensive income for the year, net of income tax		**(8.1)**	27.0
Total comprehensive income for the year		**98.5**	156.1

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

Balance Sheet

At 30 June 2019

	Note	**2019**	2018
		£m	£m
Non-current assets			
Property, plant and equipment	*12*	**3,708.3**	3,581.2
Investments in subsidiaries	*13*	**-**	-
		3,708.3	3,581.2
Current assets			
Inventories	*14*	**3.4**	5.4
Trade and other receivables	*15*	**199.9**	195.7
Cash and cash equivalents	*16*	**-**	8.7
		203.3	207.4
Total assets		**3,911.6**	3,788.6
Current liabilities			
Bank overdrafts	*16*	**(2.1)**	-
Other interest-bearing loans and borrowings	*17*	**(60.0)**	(141.4)
Trade and other payables	*18*	**(195.4)**	(196.9)
Provisions	*21*	**(1.0)**	(0.2)
		(258.5)	(338.5)
Non-current liabilities			
Other interest-bearing loans and borrowings	*17*	**(2,045.0)**	(1,880.8)
Other payables	*18*	**(6.0)**	(0.4)
Employee benefits	*19*	**(131.1)**	(126.8)
Deferred grants and contributions	*20*	**(272.3)**	(259.9)
Deferred tax liabilities	*22*	**(360.1)**	(353.6)
		(2,814.5)	(2,621.5)
Total liabilities		**(3,073.0)**	(2,960.0)
Net assets		**838.6**	828.6
Equity			
Share capital	*23*	**-**	-
Retained earnings		**838.6**	828.6
Total equity		**838.6**	828.6

These financial statements were approved by the Board of Directors on 3 October 2019 and were signed on its behalf by:

Mark Watts
Director

Statement of Changes in Equity

For the year ended 30 June 2019

	Note	Share capital £m	Retained earnings £m	Total equity £m
Balance at 1 July 2017		-	760.5	760.5
Total comprehensive income for the year				
Profit for the year		-	129.1	129.1
Other comprehensive income		-	27.0	27.0
Total comprehensive income for the year		-	156.1	156.1
Transactions with owners, recorded directly in equity				
Dividends	*11*	-	(88.0)	(88.0)
Total contributions by and distributions to owners		-	(88.0)	(88.0)
Balance at 30 June 2018		-	828.6	828.6
Balance at 1 July 2018		-	828.6	828.6
Effect of change in accounting policy		-	(0.5)	(0.5)
Balance at 1 July 2018 (restated)		-	828.1	828.1
Total comprehensive income for the year				
Profit for the year		-	106.6	106.6
Other comprehensive income		-	(8.1)	(8.1)
Total comprehensive income for the year		-	98.5	98.5
Transactions with owners, recorded directly in equity				
Dividends	*11*	-	(88.0)	(88.0)
Total contributions by and distributions to owners		-	(88.0)	(88.0)
Balance at 30 June 2019		**-**	**838.6**	**838.6**

Included in retained earnings are £551.8m of un-distributable reserves (2018 - £557.1m) created on first time adoption of IFRS when restating infrastructure assets to fair value.

Cash Flow Statement

For the year ended 30 June 2018

	Note	2019 £m	2018 £m
Cash flows from operating activities			
Profit for the year		**106.6**	129.1
Adjustments for:			
Depreciation, amortisation and impairment		**106.5**	106.8
Financial income		**(0.1)**	(0.3)
Financial expense		**93.3**	86.4
Taxation		**24.9**	48.0
		331.2	370.0
Decrease/(increase) in trade and other receivables		**(4.8)**	(23.0)
Decrease/(increase) in inventories		**(0.4)**	1.6
(Decrease)/increase in trade and other payables		**3.1**	19.6
(Decrease) in provisions and employee benefits		**(3.0)**	(42.4)
		(5.1)	(44.2)
Tax paid		**(19.4)**	(22.2)
Net cash from operating activities		**306.7**	303.6
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**1.8**	1.5
Interest received		**0.1**	0.4
Acquisition of property, plant and equipment		**(235.2)**	(242.3)
Proceeds from infrastructure charges and capital contributions		**9.9**	8.4
Net cash used in investing activities		**(223.4)**	(232.0)
Cash flows from financing activities			
Proceeds from new loan		**198.6**	-
Interest paid		**(63.3)**	(61.8)
Repayment of borrowings		**(140.0)**	-
Payment of finance lease liabilities		**(1.4)**	(5.5)
Dividends paid		**(88.0)**	(87.0)
Net cash used in financing activities		**(94.1)**	(154.3)
Increase/(decrease) in cash and cash equivalents		**(10.8)**	(82.7)
Cash and cash equivalents at 1 July		**8.7**	91.4
Cash and cash equivalents at 30 June	*16*	**(2.1)**	8.7

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 International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs").

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).

1.2 Measurement convention

The financial statements are prepared on the historical cost basis.

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 the foreseeable future. For these purposes the foreseeable future is taken to mean a period of at least 12 months from the date of approval of these accounts.

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.

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.

Notes to the financial statements (continued)

1. Accounting policies *(continued)*

1.5 Financial instruments (continued)

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

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.

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 17.

Notes to the financial statements (continued)

1. Accounting policies *(continued)*

1.5 Financial instruments (continued)

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.

1.6 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 fixed assets 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 15 to 80 years
- Infrastructure assets 60 to 150 years
- Plant, machinery and vehicles 3 to 30 years
- Office and IT equipment 4 to 15 years

Infrastructure assets comprise these 8 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

Research and development

Expenditure on research activities is recognised in the income statement as an expense as incurred.

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.

Notes to the financial statements (continued)

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 24.

The Company considers a financial asset in default when contractual payments are 90 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.

1.10 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.

Notes to the financial statements (continued)

1. Accounting policies *(continued)*

1.10 Employee benefits (continued)

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.

Share-based payment transactions

YTL Power International Berhad operates an equity settled share-based payment scheme for the employees of the Group. The fair value of the share-based payment awards is recognised as an expense over the period of the award. The amount recognised is adjusted to reflect the actual number of awards for which service and performance conditions are met at the vesting date. Where YTL Power International Berhad grants rights to its equity instruments to the Company's employees, they are accounted for as equity settled in the consolidated accounts. In the Company accounts they are accounted for as a charge to the profit and loss account and an inter-company liability.

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 fixed assets are treated as contract liability and recognised in the profit and loss account over the expected useful economic lives of the related assets.

Grants and contributions relating to infrastructure assets are amortised over an average of 108 years (see 1.6).

Under IFRS 15 sewers adopted at nil cost to the Company are shown in contract liability at a fair value, which is the estimated cost of construction, and amortised at the same rate as infrastructure assets are depreciated.

Notes to the financial statements (continued)

1. Accounting policies *(continued)*

1.13 Revenue

The Company adopted IFRS 15 using the modified retrospective method of adoption. The effect of the transition on the current period has not been disclosed as the standard provides an optional practical expedient. The Company did not apply any of the other available optional practical expedients.

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.

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 wastewater 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).

Other income streams

The Company has an agreement with Wessex Water Enterprises Ltd for controlled liquid waste (organic waste coming from industrial processes) to be treated at its sewage treatment works. Revenue is recognised in the period the waste was treated, the acceptance of waste from the customer being the fulfilment of the performance obligation. In addition, the Company has further income streams from Biogas sales, composting and the provision of management services to other group companies, the value of these is immaterial.

Notes to the financial statements (continued)

1. Accounting policies *(continued)*

1.14 Expenses

Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

Finance 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.

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.

Notes to the financial statements (continued)

1. Accounting policies *(continued)*

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 that is conditional.

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.

1.18 Adopted IFRS not yet applied

The following Adopted IFRS's have been issued but have not been applied in these financial statements:

- Classification and Measurement of Share-Based Payment Transactions – Amendments to IFRS 2
- Annual Improvements to IFRSs – 2014-2016 Cycle
- Annual Improvements to IFRSs – 2015-2017 Cycle

The Company does not currently expect that adoption of these standards will have a significant effect on the results or financial position of the Company but may affect disclosure requirements.

IFRS 16 Leases:

As Wessex Water owns most of its assets outright the adoption of this standard will not have a significant effect on the company's results or financial position. As the lessee current estimates indicate right of use assets and lease liabilities of approximately £0.5m each will be incorporated into the company's financial position.

As a lessor the Company estimates IFRS 16 would apply to approximately £0.3m of annual income on long-term leases with accompanying lease debtor of approximately £2.5m.

Notes to the financial statements (continued)

2. Changes in accounting policies and disclosures

2.1 New and amended standards and interpretations

The Company applied IFRS 15 and IFRS 9 for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the financial statements of the Company. The Company has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 supersedes *IAS 11 Construction Contracts*, *IAS 18 Revenue* and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Company adopted IFRS 15 on 1 July 2018, applying the standard retrospectively with the cumulative effect of initial application recognised at the date of initial application as an adjustment to retained earnings. Prior period comparatives have therefore not been restated. The Company has elected to use the practical expedient whereby any contracts that were completed in accordance with accounting standards as at 30 June 2018 need not be restated on an IFRS 15 basis. This transition approach has resulted in a £0.5 million decrease in retained earnings, a £4.8m reduction in Trade Receivables offset by a £4.2m reduction in the expected credit loss and a £0.1m reduction in Tax payable on the adoption date due to a change in the recognition revenue relating to customers designated as "non-payers" (customers who have fallen into arrears by four years or more of non-payment).

In accordance with IFRS 15 balances formerly classified as Inventories - Work in progress amounting to £2.4m at 1 July 2018 have been reclassified as Trade and other receivables – contract cost assets.

IFRS 9 Financial Instruments

The Company has adopted IFRS 9 'Financial Instruments: Recognition and Measurement' as at 1 July 2018 and applied the new rules using a modified retrospective approach, including the practical expedients permitted in the standard, where applicable. The Company has undertaken an assessment of its accounting policy as a result of the changes in the standard:

Classification and Measurement

The review included an assessment of the contractual cash flow characteristics of financial instruments, in order to determine their classification and measurement under IFRS.

Management's assessment was to consider whether the contractual cash flows of the financial instruments represented solely payments of principal and interest (SPPI) in order to determine whether the financial instruments should be classified at amortised cost of fair value through profit and loss.

Management concludes that the financial instruments should continue to be held at amortised cost. There are no charges in classification or measurement of its assets and liabilities as a result of adopting IFRS 9.

IFRS 9 introduces a new impairment model which requires the recognition of impairment provision based on expected credit losses rather than incurred credit losses, as was required under IAS 39.

A credit loss in respect of a financial asset measured at amortised cost is calculated as the difference between its' carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. An expected credit loss is then calculated by a probability-weighted estimate of credit losses over the expected life of the financial instrument. Further details of the assessment performed are given in Note 24(b) Credit Risk.

As a result of this assessment, management have determined that no additional provision is required.

Notes to the financial statements (continued)

3. Segmental analysis

Operating segments are reported in a manner consistent with internal reporting provided to the Board.

The water business comprises the regulated water and wastewater services undertaken by Wessex Water.

	2019	2018
	£m	£m
Turnover		
Regulated	**540.2**	529.4
Unregulated	**15.8**	12.2
	556.0	541.6
Operating profit		
Regulated	**224.7**	263.2
Unregulated	**-**	-
	224.7	263.2
Net assets		
Regulated	**838.6**	828.6
Unregulated	**-**	-
	838.6	828.6

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. Expenses and auditor's remuneration

Included in profit/loss are the following:

	2019	2018
	£m	£m
Impairment loss on other trade receivables and prepayments	**11.6**	10.7
Research and development expensed as incurred	**0.1**	0.1

	2019	2018
	£000	£000
Auditor's remuneration:		
Audit of these Financial Statements	**64**	60
Other services pursuant to legislation	**217**	99
	281	159

Notes to the financial statements (continued)

5. Revenue from contracts with customers

Current year	**House-hold**	**Non-house-hold**	**Total**
	£m	**£m**	**£m**
Wholesale revenue - Water Supply			
Unmeasured	**53.6**	**1.8**	**55.4**
Measured	**74.0**	**53.7**	**127.7**
	127.6	**55.5**	**183.1**
Wholesale revenue - Waste Water			
Unmeasured	**108.4**	**3.1**	**111.5**
Measured	**143.3**	**59.5**	**202.8**
	251.7	**62.6**	**314.3**
Retail revenue			
Unmeasured	**11.1**	**-**	**11.1**
Measured	**26.4**	**-**	**26.4**
	37.5	**-**	**37.5**
Other revenue			
Regulated			**5.3**
Unregulated			**15.8**
Total revenue			**556.0**

Prior year	House-hold	Non-house-hold	Total
	£m	£m	£m
Wholesale revenue - Water Supply			
Unmeasured	54.6	1.8	56.4
Measured	71.0	51.0	122.0
	125.6	52.8	178.4
Wholesale revenue - Waste Water			
Unmeasured	111.1	4.4	115.5
Measured	136.9	57.2	194.1
	248.0	61.6	309.6
Retail revenue			
Unmeasured	11.7	-	11.7
Measured	24.6	-	24.6
	36.3	-	36.3
Other revenue			
Regulated			5.1
Unregulated			12.2
Total revenue			541.6

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 wastewater. 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.

Notes to the financial statements (continued)

5. Revenue from contracts with customers (continued)

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 wastewater 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 wastewater services.

Contract balances

Contract assets of £1.6m (£2.4m in 2018) are included in the statement of financial position under trade and other receivables. At the year-end there were liabilities for receipts in advance relating to contracts of £3.5m (£3.3m in 2018).

6. Exceptional items

During 2018, following the latest actuarial valuation of the pension scheme, a consultation was held with members to discuss the future funding of the scheme. As part of that consultation the Company, trustees and members agreed that the measurement of inflation for future pension increases would change. From 2020 pension increases for active members will be measured using the Consumer Price Index (CPI) rather than Retail Price Index (RPI) previously used. The impact of that change was a £35.9m reduction in the IAS19 measurement of retirement benefit obligations, which had been shown in the Income Statement as a reduction in staff costs within total expenses. A further change to the scheme in relation to death in service benefits payable to dependents of members had also come into effect last year. The effect of this change was an additional £3.0m reduction, making £35.9m in total.

The £35.9m reduction in expenses generated a £6.1m deferred tax credit, giving a net exceptional credit of £29.8m, which on the balance sheet increased retained earnings, although the increased retained earnings are not distributed as dividends.

During 2018 the Company decided to align its deferred tax accounting policy in relation to historical industrial buildings with the group methodology. This resulted in a £16.6m deferred tax charge which was also treated as an exceptional item. The adjustment had been included as a prior year adjustment in note 10. This adjustment did not have any cash impact.

Notes to the financial statements *(continued)*

7. Staff numbers and costs

The average number of employees (including directors) during the year was as follows:

	Number of employees	
	2019	2018
Average number of employees	2,442	2,308

The aggregate payroll costs of these employees:

	2019	2018
	£m	£m
Wages and salaries	98.3	90.1
Social security costs	10.1	9.5
Pension costs - normal	10.8	13.5
Pension costs - exceptional	-	(35.9)
	119.2	77.2
These costs were allocated as follows:		
Capitalised to tangible assets	45.9	38.9
Operating expenses - normal	73.3	74.2
Operating expenses - exceptional	-	(35.9)
	119.2	77.2

8. Directors' remuneration

	2019	2018
	£000	£000
Total Directors' remuneration including benefits in kind	2,634	2,094
Remuneration of highest paid Director	956	542

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 (2018 - four Executive Directors, four Non-Executive Directors and six YTL appointed Directors).

Notes to the financial statements *(continued)*

9. Finance income and expense

Recognised in the income statement

	2019 £m	2018 £m
Finance income		
Interest receivable on short-term bank deposits	**0.1**	0.3
Total finance income	**0.1**	0.3
Finance expense		
To fellow subsidiary undertakings	**(80.8)**	(75.8)
Net interest on net defined benefit pension plan liability	**(3.5)**	(5.1)
On bank loans and leases	**(9.0)**	(5.5)
	(93.3)	(86.4)
Net interest payable	**(93.2)**	(86.1)

In accordance with IAS 23 borrowing costs of £1.6m (2018 - £2.5m) associated with the funding of eligible capital projects have been capitalised at an average interest rate of 4.4% (2018 – 4.1%).

Notes to the financial statements *(continued)*

10. Taxation

Recognised in the income statement

	2019	2018
	£m	£m
Current tax expense		
Current year	**16.9**	21.0
Adjustments for prior years	**(0.2)**	(1.2)
Current tax expense	**16.7**	19.8
Deferred tax expense		
Origination and reversal of temporary differences	**7.8**	11.6
Adjustments for prior years	**0.4**	16.6
Deferred tax charge	**8.2**	28.2
Total tax expense	**24.9**	48.0

Taxation recognised in other comprehensive income

	2019	2018
	£m	£m
Remeasurements of defined benefit liability	**1.7**	(5.5)
Tax credit / (debit)	**1.7**	(5.5)

Reconciliation of effective tax rate

	2019	2018
	£m	£m
Profit for the year	**106.6**	129.1
Total tax expense	**24.9**	48.0
Profit excluding taxation:	**131.5**	177.1
Tax using the UK corporation tax rate of 19% (2018 - 19%)	**25.0**	33.6
Impact of rate change	**(0.9)**	(1.3)
Non-deductible expenses	**0.6**	0.6
Under/(over)-provided in prior years	**0.2**	(1.3)
Exceptional item (see Note 6)	**-**	16.6
Other	**-**	(0.2)
Total tax expense	**24.9**	48.0

The statutory rate of corporation tax was 19% for the current and prior year. Deferred tax balances have been measured at 17% in both periods, in line with legislation introduced as part of the Finance Act 2016.

Notes to the financial statements (continued)

11. 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 appropriate payments have been made and can continue to be made into the company's final salary pension scheme as agreed with the scheme's trustees
- 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
- sufficiency of distributable reserves

The board will only agree to the resultant distribution of the dividend if, on a forward-looking basis, it is satisfied that regulatory gearing will not exceed 70%. The company will maintain a solid investment grade credit rating at all times.

	2019	2018
	£m	£m
Interim dividends for the current year	**66.0**	67.0
Final dividend for the current year	**22.0**	21.0
	88.0	88.0

Notes to the financial statements (continued)

12. Property, plant and equipment

	Land & buildings £m	Infra-structure assets £m	Plant, equipment & vehicles £m	Office & IT equipment £m	Company total £m
Cost					
Balance at 1 July 2017	868.8	2,067.3	1,702.9	30.9	4,669.9
Additions	4.0	72.9	167.4	5.4	249.7
Disposals	(1.3)	(1.9)	(12.3)	-	(15.5)
Balance at 30 June 2018	871.5	2,138.3	1,858.0	36.3	4,904.1
Balance at 1 July 2018	871.5	2,138.3	1,858.0	36.3	4,904.1
Additions	13.0	71.0	150.5	3.5	238.0
Disposals	(2.2)	5.6	(10.9)	-	(7.5)
Balance at 30 June 2019	882.3	2,214.9	1,997.6	39.8	5,134.6
Depreciation and impairment					
Balance at 1 July 2017	(284.8)	(67.8)	(856.4)	(17.9)	(1,226.9)
Depreciation charge for the year	(14.0)	(18.8)	(72.0)	(2.9)	(107.7)
Disposals	0.7	-	11.0	-	11.7
Balance at 30 June 2018	(298.1)	(86.6)	(917.4)	(20.8)	(1,322.9)
Balance at 1 July 2018	(298.1)	(86.6)	(917.4)	(20.8)	(1,322.9)
Depreciation charge for the year	(14.2)	(19.4)	(77.6)	(3.2)	(114.4)
Disposals	1.3	-	9.7	-	11.0
Balance at 30 June 2019	(311.0)	(106.0)	(985.3)	(24.0)	(1,426.3)
Net Book Value					
At 1 July 2017	584.0	1,999.5	846.5	13.0	3,443.0
At 30 June 2018	573.4	2,051.7	940.6	15.5	3,581.2
At 30 June 2019	**571.3**	**2,108.9**	**1,012.3**	**15.8**	**3,708.3**

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 1 July 2014 is £703.5m fair value adjustment on first time adoption of IFRS.

There is no impairment loss recognised in these financial statements.

Notes to the financial statements (continued)

12. Property, plant and equipment *(continued)*

At 30 June 2019 the net book value of leased plant, equipment and vehicles was £4.2m (2018 - £7.0m).

Assets under construction included in the values above were £476.8m (2018 - £334.0m).

Cumulative borrowing costs capitalised and included above were £10.7m (2018 - £9.2m).

Included in freehold land and buildings above is an amount of £13.4m (2018 - £16.1m) in respect of land which is not depreciated.

13. Investments in subsidiaries

The Company has an investment of £13,000 (2018 – £13,000) 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.

14. Inventories

	2019	2018
	£m	£m
Raw materials and consumables	**3.4**	3.0
Work in progress	**-**	2.4
	3.4	5.4

Raw materials and consumables recognised as costs in the year amounted to £2.8m *(2018 - £2.4m)*.
There was no write-down of inventories to net realisable value in either year.

15. Trade and other receivables

	2019	2018
	£m	£m
Amounts receivable from customers	**126.9**	126.6
Owed by parent company	**27.1**	24.9
Owed by fellow subsidiary companies	**28.3**	28.2
Owed by other group companies	**0.3**	0.4
Owed by associate companies	**1.3**	-
Prepayments	**7.5**	6.1
Contract assets	**1.6**	-
Other debtors	**6.9**	7.1
	199.9	193.3

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.

Notes to the financial statements (continued)

15. Trade and other receivables (continued)

In accordance with IFRS 15 balances formerly classified as Inventories - Work in progress amounting £2.4m at 1 July 2018 have been reclassified as Trade and other receivables – contract cost assets.

Contract cost assets

	2019
	£m
Balance at 30 June	-
IFRS 15 contract cost reclassification	2.4
Balance at 1 July	**2.4**
Incurred during the year	3.1
Recognised as costs during the year	(3.9)
Balance at 30 June	**1.6**

16. Cash and cash equivalents

	2019	2018
	£m	£m
Current assets		
Short-term bank deposits	-	6.5
Cash at bank	-	2.2
	-	8.7
Current liabilities		
Bank overdraft	(2.1)	-

17. 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 24.

	2019	2018
	£m	£m
Non-current liabilities		
Bank loans	**413.7**	275.0
Inter-company loans	**1,631.3**	1,605.8
	2,045.0	1,880.8
Current liabilities		
Short-term bank borrowing	**60.0**	140.0
Current portion of finance lease liabilities	-	1.4
	60.0	141.4

Notes to the financial statements (continued)

17. Other Interest-bearing loans and borrowings (continued)

Terms and debt repayment schedule

Currency Sterling	Nominal interest rate %	Year of maturity	**Issue value 2019 £m**	**Carrying amount 2019 £m**	Issue value 2018 £m	Carrying amount 2018 £m
Bank loans	1.42%-2.16%	2021-2024	**413.7**	**413.7**	275.0	275.0
Inter-company loans:						
Bond	5.38%	2028	**200.0**	**198.7**	200.0	198.6
Bond	5.75%	2033	**350.0**	**346.3**	350.0	346.2
Bond	4.00%	2021	**200.0**	**199.4**	200.0	199.1
Bond	4.00%	2021	**100.0**	**102.0**	100.0	103.0
Index Linked Bond	5.77%	2023	**50.0**	**80.5**	50.0	77.7
Index Linked Bond	2.99%	2039	**50.0**	**66.6**	50.0	65.0
Index Linked Bond	2.57%	2046	**75.0**	**108.3**	75.0	104.5
Index Linked Bond	2.57%	2051	**75.0**	**108.3**	75.0	104.5
Index Linked Bond	2.01%	2057	**75.0**	**108.3**	75.0	104.5
Index Linked Bond	2.02%	2057	**75.0**	**108.3**	75.0	104.5
Index Linked Bond	2.09%	2058	**50.0**	**68.2**	50.0	66.1
Index Linked Bond	2.08%	2058	**50.0**	**68.2**	50.0	66.1
Index Linked Bond	2.09%	2058	**50.0**	**68.2**	50.0	66.0
Short term loans:						
Bank loans	1.22%-1.28%	2020	**60.0**	**60.0**	140.0	140.0
			1,873.7	**2,105.0**	1,815.0	2,020.8

The Index-linked Bonds accrue annually in line with the Retail Prices Index each year.

The disclosure of debt at Issue Value has been included for 2019, in prior years the disclosure was at Face Value.

Finance lease liabilities:
Finance lease liabilities are payable as follows:

	Minimum lease payments 2019 £m	**Interest 2019 £m**	**Principal 2019 £m**	Minimum lease payments 2018 £m	Interest 2018 £m	Principal 2018 £m
Less than one year	-	-	-	1.5	(0.1)	1.4
	-	-	-	1.5	(0.1)	1.4

Notes to the financial statements (continued)

17. Other Interest-bearing loans and borrowings (continued)

Changes in liabilities arising from financing activities

	1st July 2018	Cash flows	Other	30th June 2019
	£m	£m	£m	£m
Current interest- bearing loans and borrowings (excluding items listed below)	140.0	(80.0)	-	60.0
Current obligations under finance leases and hire purchase contracts	1.4	(1.4)	-	-
Non-current interest- bearing loans and borrowings (excluding items listed below)	1,880.8	138.6	25.6	2,045.0
Non-current obligations under finance leases and hire purchase contracts	-	-	-	-
Total liabilities from financing activities	**2,022.2**	**57.2**	**25.6**	**2,105.0**

The 'Other' column includes the effect of reclassification of the non-current portion of interest-bearing loans and borrowings, including obligations under finance 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.

Notes to the financial statements (continued)

18. Trade and other payables

	2019 £m	2018 £m
Current		
Amounts payable to subsidiary company	**31.3**	31.2
Amounts payable to other group companies	**0.6**	0.6
Trade payables	**22.1**	19.7
Dividend	**22.0**	22.0
Other creditors	**3.3**	3.5
Corporation tax	**11.2**	14.0
Taxation and social security	**3.0**	2.8
Accrued expenses	**52.2**	54.4
Contract liabilities	**49.7**	48.7
	195.4	196.9
Non-current		
Contract liabilities	**6.0**	0.4
	201.4	197.3

Analysis of contract liabilities

	2019 £m	2018 £m
At 1 July	**49.1**	36.5
Deferred during the year	**55.7**	49.1
Recognised as revenue during the year	**(49.1)**	(36.5)
At 30 June	**55.7**	49.1

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.

19. Employee benefits

Pension plans

	2019 £m	2018 £m
Fair value of scheme assets	**646.3**	613.8
Present value of defined benefit obligations	**(776.3)**	(739.5)
Net (liability) for defined benefit obligations	**(130.0)**	(125.7)
Unfunded and compensatory added years pension	**(1.1)**	(1.1)
Total employee benefits	**(131.1)**	(126.8)

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

Notes to the financial statements (continued)

19. Employee benefits *(continued)*

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.

a. Profile of the Scheme

The defined benefit obligation includes benefits for current employees, former employees and current pensioners. Broadly, about 34% of the liabilities are attributable to current employees, 17% to former employees and 49% 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 around 20 years reflecting the approximate split of the defined benefit obligation between current employees (duration of 25 years), deferred members (duration of 25 years) and current pensioners (duration of 15 years).

b. 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 2016 and showed a deficit of £160.9 million. The Company is paying deficit contributions of:

- £11.77m by 31 March 2020;
- £12.04m by 31 March 2021;
- £12.32m by 31 March 2022;
- £12.60m by 31 March 2023;
- £12.90m by 31 March 2024;
- £13.19m by 31 March 2025;
- £13.50m by 31 March 2026;

which, along with investment returns from return-seeking assets, is expected to make good this shortfall by 31 March 2026.

The next funding valuation is due no later than 30 September 2019 at which progress towards full funding will be reviewed.

The Company also pays contributions of 21.7% of pensionable salaries from April 2018 (18.2% prior to this date) in respect of current accrual and non-investment related expenses, with active members paying a further 7.3% of pensionable salaries on average. A contribution of £11.77m is expected to be paid by the Company during the year ending on 30 June 2020.

c. 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, diversified growth fund and 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.

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.

Notes to the financial statements (continued)

19. Employee benefits *(continued)*

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.

On 26 October 2018, the High Court of Justice of England and Wales issued a judgment in a claim regarding the rights of female members of certain pension schemes to equality of treatment in relation to pension benefits (GMP equalisation). The judgment concluded that the claimant is under a duty to amend the schemes in order to equalise benefits for men and women in relation to guaranteed minimum pension benefit. The issues determined by the judgment arise in relation to many other occupational pension schemes. The Company estimates, with advice from the Company's corporate actuary, that scheme liabilities will increase by an estimated £0.5 million as a result of the judgement. This cost has been recognised as a past service cost in the current year income statement. The charge is considered non-underlying due to its size and non-recurring nature.

d. Reporting at 30 June 2019

The results of the latest funding valuation at 30 September 2016 have been adjusted to the balance sheet date taking account of experience over the period since 30 September 2016, 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:

	30.06.19	30.06.18
Rate of increase in salaries – year 1	**1.7%**	3.2%
Rate of increase in salaries – year 2	**n/a**	1.8%
Rate of increase in salaries – long term	**1.7%**	1.8%
Rate of increase in pensions		
- WWPS and 1/80ths members	**3.0%**	3.1%
- MIS members	**2.1%**	2.2%
- Reduced level members	**2.2%**	2.2%
- Post 88 GMP	**1.9%**	1.9%
Discount rate	**2.3%**	2.8%
Inflation assumption – RPI	**3.1%**	3.2%
Inflation assumption – CPI	**2.1%**	2.2%

The mortality assumptions are based upon the recent actual mortality experience of Scheme members and allow for expected future improvements in mortality rates. The assumptions are that a member currently aged 60 will live, on average, for a further 26.2 years (2018 – 27.1 years) if they are male, and for a further 28.3 years (2018 – 29.2 years) if they are female. For a member who retires in 2039 at age 60 the assumptions are that they will live, on average, for a further 27.4 years (2018 – 28.3 years) after retirement if they are male, and a further 29.5 years (2018 – 30.4 years) after retirement if they are female.

The mortality table adopted is based upon 95% of standard tables S2P(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 model (i.e. with a smoothing parameter of 7.0 and a A parameter of 0.00%), with a long-term improvement rate of 1.0% p.a. for all members.

Notes to the financial statements (continued)

19. Employee benefits *(continued)*

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% from 2.3% to 2.2% would increase the scheme liabilities by £15.0m from £776.3m to £791.3m, increasing the scheme deficit to £145.0m
- An increase in the inflation assumption of 0.1% (from 2.1% to 2.2% for CPI and 3.1% to 3.2% for RPI) would increase the scheme liabilities by £12.9m from £776.3m to £789.2m, increasing the scheme deficit to £142.9m
- An increase in life expectancy of 1 year would increase the scheme liabilities by £30.6m from £776.3m to £806.9m, increasing the scheme deficit to £160.6m.

e. The value of the assets as follows:

	2019	2018
	£m	£m
Equities	**254.5**	254.5
Property	**36.5**	38.8
Government Bonds	**199.6**	171.7
Corporate Bonds	**143.8**	135.4
Other	**11.9**	13.4
	646.3	613.8

f. The amounts recognised in comprehensive income are set out below:

	2019	2018
	£m	£m
Operating cost – service cost		
Current service cost	**10.4**	12.3
Administration expenses	**0.5**	0.6
Past service cost / (credit)	**0.5**	(35.9)
Financing cost		
Interest on net benefit liability	**3.5**	5.1
Pension expense / (credit) recognised in profit and loss	**14.9**	(17.9)
Re-measurements in Other Comprehensive Income (OCI)		
Return on plan assets (in excess of) that recognised in net interest	**(22.8)**	(9.5)
Actuarial losses / (gains) due to changes in financial assumptions	**61.4**	(29.7)
Actuarial (gains) due to changes in demographic assumptions	**(27.4)**	-
Actuarial (gains) / losses due to liability experience	**(1.4)**	6.7
Losses / (gains) recognised in OCI	**9.8**	(32.5)
Losses / (gains) recognised in profit and loss and OCI	**24.7**	(50.4)

Notes to the financial statements (continued)

19. Employee benefits *(continued)*

g. Changes to the present value of the defined benefit obligations during the year:

	2019	2018
	£m	£m
Opening defined benefit obligation	**739.5**	788.9
Current service cost	**10.4**	12.3
Interest expense on defined benefit obligation	**20.8**	20.7
Contributions by scheme participants	**0.2**	0.2
Actuarial (gains) due to changes in demographic assumptions	**(27.4)**	-
Actuarial losses / (gains) due to changes in financial assumptions	**61.4**	(29.7)
Actuarial (gains) / losses due to liability experience	**(1.4)**	6.7
Net benefits paid out	**(27.7)**	(23.7)
Past service cost / (credit)	**0.5**	(35.9)
Closing defined benefit obligation	**776.3**	739.5

h. Changes to the fair value of scheme assets during the year:

	2019	2018
	£m	£m
Opening fair value of scheme assets	**613.8**	593.3
Interest income on scheme assets	**17.3**	15.6
Re-measurement gains on scheme assets	**22.8**	9.5
Contributions by employer	**20.4**	19.5
Contributions by scheme participants	**0.2**	0.2
Net benefits paid out	**(27.7)**	(23.7)
Administration costs incurred	**(0.5)**	(0.6)
Closing fair value of scheme assets	**646.3**	613.8

i. Additional analysis:

	2019	2018
	£m	£m
Actual return on scheme assets		
Interest income on scheme assets	**17.3**	15.6
Re-measurement gains on scheme assets	**22.8**	9.5
Actual return on scheme assets	**40.1**	25.1
Analysis of amounts recognised in Other Comprehensive Income		
Total re-measurement (losses)/gains	**(9.8)**	32.5
Total (loss)/gain	**(9.8)**	32.5

Notes to the financial statements (continued)

19. Employee benefits *(continued)*

History of asset values, defined benefit obligations, deficit in the scheme and experience gains and losses

	30.06.19	30.06.18	30.06.17	30.06.16	30.06.15
	£m	£m	£m	£m	£m
Fair value of scheme assets	**646.3**	613.8	593.3	544.1	516.1
Defined benefit obligation	**(776.3)**	(739.5)	(788.9)	(702.8)	(638.2)
(Deficit) in the scheme	**(130.0)**	(125.7)	(195.6)	(158.7)	(122.1)
Experience gains on scheme assets	**22.8**	9.5	41.9		
Experience gains / (losses) on scheme liabilities	**1.4**	(6.7)	16.7		

Defined contribution plans

The Company also operates a defined contribution pension plan.

The total expense relating to this plan in the current year was £4.7m (2018 - £4.1m).

Notes to the financial statements (continued)

19. Employee benefits *(continued)*

Share-based payments
YTL Power International Berhad (a subsidiary of the ultimate parent company YTL Corporation Berhad) operates share option schemes under which options are granted to employees of the Company. The current scheme the "YTL Power International Berhad Employees Share Option Scheme 2011" first issued share options to employees on 1 June 2012. The terms of the 2011 scheme are specified under the YTL Power International Berhad Employees Share Option Scheme 2011 (2011 UK part) known as the "2011 UK Plan".

The majority of options have been issued under terms approved by the Inland Revenue, the "Approved" scheme, but some have been issued to senior employees under an "Unapproved" scheme. The options are for ordinary shares of YTL Power International Berhad of Malaysian Ringgit RM0.50 each.

2011 UK Plan

The exercise price and fair value of the share options are as follows:

Granted – Ordinary shares of RM0.50 each	Vesting date	Expiry date	Exercise price RM	Fair value RM
01/06/2012 Unapproved	01/06/2015	31/03/2021	1.41	0.22
01/06/2012 Approved	01/06/2015	31/03/2021	1.65	0.16

Under IFRS 2 equity settled share-based payments are measured at the fair value at the date of the grant, and the fair value is expensed on a straight-line basis over the vesting period. There was no charge recognised in the profit and loss account for IFRS 2 as the share options have passed their vesting date. The key assumptions were as follows:

Scheme	Weighted avg. share price at grant RM	Expected volatility %	Expected option life years	Risk free rate %	Dividend yield %
01/06/2012 Unapproved	1.63	21.2	3	3.14	5.6
01/06/2012 Approved	1.63	21.2	3	3.14	5.6

The following options were outstanding at 30 June 2018 and 30 June 2019:

Granted – Ordinary shares of RM0.50 each	Outstanding at 30 June 2018	Granted	Forfeited	Exercised	Outstanding at 30 June 2019
01/06/2012 Unapproved	7,487,000	-	(91,000)	-	7,396,000
01/06/2012 Approved	36,599,000	-	(608,000)	-	35,991,000
TOTAL	44,086,000	-	(699,000)	-	43,387,000

The share price at 30 June 2019 was RM0.82 or £0.16.

Notes to the financial statements (continued)

20. Deferred grants and contributions

(Reanalysed for IFRS 15)

	Requisitions £m	Other contributions £m	Sewer adoptions £m	Infrastructure charges £m	Total £m
Balance at 1 July 2017	27.5	29.1	77.2	121.5	255.3
Received during the year	2.5	0.3	-	5.1	7.9
Amortisation	(0.3)	(0.6)	(0.9)	(1.5)	(3.3)
Balance at 30 June 2018	29.7	28.8	76.3	125.1	259.9
Balance at 1 July 2018	29.7	28.8	76.3	125.1	259.9
Received during the year	1.0	(1.0)	10.6	4.5	15.1
Amortisation	(0.2)	(0.5)	(0.8)	(1.2)	(2.7)
Balance at 30 June 2019	**30.5**	**27.3**	**86.1**	**128.4**	**272.3**

Amortised amounts are offset against depreciation charges in the income statement.

21. Provisions

	Restructuring costs £m	Total £m
Balance at 1 July 2018	0.2	0.2
Provisions made during the year	1.4	1.4
Provisions used during the year	(0.6)	(0.6)
Balance at 30 June 2019	**1.0**	**1.0**
Current	1.0	1.0
Balance at 30 June 2019	**1.0**	**1.0**

The restructuring provision is in respect of a reorganisation announced before the prior year-end, delivering efficiencies in the fourth year of the AMP 6 price review period.

Notes to the financial statements (continued)

22. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities
Deferred tax assets and liabilities are attributable to the following:

	Liabilities		Assets		Net	
	2019	2018	**2019**	2018	**2019**	2018
	£m	£m	**£m**	£m	**£m**	£m
Property, plant and equipment	**406.9**	399.1	**(24.5)**	(23.9)	**382.4**	375.2
Employee benefits	**-**	-	**(22.3)**	(21.6)	**(22.3)**	(21.6)
Provisions	**-**	-	**-**	-	**-**	-
Tax (assets) / liabilities	**406.9**	399.1	**(46.8)**	(45.5)	**360.1**	353.6
Net of tax liabilities/(assets)	**(46.8)**	(45.5)	**46.8**	45.5	**-**	-
Net tax (assets) / liabilities	**360.1**	353.6	**-**	-	**360.1**	353.6

Movement in deferred tax during the year

	1 July 2018	**Recognised in income**	**Recognised in equity**	**30 June 2019**
	£m	**£m**	**£m**	**£m**
Property, plant and equipment	**375.3**	**7.1**	**-**	**382.4**
Employee benefits	**(21.7)**	**1.1**	**(1.7)**	**(22.3)**
Provisions	**-**	**-**	**-**	**-**
	353.6	**8.2**	**(1.7)**	**360.1**

Movement in deferred tax during the prior year

	1 July 2017	Recognised in income	Recognised in equity	30 June 2018
	£m	£m	£m	£m
Property, plant and equipment	353.4	21.9	-	375.3
Employee benefits	(33.4)	6.2	5.5	(21.7)
Provisions	(0.1)	0.1	-	-
	319.9	28.2	5.5	353.6

Notes to the financial statements (continued)

23. Capital and reserves

Share capital

	2019	2018
	£	£
Issued at 1 April	1	1
Issued at 31 March	1	1
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.

24. 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 loans are classified as level 1 in the IFRS 13 fair value hierarchy and have a carrying value of £1,631.3m and a fair value of £2,208.5m. Bank loans are classified as level 2 and have a carrying value and fair value of £473.7m.

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.

Notes to the financial statements (continued)

24. Financial instruments *(continued)*

The fair values of all financial assets and financial liabilities by class together with their carrying amounts shown in the balance sheet are as follows:

	Carrying amount 2019 £m	**Fair value 2019 £m**	**Level 1 2019 £m**	**Level 2 2019 £m**	Carrying amount 2018 £m	Fair value 2018 £m	Level 1 2018 £m	Level 2 2018 £m
Loans and receivables								
Cash and cash equivalents (note 16)	-	-	-	-	8.7	8.7	-	8.7
Total financial assets	-	-	-	-	8.7	8.7	-	8.7
Cash and cash equivalents (note 16)	**(2.1)**	**(2.1)**	-	**(2.1)**	-	-	-	-
Other interest-bearing loans and borrowings (note 17 current)	**(60.0)**	**(60.0)**	-	**(60.0)**	(141.4)	(141.4)	-	(141.4)
Other financial liabilities measured at amortised cost (note 17 non-current)	**(2,045.0)**	**(2,622.2)**	**(2,208.5)**	**(413.7)**	(1,880.8)	(2,435.2)	(2,160.2)	(275.0)
Total financial liabilities	**(2,107.1)**	**(2,684.3)**	**(2,208.5)**	**(475.8)**	(2,022.2)	(2,576.6)	(2,160.2)	(416.4)
Total financial instruments	**(2,107.1)**	**(2,684.3)**	**(2,208.5)**	**(475.8)**	(2,013.5)	(2,567.9)	(2,160.2)	(407.7)

(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.

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.

	2019 £m	2018 £m
Cash and cash equivalents	**(2.1)**	8.7
	(2.1)	8.7

The concentration of credit risk for amounts receivable from customers (see note 13) at the balance sheet date by geographic region was:

South West England	**126.9**	126.6
	126.9	126.6

Notes to the financial statements (continued)

24. Financial instruments *(continued)*

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.

Set out below is the information about the credit risk exposure on the Company's trade receivables using a provision matrix.

Amounts receivable from customers

	2019 £m	2018 £m
Billed receivables	**100.2**	106.2
Unbilled receivables	**66.1**	63.7
Expected credit losses	**(39.4)**	(43.3)
	126.9	126.6

Under IFRS 9:

	Gross 2019 £m	ECL rate 2019 %	ECL 2019 £m
Less than 1 year	**104.9**	**4.8%**	**(5.0)**
1 to 2 years	**18.8**	**31.9%**	**(6.0)**
2 to 3 years	**15.5**	**41.9%**	**(6.5)**
3 to 4 years	**13.1**	**60.3%**	**(7.9)**
More than 4 years	**14.0**	**100.0%**	**(14.0)**
	166.3	**23.7%**	**(39.4)**

Under IAS 39:

	Gross 2018 £m	Impair-ment rate 2018 %	Impair-ment 2018 £m
Less than 1 year	104.2	4.8%	(5.0)
1 to 2 years	19.4	31.4%	(6.1)
2 to 3 years	15.2	41.4%	(6.3)
3 to 4 years	13.0	60.0%	(7.8)
More than 4 years	18.1	100.0%	(18.1)
	169.9	25.5%	(43.3)

The comparatives for 2018 have been presented under IAS 39 as the Company adopted IFRS 9 at 1 July 2018.

	Measured Billing			**Unmeasured Billing**		
Payment Method	**Direct Debit %**	**Normal %**	**Other %**	**Direct Debit %**	**Normal %**	**Other %**
Less than 1 year	4.0%	5.4%	24.4%	11.4%	13.4%	29.6%
1 to 2 years	6.8%	23.9%	58.3%	6.7%	23.5%	54.3%
2 to 3 years	11.8%	34.6%	76.3%	0.5%	35.8%	66.9%
3 to 4 years	34.9%	52.6%	87.6%	18.2%	52.1%	80.2%
More than 4 years	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Notes to the financial statements (continued)

24. Financial instruments *(continued)*

The movement in the provision for expected credit loss in respect of trade receivables during the year was as follows:

	2019 £m	2018 £m
Balance at 30 June 2018	**(43.3)**	-
IFRS 15 adoption for non-paying customers	**4.2**	-
Balance at 1 July	**(39.1)**	(39.0)
Written off	**12.2**	6.4
Non-payers subsequently becoming payers	**(0.9)**	-
Charge to profit and loss	**(11.6)**	(10.7)
Balance at 30 June	**(39.4)**	(43.3)

The expected credit loss policy is shown in the accounting policies (note 1).

(c) Cash flow hedges

The Company does not have any cash flow hedges (2018 – none).

(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 2019 £m	Contractual cash flows 2019 £m	Year 1 2019 £m	Years 2 to 5 2019 £m	Over 5 years 2019 £m
Non-derivative financial instruments					
Unsecured bank overdraft	2.1	2.1	2.1	-	-
Secured bank loans	473.7	512.7	68.2	289.2	155.3
Inter-company loans	1,631.3	3973.5	57.7	602.2	3,313.6
Total financial instruments	2,107.1	4,488.3	128.0	891.4	3,468.9

Notes to the financial statements (continued)

24. Financial instruments *(continued)*

	Carrying amount	Contractual cash flows	Year 1	Years 2 to 5	Over 5 years
	2018	2018	2018	2018	2018
	£m	£m	£m	£m	£m
Non-derivative financial instruments					
Finance lease liabilities	1.4	1.5	1.5	-	-
Secured bank loans	415.0	438.3	144.8	90.2	203.3
Inter-company loans	1,605.8	4,785.4	57.4	523.0	4,205.0
Total financial instruments	2,022.2	5,225.2	203.7	613.2	4,408.3

(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:

	2018	2017
	£m	£m
Fixed rate instruments	**946.4**	946.9
Floating rate instruments	**375.8**	316.4
Index linked instruments	**784.9**	758.9
	2,107.1	2,022.2

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 £3.7m.

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 £7.9m.

Notes to the financial statements (continued)

25. Capital Management

For the purposes 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.

	2019	2018
	£m	£m
Cash at bank	**2.1**	(2.2)
Short term deposits	**-**	(6.5)
Bank Loans	**473.7**	415.0
Finance leases	**-**	1.4
Bonds	**1,631.3**	1,605.8
Total Net Debt	**2,107.1**	2,013.5
RCV at 30 June	**3,263.0**	3,147.5
Gearing	**65%**	64%

The RCV for each Regulated Water and Sewerage Company is publish by Ofwat here:
https://www.ofwat.gov.uk/publication/regulatory-capital-values-2019/

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 2019 and 2018.

26. Operating Leases

Non-cancellable operating lease rentals payable by the Company were £0.1m (2018 – £0.1). Future leasing commitments are as follows:

Term	**Commitment 2019 £m**	**Commitment 2018 £m**
Less than one year	0.1	0.1
One to two years	-	0.1
more than five years	0.6	0.6
Total	**0.7**	**0.8**

During the year £3.6m was recognised as an expense in the income statement in respect of operating leases (2018 - £2.8m) and £1.4m (2018 - £1.0m) was recognised as rental income by the Company.

Notes to the financial statements (continued)

27. Commitments

Capital expenditure contracted but not provided at 30 June 2019 was £100.6m (2018 - £81.8m).

The Company has guaranteed Bonds of £1,631.3m (2018 - £1,605.8m) issued by its wholly owned subsidiary company Wessex Water Services Finance Plc.

The company has issued performance guarantees in respect of contracts to the value of £0.2m (2018 - £0.1m).

28. Contingencies

There are no material contingent liabilities at 30 June 2019 for which provision has not been made in these accounts.

29. Significant transactions with related parties

There were no transactions with key management personnel. Directors' emoluments have been disclosed in the Governance Report.

There have been no transactions with the holding companies described in note 30.

All other transactions with related parties and balances at the year-end are summarised in the following table:

	2019	2018
	£m	£m
Sales of goods and services:		
Fellow subsidiaries	**111.7**	114.5
Other group companies	**0.5**	0.7
Immediate holding company	**4.0**	3.0
Associate companies	**0.7**	-
Purchase of goods and services:		
Fellow subsidiaries	**3.4**	3.0
Other group companies	**2.8**	2.3
Associate companies	**10.5**	10.9
Interest expense:		
Subsidiaries	**82.5**	78.3
Year-end balances owing by:		
Fellow subsidiaries	**28.3**	28.2
Other group companies	**0.3**	0.4
Immediate holding company	**27.1**	24.9
Associate companies	**1.3**	-
Year-end balances owing to:		
Subsidiaries	**31.3**	31.2
Other group companies	**0.6**	0.6

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.

Notes to the financial statements (continued)

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 Yeoh Tiong Lay Plaza, 55 Jalan Bukit Bintang, 55100 Kuala Lumpur, Malaysia.

31. Subsequent events

At the end of September 2019, the group issued a £250m fixed rate bond maturing in 2029.

The final dividend for the year was declared in June 2019 and paid in July 2019.

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) Expected credit loss provision

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. These assumptions are discussed in note 24.

b) 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.

c) Revenue recognition

The unbilled income accrual from metered water services requires an estimation of the amount of unbilled charges at the period end. This is calculated using system generated information based on previous customer volume usage.

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.

e) 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 19 to the financial statements.