WESSEX WATER SERVICES LIMITED

Annual Report and Financial Statements
30 June 2021

Registered in England and Wales No. 02366648

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Governance report

Chairman's introduction to governance

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

The Company takes its privileged position as a monopoly provider of essential public services very seriously and ensures that it builds and maintains successful relationships with a wide range of stakeholders. The purpose, strategy, values and culture of the Company are developed and promoted through continuous engagement with these stakeholders, including customers, community and interest groups, employees and regulators. Further details on how we have engaged with all of our stakeholders over the year can be found on pages 49 to 53. This year, in particular, the Board has reviewed its engagement with customers and created a new Customer Challenge Group and an Environment and Public Value Committee to ensure both customers' views and our wider social purpose are fully considered in Board discussions and decision making.

Maintaining the highest standards of corporate governance is integral to the long-term success of the Company. The Company has fully embraced Ofwat's Board leadership, transparency and governance principles and is satisfied that it meets all of the objectives which are now enshrined in the Company's licence (the Ofwat Objectives). The Ofwat Objectives are the primary governance framework against which the Company reports, but the Board has also agreed that it is appropriate to follow the Wates Corporate Governance Principles for Large Private Companies (the Wates Principles). We have, in previous years, reported compliance against the UK Corporate Governance Code. While we will now report against the Ofwat Objectives and the Wates Principles, we believe that our standards of corporate governance ensure that the Company operates effectively and efficiently to the benefit of all of our stakeholders, maintaining our position as a leading water and sewerage company for customer service, satisfaction and environmental performance. In this report, we demonstrate and explain how this is the case.

The following pages set out details of our Board of Directors (pages 3 to 7), further information on our governance arrangements and compliance with Ofwat's Objectives (pages 8 to 20) and the reports of the Audit and Risk, Nomination, Environment and Public Value, and Remuneration Committees (pages 21 to 46). These reports demonstrate that the Company has in place effective arrangements to ensure the highest standards of corporate governance.

In addition to the above Committees, following the tragic incident at Avonmouth, the Board formed a dedicated committee, chaired by Jim McKenna, to oversee the investigations into the incident and keep the Board appraised of progress.

Francis Yeoh
Chairman

8 September 2021

The Board of Directors

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

Shareholder Non-Executive Chair

Tan Sri Francis Yeoh KBE

Francis has been managing director of YTL Corporation Berhad, Malaysia, since 1988 and was appointed as executive chairman in June 2018. He was appointed to the Board of Wessex Water Services Limited in May 2002 and chairs the Nomination Committee.

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

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

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

Executive Directors

Colin Skellett – Chief Executive

Colin Skellett is a scientist and engineer by training and a Fellow of the Royal Society of Chemistry. He has worked largely in the water industry and was appointed Chief Executive in 1988 and appointed to the Board of Wessex Water Services Limited in 1989.

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

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

Andy Pymer – Executive Director Finance and Regulation

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

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

John Thompson – Executive Director of Engineering and Sustainable Delivery

John has held senior management roles in engineering, environmental, construction, operations, customer-facing repair and maintenance businesses. John joined the Wessex Water group of companies in 2006. John was appointed to the Board of Wessex Water Services Limited in June 2020 and nominated as the Health and Safety Board representative in March 2021. John is a director of the Wessex Water Services Pension Trustee Board and a member of the Environment and Public Value Committee.

John is a former director and branch chairman of the Pipeline Industry Guild and works with the development of young professionals. John is proud to have recently been appointed as a trustee of Wellsway Multi Academy Trust.

Mohammed Saddiq – Executive Director of Operations

Mohammed has held a number of senior engineering and management positions in the Water, Waste and Renewables sectors over the past 25 years. He joined the Wessex Water Group in 2002 and most recently was managing director of the waste recycling and renewable energy company GENeco. Appointed to the Board of Wessex Water Services Limited in June 2020, Mohammed is also a member of the Environment and Public Value Committee.

Mohammed is an Associate Fellow of the Institute of Chemical Engineers, Fellow of the Chartered Institution of Water and Environmental Management, Fellow of the Royal Society of Arts and a Chartered Member of the Institution of Environmental Sciences. He received the 2012 Institute of Directors South West Corporate Responsibility Director award and in 2020, an Honorary Degree of Doctor of Science from the University of the West of England, for enhancing the sustainable development of Bristol.

Mohammed is the Independent Chair of the Bristol Green Capital Partnership. He is the Vice-Chair of the Board of Trustees and the Chair of the Remuneration Committee at the University of Bristol. He is a trustee of the cancer care charity Penny Brohn UK, a member of the Society of Merchant Venturers, Vice-Chair of Governors at Colston's Girls' School, non-executive director of the West of England Local Enterprise Partnership and Industrial Phycology.

Independent Non-Executive Directors

Jim McKenna – Senior Independent Director

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

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

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

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

Dame Fiona Reynolds DBE – Independent Non-Executive Director

Dame Fiona Reynolds DBE became Master of Emmanuel College, Cambridge in 2012 after a long career in the voluntary sector, latterly as Director-General of the National Trust from 2001-2012. During her time as DG she made the Trust warmer and more welcoming, bringing the houses to life and raising the profile of the Trust's work in the countryside.

Before the Trust, she was Director of the Women's Unit in the Cabinet Office (1998-2000), Director of the Council for the Protection of Rural England (now Campaign to Protect Rural England) from 1987-98 and Secretary to the Council for National Parks (now Campaign to Protect National Parks) from 1980-87.

Fiona is a Trustee of the Grosvenor Estate, a trustee of the Green Alliance, and Chair of the International National Trusts Organisation, the Cathedrals Fabric Commission for England, Cambridge University's Botanic Garden, Bennett Institute for Public Policy and Vice Chair of the Royal Agricultural University.

She was a panel member for the Glover Review of Protected Landscapes, adviser to the Building Better Building Beautiful Commission and a member of the Advisory Panel for the Dasgupta Review of the Economics of Biodiversity. She took on the role of Chair of the National Audit Office in January 2021.

Huw Davies – Independent Non-Executive Director

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

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

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

Kate Mingay – Independent Non-Executive Director

Kate has extensive experience of energy and transport infrastructure in both the public and private sectors, as well as the economic regulatory environment. Building on her corporate finance background, Kate has worked on structuring and funding investment in large scale, complex, projects in a variety of senior roles. Kate began her career with S G Warburg (subsequently UBS), before moving to Goldman Sachs, later becoming Director, Corporate Finance at the Department of Transport. She was a member of HM Treasury's Major Projects Review Group.

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

Kate is currently the Senior Independent Director at Mutual Energy and a Trustee of the British Science Association having previously been a NED at Ansaldo STS S.p.A. (now Hitachi Rail STS). She is actively involved in economic and corporate finance consulting including being a Senior Adviser at Cambridge Economics Policy Associates.

Tim Gardam – Independent Non-Executive Director

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

Appointed to the Board of Wessex Water Services Limited in January 2020, Tim is a member of the Audit and Risk, Nomination, Remuneration, and Environment and Public Value Committees.

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

Kevin Wall – Independent Non-Executive Director

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

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

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

David Barclay – Non-Executive Director

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

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

Hong Yeoh – Shareholder Non-Executive Director

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

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

Mark Yeoh – Shareholder Non-Executive Director

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

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

Hann Yeoh – Shareholder Non-Executive Director

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

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

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

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

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

Ofwat Objective 1 - Purpose, values and culture

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

The Board has full responsibility for all aspects of the Company's business, including for the long term, and is responsible for establishing the purpose, aims, strategy, values and culture of the Company.

The purpose, aims, strategy, values and culture of the Company are developed and promoted through continuous engagement with wider stakeholders, including customers, community and interest groups, employees and regulators. The Company has mechanisms through which stakeholder interests can be represented and changing societal pressures can be understood by the Board, including the Customer Challenge Group and the Environment and Public Value Committee, the role and responsibilities of which are described further in this report. Additional information about the range of stakeholder engagement that has informed and influenced the aspirations of the Board is contained in the Strategic Report on pages 47 to 77. Through this approach the Board ensures that the Company's vision, which encompasses its purpose, values and culture, aims and strategy to deliver, are aligned to ensure the Company performs and delivers for all that it serves.

The Board periodically resets and publishes its vision, aims and strategy in a strategic direction statement and also as part of its five-year business plan, most recently 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.

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

The Board monitors and assesses the values and culture of the business to satisfy itself that behaviours are aligned with the Company's purpose and values on an ongoing basis. It does so by monitoring the performance of the business against its key targets. It also seeks out the views and experiences of customers 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 has refreshed its approach to engaging customer feedback and refreshed the Wessex Water Partnership into a new Customer Challenge Group. The Board also takes account of independent assessments of the Company's commitment to customer service excellence by achieving both the government's Customer Service Excellence accreditation and the Institute of Customer Service 'Service Mark' accreditation. Where there is evidence that behaviours are misaligned with the Company's purpose and values, the Board acts, through the executive, to correct this. Further details are included in the Strategic Report on pages 47 to 77.

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. The Company maintains the policy and the associated 'Raising a Concern' policy, including step-by-step guidance on how to raise concerns. All 'raising a concern' reports are treated on a strictly confidential basis whether from internal or external sources. Reports on whistleblowing are made to the Audit and Risk Committee and details are set out in the Audit and Risk Committee Report on pages 21 to 24.

The Company also maintains its formal policy on business ethics. Directors and employees are expected to commit to the highest standards of professional and ethical conduct 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.

Ofwat Objective 2 - Standalone regulated company

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

The Board is fully focused on and has full responsibility for the activities of the Company and is responsible and accountable for setting, implementing and supporting the Company's purpose, strategy, aims, values and culture. The Company clearly meets this Objective as the Board takes full responsibility for all aspects of the Company's business for the long term. The Board composition and details of career backgrounds, relevant skills, committee membership and tenure is set out in the individual biographies on pages 3 to 7.

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

In order to manage risk, the Board and its Committees assess the integrity of financial information and whether financial controls and systems of risk management are robust and defensible. The Board requires management to identify, assess and report the impact of risks to enable the Board to effectively monitor and approve any decisions affecting the Company's risk profile. An explanation of principal risks, and our approach to mitigating these risks, is provided on pages 56 to 73.

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

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

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

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

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

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

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

Ofwat Objective 3 - Board leadership and transparency

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

Details of the Company's group structure can be found on page 18. Details of the Board Committees, including membership, number of meetings, and attendance are set out in the Committee reports on pages 21 to 46.

The Company's dividend policy and detail on dividends paid during the year are set out in the Notes to the financial statements on page 110. Details of the Company's executive pay policy can be found on page 31.

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 56 to 73.

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

Ofwat Objective 4 - Board structure and effectiveness

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

The Board is satisfied that this objective is met.

The following were Directors during the year under review:

Independent Non-Executive Directors	Executive Directors	Non-Executive Director	Shareholder Non-Executive Directors
Gillian Camm (Senior Independent Director) [1]	Colin Skellett	David Barclay	Francis Yeoh (Chair)
Jim McKenna (Senior Independent Director)	Andy Pymer		Hong Yeoh
Huw Davies	John Thompson [3]		Hann Yeoh
Fiona Reynolds	Mohammed Saddiq [3]		Mark Yeoh
Kate Mingay			Kathleen Chew (alternate)
Tim Gardam			
Kevin Wall [2]			

[1] To October 2020

[2] Appointed January 2021

[3] Appointed June 2020

The Company carefully considers its Board composition and following the appointment of a new Independent Non-Executive Director (Kevin Wall) in January 2021, there are currently six Independent Non-Executive Directors on the Board. This makes the Independent Non-Executive Directors the single largest group on the Board and ensures that wider group or shareholder interests are not able to override independent judgment and/or dominate decision-making. The Independent Non-Executive Directors bring extensive knowledge and experience to the Board.

In addition to the Independent Non-Executive Directors, during the reporting year there were four Executive Directors. As part of planned organisational changes, the company appointed two new Executive directors on 1 June 2020, John Thompson was appointed as Executive Director Engineering and Sustainable Delivery and Mohammed Saddiq was appointed as Executive Director Operations. The Executive Directors have very significant experience in the water sector. The experienced former Senior Independent Director is also appointed as a Non-Executive Director and the Board makes full use of his individual professional expertise.

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

The collective experience of the Directors and the diverse skills and experience they possess ensures that the Board makes decisions in a balanced way. The Board considers that its current composition ensures an appropriate balance of skills, experience, independence and knowledge so that no individual or small group of individuals can dominate the Board's decision taking.

Details of the Board's skills and experience can be found in the Director's biographies on pages 3 to 7 and are summarised below:

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

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

The search for Board candidates is led by the Nomination Committee, and appointments and re-appointments are made by the Board on merit, against objective criteria, with due regard to the benefits of diversity on the Board (including skills, experience and gender). Before any formal appointment, new Independent Non-Executive Directors meet with Ofwat to ensure that there is a clear understanding of the responsibilities attached to being a non-executive director in this sector. Kevin Wall met with Ofwat prior to his appointment in January 2021. All directors receive induction training on joining the Board and regularly update and refresh their skills and knowledge.

Chair

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

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

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

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

Senior Independent Director

Jim McKenna replaced Gillian Camm as the Senior Independent Director in November 2020. The Senior Independent Director is a member of all Board Committees and is responsible for leading the annual review of Board performance. As Senior Independent Director, Jim would chair Board meetings if the Chair were unavailable. The Senior Independent Director's role is to act as a sounding board for the Chair and to serve as an intermediary for the other Directors when necessary, as well as an additional point of contact for the shareholder and other stakeholders. Jim also attends the Customer Challenge Group which engages with our customers directly. By way of exception to general governance provisions, the performance of the Chair is incorporated within an independent Board effectiveness review, rather than led by the Senior Independent Director. The Company believes this approach, which results in a range of feedback, provides a more robust and well-rounded performance review.

Independent Non-Executive Directors

The Company's Independent Non-Executive Directors are appointed from a range of different backgrounds to bring to the Board an appropriate balance of skills, external experience and knowledge. Details of their skills and experience can be found in their biographies on pages 3 to 7 and in the Board skills matrix on page 12.

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

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

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

On the recommendation of the Nomination Committee, the Board appointed one new Independent Non-Executive Director in the reporting year. Kevin Wall was identified as having the skills, experience and knowledge relevant to ensuring that the Board can take decisions that promote the long-term success of the Company. When appointing Kevin, as with any new Non-Executive Director, the Board discussed whether there were any potential conflicts and concluded he was independent of the shareholder and management and had no relationship with the shareholder that could materially interfere with the exercise of his independent judgment.

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

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

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

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

Company Secretary

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

Ruth Jefferson was appointed as Company Secretary in 2018. As Company Secretary her role is to provide legal and regulatory advice as required by the Board or any Director and she is responsible for advising the Board through the Chair on governance matters. The Board is kept informed of major changes to law and regulation affecting the Company's business. The Company Secretary also advises on Directors' duties and conflicts. All Directors are aware that any conflicts of interest must be reported to and registered with the Company Secretary. In the reporting year, the Board formalised its approach to conflicts of interest by including its conflicts policy within the business ethics policy. This policy now covers employee and Board conflicts and enables Directors and employees to identify, report and manage such conflicts.

Board meetings

The Board meets a minimum of six times a year at approximately bi-monthly intervals, which is considered sufficiently regular to enable the Board to discharge its duties effectively. It may meet on such further occasions as required. The Board held seven meetings during the year ended 30 June 2021. This included an extraordinary Board meeting in December 2020, following the tragic incident at Avonmouth. The Board received regular reports on health and safety performance, business and financial performance, regulatory issues, employee issues and the management of key business risks. As a private company with a single shareholder, the Company does not consider it necessary to hold Annual General Meetings. Attendance by individual Directors at scheduled meetings of the Board and Committees during the financial year under review was as follows:

Director	Board	Audit and Risk Committee	Nomination Committee	Remuneration Committee	Environment and Public Value Committee
Francis Yeoh	7/7		2/2		
Colin Skellett	7/7				
David Barclay	7/7			2/2	
Andy Pymer	7/7				2/2
John Thompson	7/7				2/2
Mohammed Saddiq	7/7				2/2
Gillian Camm [1]	3/3	2/2	1/1	1/1	1/1
Jim McKenna	7/7	5/5	2/2	2/2	2/2
Huw Davies	7/7	5/5	2/2		
Fiona Reynolds	7/7	5/5			3/3
Kate Mingay	7/7	5/5	2/2	2/2	3/3
Tim Gardam	7/7	5/5	2/2	1/1	2/2
Kevin Wall [2]	2/2	2/2		1/1	2/2
Hong Yeoh	6/7		2/2	1/2	
Mark Yeoh	7/7			1/2	
Hann Yeoh	7/7				
Kathleen Chew (alternate)	0/0				

1 – To October 2020 2 – Appointed January 2021

Board Committees and Advisory Panels

Four formal Board committees operated throughout the financial year under review:

- Audit and Risk Committee;
- Remuneration Committee;
- Nomination Committee; and
- Environment and Public Value Committee.

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

Reports from the Chair of each of the Committees, including details of membership and attendance, are set out on pages 21 to 46. There is a majority of Independent Non-Executive Directors on the Board Committees. The Nomination Committee and Remuneration Committee are chaired by the Chair and a shareholder Director respectively. The Board considers this to be appropriate in the context of the Company's ownership structure.

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

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

In addition to the above Committees, following the tragic incident at Avonmouth, the Board formed a dedicated sub-committee, chaired by Jim McKenna, to oversee the investigations into the incident and make relevant recommendations as appropriate.

Board, Committee and Director Performance

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

In the last financial year, the Board evaluation was facilitated by Professor Giovanna Michelon (a specialist in corporate governance and social and environmental accounting and reporting). Professor Michelon's report concluded that the Board was highly effective, worked in a solid way with a high level of trust and a good level of independent challenge. Overall the Board was considered effective and well-functioning but it was acknowledged that the Board needed to prepare for potential senior change, formalising a succession plan for senior executives and the Chief Executive to ensure that successful Board dynamics were maintained. Consequently, the Nomination Committee specifically considered succession planning and the report of the Committee can be found on page 25.

Between external evaluations, reviews are facilitated by the Company Secretary. The evaluation of the Board assessed the Board's balance of skills, experience, diversity, independence and knowledge of the Company and how the Board works together as a unit, and other factors related to its effectiveness. This year the feedback acknowledged that despite the challenges of Covid and the tragic incident at Avonmouth, the overall effectiveness of the Board had been maintained.

The creation of the Environment and Public Value Committee would also allow greater focus on the development of strategy and values based on public value outcomes.

Directors' remuneration

Details of Directors' remuneration are set out in the Remuneration Committee Report on page 28.

Directors' interests and conflicts

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

Raising a concern

The Company reviews its Raising a Concern policy each year. The policy is supported by step-by-step guidance on how to raise concerns and a confidential helpline available 24-hours a day, 7-days a week. The policy sets out how to report any concerns about malpractice or inappropriate activity across all areas of business, including water regulation, health and safety, bribery, corruption and fraud. All 'raising a concern' reports are treated on a strictly confidential basis whether from internal or external sources. Reports are made to the Audit and Risk Committee and details are set out in the Audit and Risk 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 understand that breaching it will result in disciplinary action. No instances of a breach of the policy were recorded in the year. All senior staff are asked to certify to internal audit that throughout the year they have complied with the business ethics rules. No instances of non-compliance were noted during the year.

Procurement

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

Group structure

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

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

A diagrammatic representation of the Group's structure appears below showing ownership of the regulated company through to YTL Corporation Berhad and each company's country of incorporation and role in the structure. YTL Corporation Berhad at 30 June 2021 was 49.87% owned by third-party shareholders and 50.13% owned by Yeoh Tiong Lay & Sons Family Holdings Ltd.

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
↓ 55.53%		
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, 70% of Water2Business Ltd, 65% of Flipper Ltd, 51% of Albion 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 and David Barclay are Directors of Wessex Water Ltd. Colin Skellett is a director 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; and
- to refrain from any action which would cause or may cause the company to breach any of its obligations under the Water Industry Act or the conditions of its Licence.

YTL Corporation Berhad has confirmed that it:

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

Compliance with the Wates Principles

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

Principle One – Purpose and leadership

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

The Company sets out its compliance with Ofwat Objective 1 on pages 8 to 9.

Principle Two – Board composition

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

The Company sets out its compliance with Ofwat Objective 4 on pages 11 to 19.

Principle Three – Director responsibilities

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

The Company has clear corporate governance practices in place, with clear lines of accountability and responsibility as set out under Ofwat Objective 2 on pages 9 and 10. Details of the Board Committees are set out in the comments on Ofwat Objective 4 on pages 11 to 19.

Principle Four – Opportunity and risk

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

The Company is a long-term business and ensuring its long-term sustainable success underpins the work of the Board and its Committees. The Board's approach to oversight of the identification and mitigation of risks can be found on pages 8 to 9 set out under Ofwat Objective 1 and also in the Strategic Report on pages 56 to 73.

Principle Five – Remuneration

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

A detailed explanation of the Company's executive pay policy is provided in the Remuneration Committee Report on pages 28 to 46.

Principle Six – Stakeholder relationships and engagement

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

Details of the Company's stakeholder engagement are set out under Ofwat Objective 1 on pages 8 to 9 and in the s172 statement on pages 49 to 53.

Audit and Risk Committee Report

This is the Annual Report of the Audit and Risk Committee.

Audit and Risk Committee members' attendance

Audit and Risk Committee attendance		Length of Committee Service
Huw Davies	5/5	7 years
Gillian Camm [1]	2/2	9 years
Fiona Reynolds	5/5	9 years
Kate Mingay (Chair)	5/5	2 years
Jim McKenna	5/5	2 years
Tim Gardam	5/5	1 year
Kevin Wall [2]	2/2	6 months

1 – To October 2020 2 – Appointed January 2021

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 Executive Director Finance and Regulation, the Group General Counsel, Director of Regulation, the Director of Risk and Investment, the Group Financial Controller, the Chief Information Officer, 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 Customer Challenge Group representatives are invited to attend as required.

Composition

The Audit and Risk Committee comprises six independent Non-Executive Directors of the Board. The Chair of the Board is not a member of the Audit and Risk Committee preserving the independence of the Committee. The Committee is independently led. Five Non-Executive Directors have been members of the Audit and Risk Committee throughout the full year and one further appointment was made during the year (Kevin Wall).

The Board is satisfied that each of the Committee members is appropriately qualified and experienced to fulfil their role.

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
- reporting to and providing advice to the Board on approval of regulatory submissions

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

The Committee would receive reports from investigations arising from our Raising a Concern policy as part of routine process. No concerns have been raised during the financial year.

Our Governance arrangements are available on the Company's website and provide full terms of reference for the Audit and Risk Committee.

In accordance with both Ofwat's Better Leadership, Transparency and Governance (BLTG) principles and the Wates principles, key issues discussed during the financial year under review included:

- ongoing compliance with the Data Protection Act 2018
- the company's response and ongoing operations during the Covid pandemic
- detailed and ongoing compliance work in relation to the Security of Network and Information Systems (NIS) Regulations 2018 and management of cyber-security risks
- governance over our drinking water safety plans
- detailed review of the Company's Information Assurance Statement and Information Assurance Plan in accordance with Ofwat's Company Monitoring framework
- compliance with regulatory requirements as an appointed water and sewerage business
- company performance on a number of internal processes to deliver regulatory outputs and performance commitment data
- the implementation of a new audit and risk system and a detailed review of risk appetite and tolerance.

The Audit and Risk Committee have discharged their responsibilities within both the Ofwat Objectives and Wates Principles by considering the content, accuracy and tone of the Annual Report to ensure a fair, balanced and understandable report that provides the necessary information to stakeholders to assess the company's performance, strategy and position.

Our external auditor (Ernst 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 'Raising a Concern' whistleblowing allegations made to the Company from either internal or external sources, concerning fraud, bribery or other matters. Reports include the outcomes of resulting investigations and the management action taken. 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 11 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 Chair at all times.
External auditor	Ernst and Young LLP were appointed as the Company's external auditor in 2017. The EY audit partner is invited to attend all Audit and Risk Committee meetings and has been present at every meeting during the year. The Audit and Risk Committee monitors the effectiveness of the external auditor throughout their term of appointment. In relation to the current year, Ernst and Young LLP audit fees are £202k for the regulatory accounts and £45k for the statutory accounts. The Audit and Risk Committee scrutinise the volume and value of non-audit work and as a matter of policy, fees paid to the external auditor for non-audit services will not exceed the limits set out in EU Regulation 537 or the rules set out in the Financial Reporting Council's code of ethics. The proportion of fees for non-audit services is compliant with EU Regulation 537. Ernst 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 MacDonald) was re-appointed from a competitive re-tender of the services in 2019-20.

Further details of internal controls and risk management systems in relation to the financial reporting process can be found on pages 56 to 73.

Financial reporting

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

Topic	Activity
Revenue Recognition and accrued income	The Audit and Risk Committee considered the key financial risk that can arise from the estimation of the amount of unbilled income charges at the period. In this context, they discussed that the management estimates and assumptions are aligned to IFRS 15 and current accounting standards.
Expected Credit Loss	The Audit and Risk Committee considered the key financial risk that arose due to the subjective nature of the provision. It reviewed the significant judgements made when assessing the reasonableness of the provision rates applied against the customer profile categories, particularly in light of the economic uncertainties arising from Covid-19 and ensured that the methodology chosen was in accordance with IFRS 9.
Pension Actuarial Assumptions	The Audit and Risk Committee considered the key financial risk that the assumptions made by the Company in association with the independent actuary, in arriving at the pension deficit under IAS 19, could lead to an overly prudent or aggressive position. In particular, the assumptions in relation to inflation, discount rate, pension and salary increases, return on equity and life expectancy were tested against the range of assumptions used by other companies.
Impact of COVID-19	The Audit and Risk Committee considered the impacts of the COVID-19 pandemic on the Company. In particular, it reviewed the impact on the Going Concern assessment and, as noted above, the implications for the expected credit loss provision calculations.
Classification of Capital Expenditure	The Audit and Risk Committee considered the key financial risk of the degree of judgement involved in the classification of expenditure between operating expenses and capital expenditure. In doing so they considered the level of capital expenditure, the Regulatory Accounting Guidelines and IAS16/38, the recharges from overhead to capital projects and the controls of the Company.
Misstatements	Management confirmed to the Audit and Risk Committee there were no material misstatements in the financial statements to achieve a particular presentation. The Audit and Risk Committee was satisfied that the external auditor had fulfilled its responsibilities to the Audit Committee and the Company.

Nomination Committee Report

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

Nomination Committee attendance	
Francis Yeoh (Chair)	2/2
Hong Yeoh	2/2
Gillian Camm [1]	1/1
Huw Davies	2/2
Kate Mingay	2/2
Jim McKenna	2/2
Tim Gardam	2/2
Kevin Wall [2]	0/0

1 – To October 2020 2 – Appointed January 2021

There is a majority of independent members on the Nomination Committee, in line with Ofwat's Objectives. Kevin Wall was appointed to the Nomination Committee on his appointment in January 2021. The Nomination Committee is chaired by a Non-Executive Director appointed by the shareholder, by way of exception to Ofwat's Objectives. However, the Committee's composition is considered to be appropriate in the context of a private company with a single shareholder.

Role and report on activities

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

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 the Nomination Committee considered the appointment of new Independent Non-Executive Directors and executive succession planning activity.

Environment and Public Value Committee Report

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

Environment and Public Value Committee attendance	
Tim Gardam	2/2
Kate Mingay	3/3
Fiona Reynolds (Chair)	3/3
Jim McKenna	2/2
Kevin Wall [1]	2/2

1 – Appointed January 2021

The Environment and Public Value Committee is a new Board Committee replacing the reporting function of the former Corporate Social Responsibility Committee and the horizon scanning role of the former Futures Panel. The purpose of the Committee is to advise the Board on how the Company's purpose, strategy and values are developed and delivered and ensure that the Company's culture reflects the needs of all those in the communities that it serves and wider societal and environmental values.

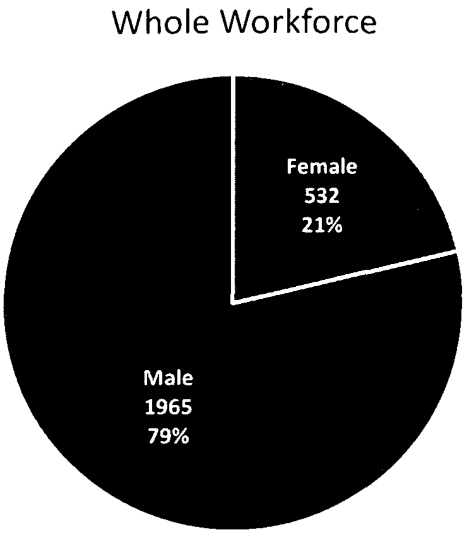
Focusing on outcomes for people, the environment, nature and water across the region, the Committee's functions are to:

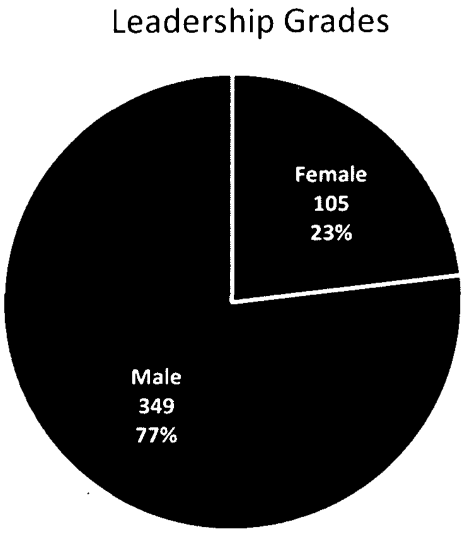
- oversee the development of an integrated social purpose that sets out clear goals for:
- environmental leadership including exemplary delivery of environmental obligations in the Company's operations and across its catchments;
- the positive social and economic investment impact the Company will make for the communities it serves; and
- establish and lead an ongoing dialogue with staff, retail and business customers, communities, local authorities and other interested stakeholders about the Company's social purpose;
- identify and monitor external developments which are likely to be drivers of change that may have a significant influence on the Company's social purpose;
- develop and maintain a strategy to deliver the Company's social purpose and long-term shareholder value;
- ensure that the Company's social purpose is fully integrated with and shapes the strategy for the Price Determination Process;
- develop socially responsible values and standards and regularly review performance measures and KPIs, including their independent audit, and verification to ensure their delivery
- oversee the development of workplace policies and procedures that deliver the company's people values, human rights, diversity and inclusion requirements

The first two meetings of the Committee focused on the company's gender pay gap report, culture, inclusion and diversity and the development of a refreshed social purpose proposition.

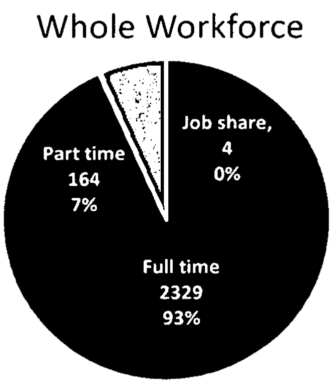
In line with the horizon-scanning function inherited from the Futures Panel, the Committee will invite external perspectives to inform the Board's strategic thinking. This has initially focused on a benchmarking exercise of Wessex Water by Sustainability First against its sustainable-licence-to-operate framework, to inform the review of the company's social purpose.

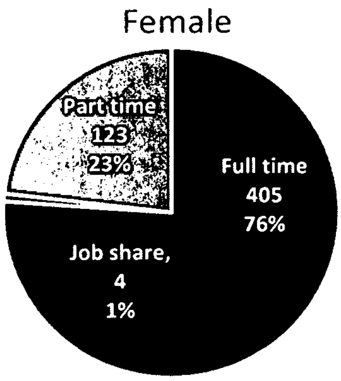
Gender diversity

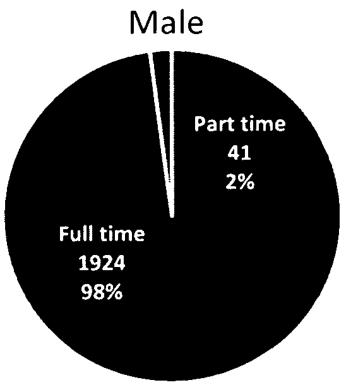




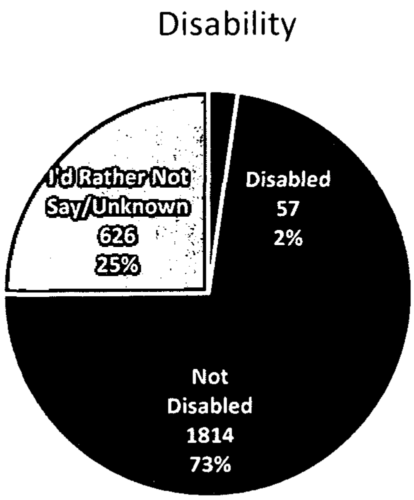
Part-time / Full-time diversity







Employees with a disability



Remuneration Committee Report

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

Remuneration Committee Attendance	
Hong Yeoh (Chair)	1/2
Mark Yeoh	1/2
David Barclay	2/2
Gillian Camm [1]	1/1
Jim McKenna	2/2
Kate Mingay	2/2
Tim Gardam	1/1
Kevin Wall [2]	1/1

1 – To October 2020 2 – Appointed January 2021

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

The membership of the Committee for 2020-2021 was reviewed following the appointment of a new Independent Non-Executive Director. Kevin Wall was appointed to the Committee in January 2021.

Role and report on activities

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

The Committee determines, on behalf of the Board, the Company's policy on the 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 2021. The policy also applies to the remuneration of the Company's senior managers.

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

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

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

The Committee considered performance related executive pay in the context of Ofwat's 'putting the sector back in balance'. The Committee also reviewed and approved the Company's gender pay gap report which was published on the Government website in March 2021.

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

During the year, the Committee took advice from their independent advisers, Korn Ferry Hay Group. Korn Ferry Hay Group provided detailed market analysis and advice to the Committee for the senior management group, including Executive Directors and Non-Executive Directors. Korn Ferry Hay Group's fee for providing such advice was £15,200 for the year ended 30 June 2021. In line with best practice, the Committee assesses from time to time whether the appointment of its current independent remuneration advisers remains appropriate and whether the role should be put out to tender.

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

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

Bonus payments for 2019-2020 – deferment

The Committee assessed the 2019-2020 performance of the Company against the scheme criteria in March 2020. In exercising its discretion, it was decided that a decision on bonus payments for the Executive Directors would be deferred until the next meeting. The bonus payments for the Executives were subsequently approved for payment in October 2020. As a result the bonus amounts disclosed within the financial statements reflect these payments.

Bonus payments for 2020-2021 – voluntary forfeit of payment

The Committee assessed the 2020-2021 performance of the Company against the scheme criteria in March 2021. The Committee noted that despite overall strong company performance, the year had been overshadowed by the tragic incident at Avonmouth. The Chief Executive and Executive Directors collectively agreed not to take any bonus payment for the 2020-2021 performance year.

Remuneration principles and policy

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

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

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

Recruitment of Executive Directors

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

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

Policy for loss of office

There are no specific provisions for compensation on early termination (except for payment in lieu of accrued but untaken holidays) or loss of office due to a change of ownership of the Company. The Committee will review all contractual obligations and will seek legal advice as and when necessary on the Company's liability to pay compensation in such circumstances. The Committee will seek to reduce the level of compensation payable taking into account, among other factors, the Company's and the individual's performance, the Executive Director's obligation to mitigate loss, and length of service.

Early termination payments made in the year

The auditor is required to report on this information. No Executive Director left the Company during the year.

Remuneration arrangements for Executive Directors 2020-2021

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

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

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

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

Element of Pay	Purpose and Link to Company Strategy	How Operated in Practice	Maximum Opportunity	Description of performance metrics
	competitive in the market.	• Company car or allowance and private fuel allowance • Private medical insurance and executive health screening		
Pension	To attract and retain high calibre Executive Directors and to remain competitive in the market.	All Executive Directors participate in the Company's defined benefit pension scheme. Executive Directors are also insured for a lump sum of up to four times their pensionable salary on death in service.	Up to 24.6% of base salary	n/a
Annual Bonus	To motivate and reward Executive Directors for the achievement of demanding objectives and key strategic measures (including measures of customer satisfaction, service quality, environmental performance, employee alignment and financial performance) over the financial year and five-year regulatory period. The performance measures set are stretching in the context of the nature, risk and profile of the Company and have regard to historical company performance, sector comparisons and the performance commitments made in the relevant business plan. The measures and the weightings of them ensure that bonuses are substantially linked to stretching delivery for customers and the environment.	The Board of Directors sets annual performance targets for the Company prior to the commencement of each financial year. Company and individual performance against those targets are measured at the end of the financial year and the level of bonus payable is calculated at that point. Bonuses are paid in May. The committee has the discretion to, and does consider for effect of, corporate performance on environmental and governance risks when reviewing Executive Director bonuses to ensure variable remuneration incentivises and rewards appropriate behaviour. Part of the bonus may be forfeited for underperformance in respect of customer service, environmental, regulation and employee related performance targets. Annual bonus is not pensionable.	Maximum bonus opportunity is 100% of base salary.	A combination of key performance indicators relating to customer satisfaction, service quality, environmental performance, employee alignment and financial performance. The Committee has absolute discretion in making bonus payments.

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

Component 2020-2021	Colin Skellett Group Chief Executive	Andy Pymer Executive Director, Finance & Regulation	John Thompson Executive Director, Engineering & Sustainable Delivery	Mohammed Saddiq Executive Director, Operations
Target bonus (% of salary)	50	50	50	50
Maximum bonus (% of salary)	100	100	100	100
Share options (maximum)	Approved 87,000 Unapproved 1,913,000	Approved 87,000 Unapproved 913,000	Approved 87,000 Unapproved 13,000	Approved 87,000 Unapproved 213,000
Pension arrangement	Defined benefit - Pension in payment	Defined benefit Pension deferred	Defined benefit	Defined benefit
Benefits	Car allowance £20,000, fuel £4,310, and private medical insurance £2,070 (family)	Car allowance £11,750, fuel £4,310 and private medical insurance £2,070 (family)	Car allowance £17,000, fuel £4,310, and private medical insurance £2,070 (family)	Car allowance £17,000, fuel £4,310 and private medical insurance £2,070 (family)

Base salaries and benefits

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

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

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

Executive Directors' base salary 2020-2021

The Committee reviewed 2019-2020 salaries and determined that the salary for the Chief Executive Officer would remain unchanged from 1 April 2020. Following an executive restructure in 2020, the Executive Director, Finance and Regulation, previously our Managing Director Wessex Water Services Ltd, requested a £50,000 reduction in base salary effective 1 April 2020.

	Effective 1 April 2020	Effective 1 April 2019
Chief Executive Officer	£276,000	£276,000
Executive Director, Finance & Regulation	£262,000	£312,000
Executive Director, Engineering & Sustainable Delivery	£215,000	-
Executive Director, Operations	£245,000	-

The salaries for the rest of the Company increased by 2% effective 1 April 2020, which was in line with the collective agreement for 2019-2020 of 2% or CPI (whichever was the greater).

Executive Directors' bonuses – 2020-2021

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

For 2020-2021 there were 21 performance indicators set to reflect the corporate targets in the current regulatory period, as shown below:

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

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

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

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

Target Bonus 2020-2021	Colin Skellett CEO	Andy Pymer ED – F&R	John Thompson ED - ESD	Mohammed Saddiq ED- Ops
Customers and communities				
% of salary	15%	15%	15%	15%
Amount £	£41,400	£39,300	£32,250	£36,750
Protecting and enhancing the environment				
% of salary	15%	15%	15%	15%
Amount £	£41,400	£39,300	£32,250	£36,750
Employees				
% of salary	10%	10%	10%	10%
Amount £	£27,600	£26,200	£21,500	£24,500
Personal objectives				
% of salary	10%	10%	10%	10%
Amount £	£27,600	£26,200	£21,500	£24,500
Total				
% of salary	**50%**	**50%**	**50%**	**50%**
Amount £	**£138,000**	**£131,000**	**£107,500**	**£122,500**

The Company has had a very strong year and continues to be the overall leading water and sewerage service: first for customer service, first for environmental performance, first for efficiency and first or second for drinking water compliance. However, the year has been overshadowed by the tragic incident at Avonmouth.

In the financial year under review, 16 of the 20[1] Company targets were achieved or bettered. There were four failures:

CRI (compliance risk index)	Treatment centre failures together impacted CRI this year, as well as Covid-19 where we have been required to sample from public buildings rather than domestic properties.
Customer property internal sewer flooding incidents	Extreme wet weather in 2020 has impacted both internal sewer flooding and pollution metrics. We exceeded the regulator's targets for both these metrics, contributing to our first place leading environmental performance.
Wastewater pollution incidents (cat 1-3)	
H&S plan and accident statistics progress (assessed by EPVC)	Dominated by the tragic incident at Avonmouth, which resulted in four fatalities

Despite the strong performance year, and in light of the incident at Avonmouth, the Executive Directors decided to forfeit any bonus payments for the 2020-2021 performance year.

[1] *Satisfactory sludge disposal was removed from targets as the Environment Agency suspended the metric*

Executive Directors bonuses 2019-2020 (updated)

Annual bonus

At the meeting in March 2020 the Committee decided to defer a decision on the annual bonus payment for 2019-2020 until a later meeting. The annual bonus payments were subsequently agreed by the Committee and paid in October 2020.

Annual bonus 2019-2020	**Colin Skellett Group Chief Executive**	**Andy Pymer Managing Director**
Target bonus (% of salary)	50%	50%
Maximum bonus (% of salary)	100%	100%
Actual bonus (% of salary)	**58.7%**	**40%**
Actual bonus £	**£162,000**	**£125,000**

Long-term incentive plan (2015-2020)

The Committee approved the establishment of a long-term incentive plan (LTIP) for Directors in 2015 whereby 20% of any above target bonus element earned, would be held back for payment at the end of AMP6 in 2020. The Company agreed to match the value of the retained bonus payment, up to 100%. The payments were made in October 2020.

LTIP Scheme	**Colin Skellett Group Chief Executive**	**Andy Pymer Managing Director**
Annual Bonus held back as LTIP (2015-2020)	£31,213	£12,000
LTIP Payment made (2020)	**£62,425**	**£24,000**

Pensions

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

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

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

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

Under the Trust Deed and Rules, pensions in payment in excess of any guaranteed minimum pension are guaranteed to increase in line with price inflation subject to a maximum of 5% each year. In the calculation of individual cash equivalent transfer values, allowance is made for such increases.

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

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

Differences between Executive Directors' and Employees' remuneration

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

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

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

Executive Directors' service contracts

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

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

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

Non-Executive Directors

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

The breakdown of the Independent Non-Executive Directors' fees from 1 June 2020 is shown in the Directors' Emoluments table below. Independent Non-Executive Directors do not participate in share or bonus schemes or any other performance-related scheme, nor is any pension provision made.

Independent Non-Executive Directors are normally appointed for three-year terms (subject to statutory provisions relating to the removal of a Director) that may be renewed. They do not have service contracts, but their terms of engagement are regulated by letters of appointment (copies of which are available on the Company's website).

Any term beyond six years for an Independent Non-Executive Director is subject to particularly rigorous review and takes into account the need for progressive refreshing of the Board balanced against the requirement for skills, experience, independence and knowledge.

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

Directors' Emoluments

The table below shows the emoluments for the current and preceding year. The auditor is required to report on the information in the following tables for 2020-2021. Bonus figures for 2020-2021 represent deferred bonus awards for 2019-2020.

	Salary/Fees		Benefits		Other		Bonus		LTIP		Pension		Total	
	2020/ 2021 £k	2019/ 2020 £k	2020/ 2021 £k	2019/ 2020 £k	2020/ 2021 £k	2019/ 2020 £k	2020/ 2021 £k	2019/ 2020 £k	2020/ 2021 £k	2019/ 2020 £k	2020/ 2021 £k	2019/ 2020 £k	2020/ 2021 £k	2019/ 2020 £k
Colin Skellett	276	276	20	20	-	-	224	-	-	-	--	-	**520**	**296**
Mark Watts	-	155	-	18	-	-	-	-	-	-	-	-	**-**	**173**
Andy Pymer	249	312	18	18	-	-	149	-	-	-	56	68	**473**	**398**
John Thompson	220	18	18	2	-	-	120	-	-	-	60	3	**418**	**23**
Mohammed Saddiq	246	16	12	1	-	-	200	-	-	-	51	3	**509**	**20**
Gillian Camm	25	93	-	-	-	-	-	-	-	-	-	-	**25**	**93**
David Barclay	-	-	-	-	-	-	-	-	-	-	-	-	**-**	**-**
Huw Davies	84	89	-	-	-	-	-	-	-	-	-	-	**84**	**89**
Richard Keys	-	35	-	-	-	-	-	-	-	-	-	-	**-**	**35**
Jim McKenna	80	73	-	-	-	-	-	-	-	-	-	-	**80**	**73**
Kate Mingay	82	78	-	-	-	-	-	-	-	-	-	-	**82**	**78**
Kevin Wall	33	-	-	-	-	-	-	-	-	-	-	-	**33**	**-**
Tim Gardam	70	30	-	-	-	-	-	-	-	-	-	-	**70**	**30**
Fiona Reynolds	75	79	-	-	-	-	-	-	-	-	-	-	**75**	**79**
	1,440	**1,254**	**68**	**59**	**-**	**-**	**693**	**-**	**-**	**-**	**167**	**74**	**2,369**	**1,387**

Notes to table:

1. Bonus awards for 2020-2021 were voluntarily forfeit by the executive directors.
2. No emoluments earned by Francis Yeoh, Hann Yeoh, Hong Yeoh, Mark Yeoh or Kathleen Chew

3. Benefits comprise private medical insurance, company car or allowance and fuel benefits
4. Two Directors received emoluments for services to other Group Companies: Colin Skellett £518k and David Barclay £112k. The Audit Committee was satisfied that services provided to other Group Companies do not reduce the effectiveness of the Directors' provision of services to the Company.
5. The Non-Executive Directors requested a 20% reduction in their fees between May and October 2020
6. Richard Keys stepped down from the Board on 31 December 2019.
7. Gillian Camm stepped down from the Board on 31 October 2020
8. Jim McKenna and Kate Mingay were appointed to the Board on 3 June 2019.
9. Tim Gardam was appointed to the Board on 27 January 2020
10. John Thompson and Mohammed Saddiq were appointed to the Board on 1 June 2020.
11. Kevin Wall was appointed to the Board on 25 January 2021.
12. Mark Watts stepped down from the Board on 31 March 2020.

Chairman

No remuneration was paid to the Chairman (2020 – £nil).

Chief Executive

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

	Remuneration 2020-2021 £000	Remuneration 2019-2020 £000	% change
WWSL			
Salary	276	276	-
Bonus*	224	-	+100%
LTIP	-	-	-
Benefits	20	20	-
Other group companies			
Salary	184	184	-
Bonus*	320	-	+100%
LTIP	-	-	-
Benefits	14	13	+7.7%
Total	**1,038**	**493**	**+110.6%**
All employees WWSL			
Wages and salaries	102,900	96,600	+6.5%
Social security costs	11,200	10,300	+8.7%
Other pension costs	16,400	16,400	-
Total	**130,500**	**123,300**	**+5.8%**

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

The pay increase awarded to the employees of the Company on 1 April 2020, for the year 2020-2021, was a 2% increase over the preceding year.

Relative importance of spend on pay

Note 6 to the accounts shows the total employment costs of the Company, and the movement between 2020-2021 and 2019-2020.

	2020-2021 £m	**2019-2020 £m**	**Movement £m**	**Movement%**
Wages and salaries	102.9	96.6	+6.3	+6.5%
Social security costs	11.2	10.3	+0.9	+8.7%
Other pension costs	16.4	16.4	-	-
Total employment costs	**130.5**	**123.3**	**+7.2**	**+5.8%**

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

Percentage of	**2020-2021 %**	**2019-2020 %**	**Source**
Turnover	25.2%	22.8%	Income statement
Profit before tax *	170.6%	112.4%	Income statement
Profit after tax *	378.3%	214.1%	Income statement
Dividends	221.2%	157.1%	Note 10
Capital expenditure	51.0%	58.1%	Cash flow statement

Pay ratios table

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

Notes:

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

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

3. The pay ratios were calculated by dividing the CEO's single table of remuneration with the employee pay and benefits at each of those percentile points. The pay ratio was calculated for all employees as at April 2021.

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

Executive Directors' Defined Benefit Pension Provision

(information in the table below is subject to audit)

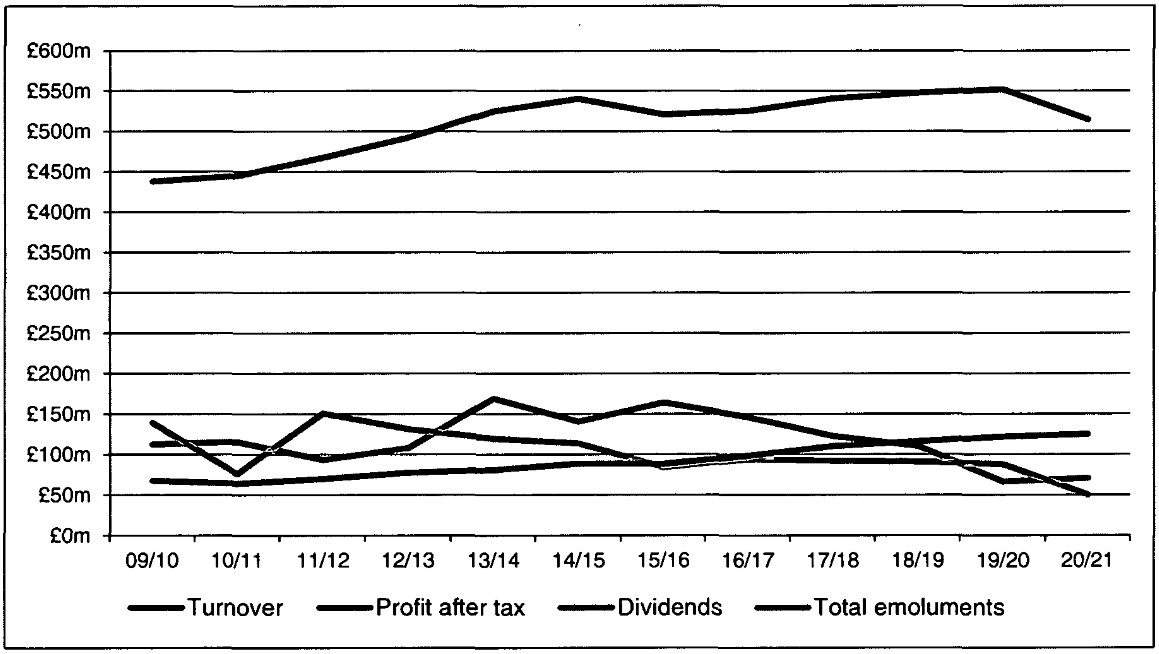
	Pension service completed in years (1)	Normal retirement date at 65	Accrued pension at 30/06/2020 £pa	Increase in accrued pension during the year £pa	Accrued pension at 30/06/2021 £pa
Colin Skellett (2)	41	13/06/2010	191,559	2,271	193,830
Andy Pymer (3)	23	18/08/2033	69,321	852	70,173
Mohammed Saddiq (4)	19	20/06/2035	63,457	2,088	65,545
John Thompson (4)	16	17/10/2034	32,218	1,344	33,562

Notes:

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

Remuneration link to financial performance

The table below compares the movement over 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 Directors' emoluments.

Executive Directors' share interests

Share options

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

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

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

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:

(information in the table below is subject to audit)

	Opening number 30/06/2020	Granted	Exercised	Lapsed	Closing number 30/06/2021	Expiry date
Colin Skellett	87,000	-	-	(87,000)	-	31/03/2021
Colin Skellett	1,913,000	-	-	(1,913,000)	-	31/03/2021
Andy Pymer	87,000	-	-	(87,000)	-	31/03/2021
Andy Pymer	913,000	-	-	(913,000)	-	31/03/2021
Mohammed Saddiq	87,000	-	-	(87,000)	-	31/03/2021
Mohammed Saddiq	213,000	-	-	(213,000)	-	31/03/2021
John Thompson	87,000	-	-	(87,000)	-	31/03/2021
John Thompson	13,000	-	-	(13,000)	-	31/03/2021

Approved options were granted on 1st June 2012 at an exercise price of RM1.65 and an exercise date of 1st June 2015. Unapproved options were granted on 1st June 2012 with an exercise date of 1st June 2015 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 2021 was RM0.70 or £0.12.

Shares held

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

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

(information in the table below is subject to audit)

	Opening number 30/06/2020	**Closing number 30/06/2021**
Andy Pymer	54,891	58,321
John Thompson	-	-
Mohammed Saddiq	-	-

The share price at 30 June 2021 was RM0.70 or £0.12.

Remuneration Arrangements for Executive Directors 2021-2022

Base Salary 2021-2022

At the meeting in March 2021 the Committee set the base salaries for each Executive Director effective 1 April 2021 as shown below.

	Effective 1 April 2021	Effective 1 April 2020	% change
Chief Executive Officer	£276,000	£276,000	-
Executive Director, Finance & Regulation	£262,000	£262,000	-
Executive Director, Engineering & Sustainable Delivery	£235,000	£215,000	9.3%
Executive Director, Operations	£247,450	£245,000	1%

Where a salary increase has been approved it includes a 1% inflationary increase which mirrors the increase awarded to employees on 1 April 2021 in accordance with a one-year pay deal agreed with the recognised Trade Unions and also awarded to those employees not covered by trade union agreements.

Bonus scheme 2021-2022

For 2021-2022 there are 20 performance indicators set to reflect the corporate targets in the current regulatory period, as shown below:

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

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

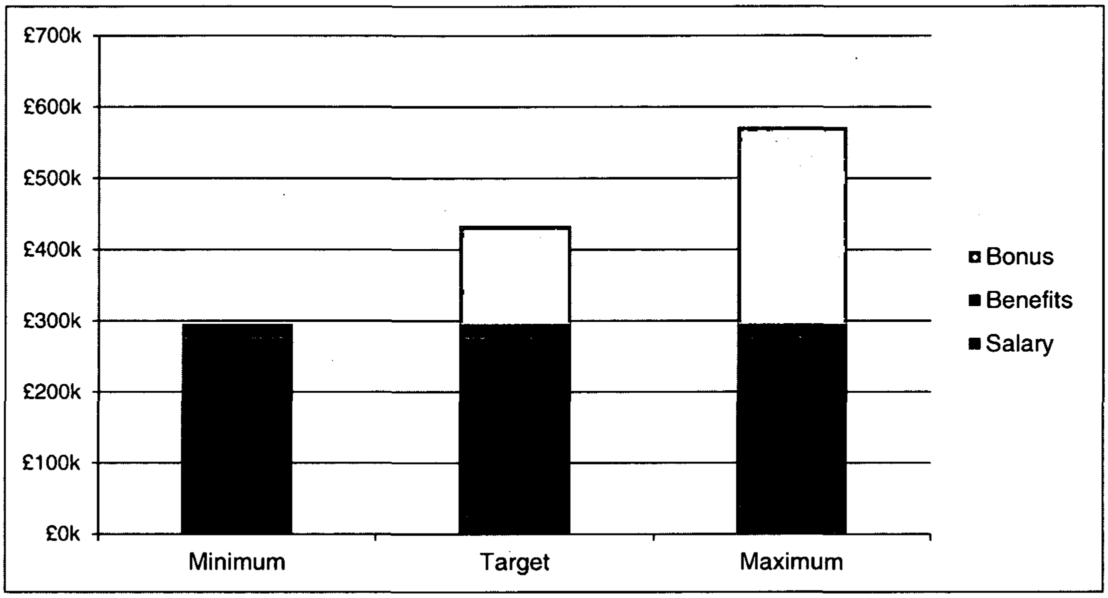
Only if the Committee judges that three quarters or more of the customer and environmental targets have been achieved, will Executive Directors be eligible for any bonus payment. The Committee would take account of any extenuating circumstances outside the control of the Company when determining the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

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

Target Bonus 2021-2022	**Colin Skellett CEO**	**Andy Pymer ED – F&R**	**John Thompson ED - ESD**	**Mohammed Saddiq ED- Ops**
Customer				
% of salary	15%	15%	15%	15%
Amount £	41,400	39,300	£35,250	£37,118
Environment and Assets				
% of salary	15%	15%	15%	15%
Amount £	41,400	39,300	£35,250	£37,118
Employees				
% of salary	10%	10%	10%	10%
Amount £	27,600	26,200	£23,500	£24,745
Individual				
% of salary	10%	10%	10%	10%
Amount £	27,600	26,200	£23,500	£24,745
Total				
% of salary	**50%**	**50%**	**50%**	**50%**
Amount £	**138,000**	**131,000**	**£117,500**	**£123,725**

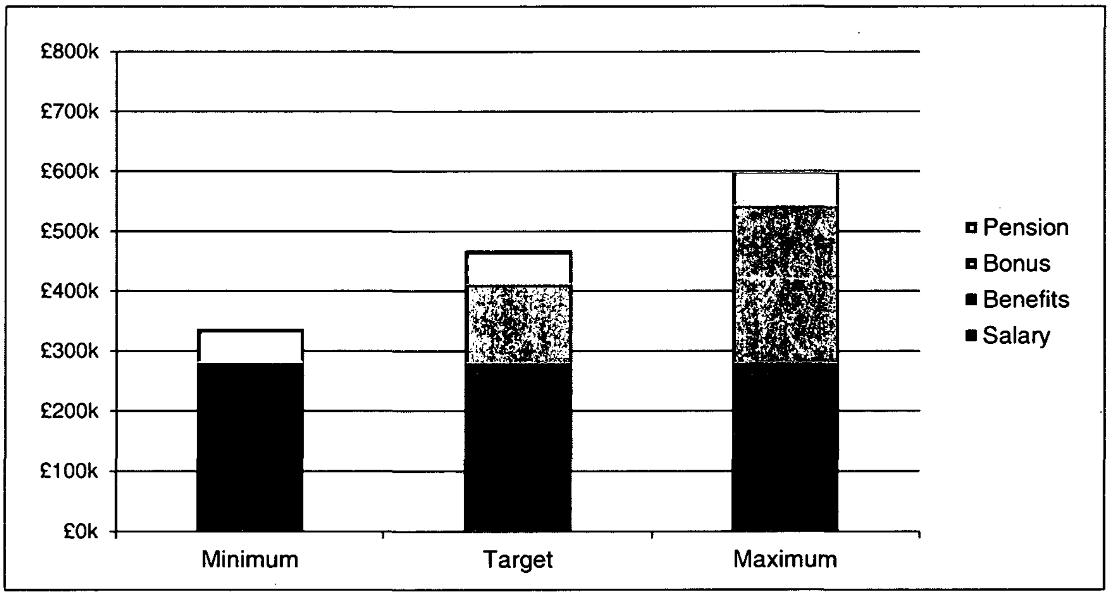
Illustrations of Remuneration Policy

A) Colin Skellett – Chief Executive
(using estimated 2021-2022 data)



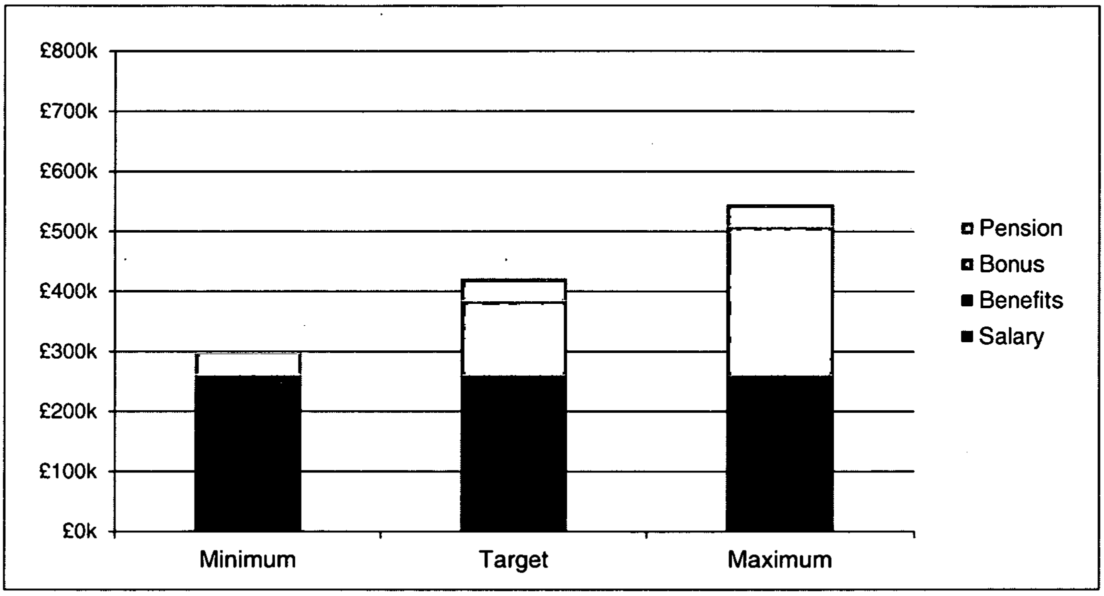
Minimum assumes no bonus earned, target assumes 50% bonus earned and maximum assumes 100% bonus earned. No employer pension contributions.

B) Andy Pymer – Executive Director, Finance & Regulation
(using estimated 2021-2022 data)



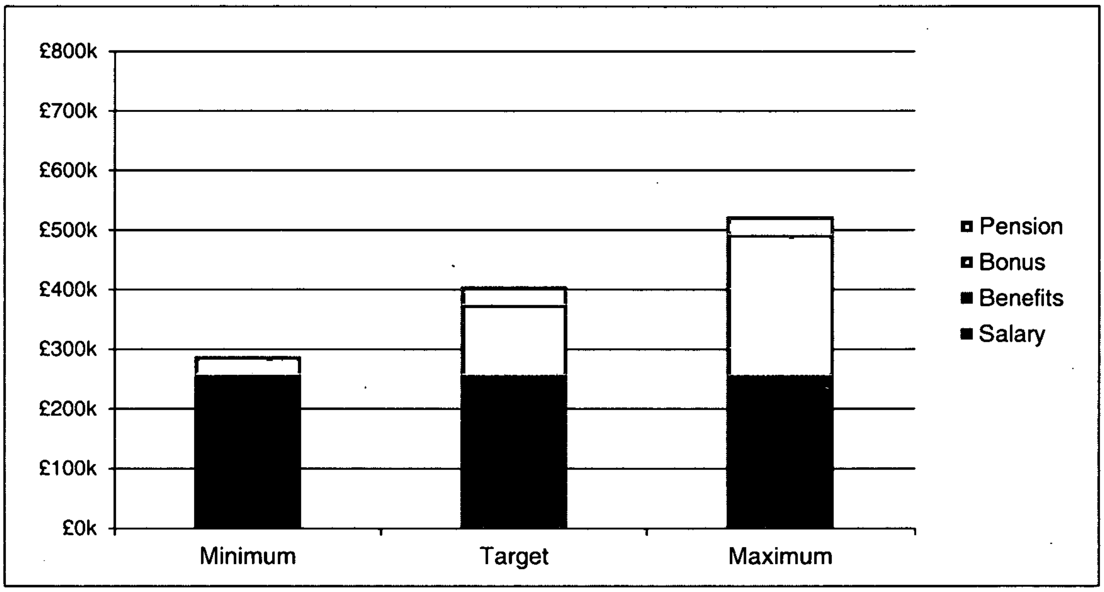
Minimum assumes no bonus earned, target assumes 50% bonus earned and maximum assumes 100% bonus earned.

C) Mohammed Saddiq - Executive Director, Operations
(using estimated 2021-2022 data)



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

D) John Thompson – Executive Director, Engineering & Sustainable Delivery
(using estimated 2021-2022 data)



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

Strategic Report

Introduction

The whole Wessex Water family was devastated by the tragic event at Avonmouth on 3 December 2020. We are committed to understanding why the incident happened and sharing any lessons with the wider industry.

At Wessex Water, we are proud of our record in delivering essential water and environmental services. The Board always takes decisions for the long term, and our objective is always to uphold the highest standards of conduct. Further, we understand that our business will only grow and prosper over the long term if we understand and respect the views and needs of our customers, colleagues and the communities in which we operate, as well as our regulator, suppliers and our shareholder.

We retain a strong sense of public service across our organisation, which is run by local employees who are customers themselves and members of the communities we serve.

We are pleased, therefore, that we have performed well against many of our targets, although we are conscious of the impact Covid-19 has had on our ability to meet a number of our regulatory performance commitments and are discussing the impact of those with Ofwat. The investment and performance that we have delivered in the past 12 months demonstrates that we take our responsibilities seriously. A smaller number of targets were also missed as a result of extreme weather. We recognise that these extremes are becoming more common and so are adapting our plans to deal with more volatility in the future.

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

Setting our aspirations

The Board plans on the basis of stewardship in perpetuity and promotes investment at a water catchment level to improve services to local communities in ways which are affordable and add public value.

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

These opportunities form the core of our strategic direction statement and our business plan (which are available on our website), reflecting our long-term commitment to build a sustainable future with the support of our customers, communities, employees, and stakeholders.

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

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

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

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

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

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

For 2020-2021, customer and environmental targets were set to:

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

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

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

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

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

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

Our performance in 2020-21

The Company has performed well against most of its performance targets and continues to be the overall leading water and sewerage service: first for customer service, first for environmental performance, first for efficiency and first or second for drinking water compliance. However, the year has been overshadowed by the tragic incident at Avonmouth.

We expect to be:

- one of the top water and sewerage companies for customer service in Ofwat's customer measure of experience,

- assessed as leading by the Environment Agency
- one of the leading water and sewerage companies for the DWI's key quality measure (CRI)

During the year we were also shown to be the water and sewerage company with the lowest number of complaints according to CCW.

Whilst we have 46 performance commitments, the Board considers the 20 highest profile targets on a more regular basis. The table below shows how the company performed against the board's key performance targets in 2020-21.

Performance against target	Customer	Environment	Employee	Financial
Better	2	1	2	3
Same	3	2	1	2
Worse	2	1	1	0
Same or Better	**5/7**	**3/4**	**3/4**	**5/5**

In the financial year under review, 16 of the 20 Company targets were achieved or bettered. The four measures where performance was below target were Compliance Risk Index (CRI), Customer property internal sewer flooding incidents, Wastewater pollution incidents (cat 1-3), and Health & Safety plan and accident statistics progress.

In 2020 we accepted a regulatory price determination from Ofwat (PR19) which included a number of performance commitments for 2020-21 as part of the regulator's incentive package. Our acceptance of a price determination is always in the round and recognises that there are trade-offs in the regulator's incentive framework.

We have met or exceeded 26 of our 46 PR19 regulatory targets for the year. Five are not measured this year or we await regulators' scoring. We failed to meet 15 targets, seven of which were directly as a result of Covid-19. We exceeded our target against those which are of most importance to stakeholders, such as minimising internal sewer flooding, leakage and water supply interruptions, for which we have achieved provisional incentive payments.

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

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

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

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

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

- *the likely consequence of any decision in the long term;*
- the interests of the company's employees;

- the need to foster the company's business relationships with suppliers, customers and others;
- the impact of the company's operations on the community and the environment;
- the desirability of the company maintaining a reputation for high standards of business conduct; and
- the need to act fairly as between members of the company.

Our Governance Report (Pages 2 to 20) outlines how the Board operates and describes how the Board has:

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

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

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

- Employees – The Board regards the company employees as critical to deliver the vision, values and outcomes needed to meet our wider stakeholder expectations. It has established a number of channels to allow employees to be heard whether to raise concerns, make improvement suggestions or simply to appreciate how we work with them. The People's Council is a forum attended by representatives across the whole business and allows any employee to raise agenda items for discussion through their representative. The Council is attended by Board Executive Directors and meets twice a year. In addition, the Company undertakes an annual anonymous employee survey, the actions and progress towards meeting them debated within the Board. The Company also has Employee roadshows, lunch and learn sessions and an 'Ask the CEO' on a regular basis to improve learning, appreciation of other departments and to share the messages from the Board. The Board specifically decided to not use the furlough scheme during the Covid-19 pandemic (see below).
- External Stakeholders – Our directors also have regard for our business relationships with our wider stakeholders; our social purpose, the impact of our operations on the environment and the communities we serve; as well as the need to act fairly to balance all stakeholder needs. Consideration of these factors and other relevant matters is embedded into all Board decision-making, strategy development and risk assessment throughout the year.

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

Stakeholder group	What matters to our stakeholders?	Who?	Company engagement	Board level engagement and Impact
Customers Our aim is to be a world-leading water and sewerage company and we can only do this through providing customers with excellent service and value for money.	Our customers want an excellent service from us delivered efficiently at excellent value. They want bills to be affordable, and have the peace of mind that they are supported in times of need. They want excellent drinking water quality and waste removed without pollution. They want us to provide our services into the long-term, ensuring we have resilience through sustainable and responsible investment.	Residential Non-residential Those more vulnerable or facing difficult circumstances Minority/Under-represented groups Developers Retailers and bulk supply customers Future customers and generations, including children and students	Customer Challenge Group Customer feedback surveys Customer contacts Market research Feedback routes through customer magazine Website, including livechat Developer consultations Young People's Panel Working with schools and students Money Matters Projects NHS Key Worker Subsidy	Every Customer Matters Strategy Performance metrics Operational Resilience Young People's Panel Catchment Panel Environment and Public Value Committee and our Social Purpose **Feedback from our customers and their representatives informs our strategy, values, priorities *including (but not limited to)* our business planning priorities, charges, and pricing strategy.**
Customer representatives We value the opinions of all our customers and their representatives.	Our customer representatives want to ensure that we value all customers and engage fully with them to understand their requirements, needs and concerns. Our customer representatives want to provide unrestricted challenge to us for the betterment of all customers.	Organisations representing customers in general such as Citizens Advice, Consumer Council for Water (CCW) or particular representatives such as Bristol Age UK.	Customer Challenge Group Tailored Assistance Programme Online partner hub and roadshows CCW public meetings	Customer Challenge Group CCW public meetings **Feedback from our customers and their representatives informs our strategy, values, priorities *including (but not limited to)* our business planning priorities, charges, and pricing strategy.**
Our people Our people are the embodiment of our culture and allow us to provide excellent service to our customers. Our people are also our customers.	Our people strive for excellence in their work and want to be developed to their full potential, working in a fully inclusive workplace, be given opportunities to shine and be rewarded fairly for the work they do. They want to be valued and their health and wellbeing kept safe from harm.	Current employees and their families Retired employees and their families, Pension scheme members and trustee board Future employees Unions	People's council Employee survey 'Ask the CEO' Employee roadshows Lunch and Learn talks Apprenticeship Provision	People's council Ask the 'CEO' Pension Trustee Board Employee committee Health, safety and welfare committee **We listen and act on our employees' opinions to provide our people with satisfying careers.**
Our supply chain Excellent relationships with our suppliers are key to delivering excellent services to our customer and nurturing business and innovation within our communities.	Our suppliers want us to provide them with fair, open and competitive opportunities regardless of their size, so that both ourselves and they can grow and excel. Our suppliers want fair payment terms and assistance during times of economic hardship, so that they can support us in delivering critical services to our customers.	External suppliers Other group companies	Wessex Water marketplace Membership of British Water Pipeline Industries Guild CBI	Wessex Water marketplace Extension of liquidity to suppliers during Covid-19 **Our suppliers have provided us with innovative and new ways of working to deliver more services for less. We listen and nurture our supply base ensuring that they have been supported during Covid-19.**
Our investors Our investors provide the	Our investors want to support a company that provides reputational and financial benefits to them. They want	Banks and financial institutions Bond holders	Ratings agencies Annual Report	Ratings agencies Annual Report

Stakeholder group	What matters to our stakeholders?	Who?	Company engagement	Board level engagement and Impact
financial support to enable us to deliver our strategy and live our values.	long-term performance that is supported by sound strategy, planning, governance, risk management and sustainability.	Shareholder		Dividends **Our investors provide our financial resilience**
Government and Regulators Our Regulators provide the oversight to allow us to contribute to the UK as a nation, to support our environment, our public health standards and our economic infrastructure.	Our regulators and government want the best outcomes for our customers, the environment and resilience. They want us and the water industry to be responsible, trustworthy and transparent in all our activities.	Government departments MPs Local councillors Ofwat Environment Agency Natural England DWI Health & Safety Executive Pensions regulator Market Operator Services Ltd (MOSL)	Performance and risk reporting Strategic Policy Statement Price review methodology Charging Annual Review, Annual Performance Report and interim accounts Health liaison panel	Board meetings and Committees Pre-appointment interviews Business planning and target setting Health and Safety strategy Environment and Public Value Committee **Our regulators inform our strategy, our business plans, our processes. They provide valuable input into everything we do.**
Environmental NGOs We take our role as a custodian of our local environment seriously and with that the opinions of our environmental colleagues.	Our environmental colleagues want us to value, protect, preserve and enhance our local environment, and contribute to wider environmental improvement.	Wildlife interests Bathing water and river amenity interests Catchment and Land Management Waste minimisation	Catchment Panel Wessex Water Foundation Liaison groups	Environment and Public Value Committee **We embed the opinions of our environmental colleagues into our aspirational direction and priorities.**

The following examples provide insight into some of the Committee Board discussions and principal decisions taken during the reporting year. This includes how stakeholder interests are considered, where conflicting stakeholder requirements have been debated and how the Board and its decisions have added long-term value to the company. The Board's principal decisions are central to the formation and delivery of our strategy and are those critical to our long-term performance and success. Details of the Board Committees, including membership, number of meetings, and attendance are set out in the Committee reports on pages 21 to 46. An outline of the Board members' skills and experience is outlined on page 12. In any decision we consider the needs and requirements of all of our stakeholder groups, cognisant that we may not be able to meet everyone's requirements as positively as we would like and take careful consideration of competing priorities. The Company Secretary minutes all Board meetings and decisions made.

Principal decision 1 – Avonmouth Sub-committee

The company was devastated to have experienced the tragic loss of colleagues during the year. The Board is committed to understanding why the incident happened and sharing any lessons with the wider industry.

The Board decided to create a dedicated committee, led by the Senior Independent Non-Executive Director, Jim McKenna, to oversee the investigations into the incident and keep the Board appraised of progress.

Principal decision 2 – Fully moving to Wates' governance principles

During 2020-2021 the company applied the spirit and principles of Ofwat's Better Leadership, Transparency and Governance (BLTG) principles supplemented with the FRC's UK Corporate Governance Code. This was done in due regard to the Wates Corporate Governance Principles, applying elements of both the FRC's Code and Wates as was most appropriate. During the year the Board undertook detailed discussions on the suitability, value and impact of both governance frameworks on the company. Particular consideration was given to the impact on our regulators, our customers, our employees, and those interest groups who read our annual report. The Board assessed the impact of both governance frameworks on our ongoing adherence to Ofwat's Better Leadership, Transparency and Governance (BTLG) framework (that all water and sewerage companies must adhere to) and the detail of our annual governance reporting. The Board's assessment was that our corporate governance would be best met by applying the Wates' principles alongside our principle framework of BLTG. The Board assessed that its commitment to first-class governance and in particular social purpose was better met by Wates principles and that this did not detract from any other aspect of the company's governance.

Principal decision 3 – The Environment and Public Value Committee

The Board created a new sub-committee (Environment and Public Value) to provide advice to the Board on its wider societal and environmental purpose. Aligning this to the company culture in such a way that our environment and social purpose meets the needs of the communities we serve as well as providing a focus on emergent business issues and opportunities. The company has always had a strong focus on corporate social responsibility but the new committee provided a refresh towards a wider social purpose and horizon scanning.

The Board took this direction after listening to all of our stakeholders, but in particular those of our community groups, special interest groups, environmental groups, and to address wider societal demands. The new committee will allow the Board to focus on emergent issues and improve its resilience and flexibility in meeting its commitments to our nature and water environments.

Principal decision 4 – Covid-19 furlough arrangements and supplier credit extension

The Board, with support from the shareholder, chose to ensure the financial security of all its employees and its suppliers during the Covid 19 pandemic.

The company chose to uphold its values by ensuring that it supported its employees fully, with some employees diverted into other roles. The Board saw this as providing essential economic support to the wider community by maintaining employment without subsidy, and thereby supporting the UK economy by ensuring furlough funds were directed to those companies with greater need. This approach supported the critical infrastructure status afforded to water and sewerage companies by the UK government.

The Board also decided that its supply base should be supported against financial uncertainty in the support it provided to our company, from the work it carried out with us. We worked with our suppliers to identify any that needed additional financial support with payment terms, and the company chose to maintain or shorten payment terms during the pandemic rather than lengthen.

This decision was known to have had a financial effect on the company, with a potential impact on our customer and our shareholder. However, the customer impact was deemed low as this allowed us to maintain customer service levels during this period, as demonstrated by our excellent C-Mex scores, and as a critical industry we would need to continue to provide the infrastructure and services. The financial impact on our shareholder was assessed as higher but our shareholder's values and ethical principles allowed the company to provide this additional support.

Financial performance

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

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

Gearing, as measured by net debt to regulatory capital value (RCV), stands at 70%. On a pensions-adjusted basis, this figure rises to 73%, 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 investment grade credit ratings for the company at all times.

The latest actuarial valuation of the company's pension scheme took place on 30 September 2019, showing a deficit of £157m. The company has agreed with the scheme's trustees a payment recovery plan in respect of the deficit comprising employer contributions of 24.6% and special contributions to reduce the deficit. The company paid a special contribution of £13m on 31 July 2020 and is committed to the schedule of future contributions through to 1 April 2026.

The company has an adequate liquidity position comprising cash and cash equivalents held on the balance sheet along with undrawn bank facilities, giving the company instant access to funding if needed. In January 2021 the company issued a new £300m corporate bond at 1.25%.

Highlights include:

- operating profit decreased by £39.3m from £199.7m to £160.4m
- turnover reduced by £23.9m or 4.4% while underlying operating costs increased by £21.1m or 6.1%
- the cost of debt remained at 3.8%. We maintained a balanced mix of financial instruments
- capital expenditure on tangible and intangible assets (including infrastructure maintenance expensed through the income statement) delivered in the first year of AMP7 was £288.3m, an increase of £10.3m over £278.0m last year but in line with expectations
- profit before tax fell by £33.2m from £109.7m last year to £76.5m. This was primarily due to the reduction in revenues resulting from the PR19 price settlement
- gearing, as measured by net debt to regulatory capital value, has risen from 67.1% last year end to 70.0% this year end.

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

Tax strategy

Our attitude towards UK tax planning

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

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

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

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

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

The company approach towards dealings with HMRC

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

The strategic report was approved by the Board of Directors on 8 September 2021 and signed on its behalf by:

Colin Skellett

Director

Risk management

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

Risk management process

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

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

Operational risks act as a foundation for separate tactical risk registers which feed into the corporate risk register. The Risk Management Group maintains and reviews all business risks; the corporate risk register includes 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 risks based on a range of criteria including their financial, social, and environmental impacts. Risks above our tolerance levels will have additional measures to manage and mitigate the risk exposure.

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

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

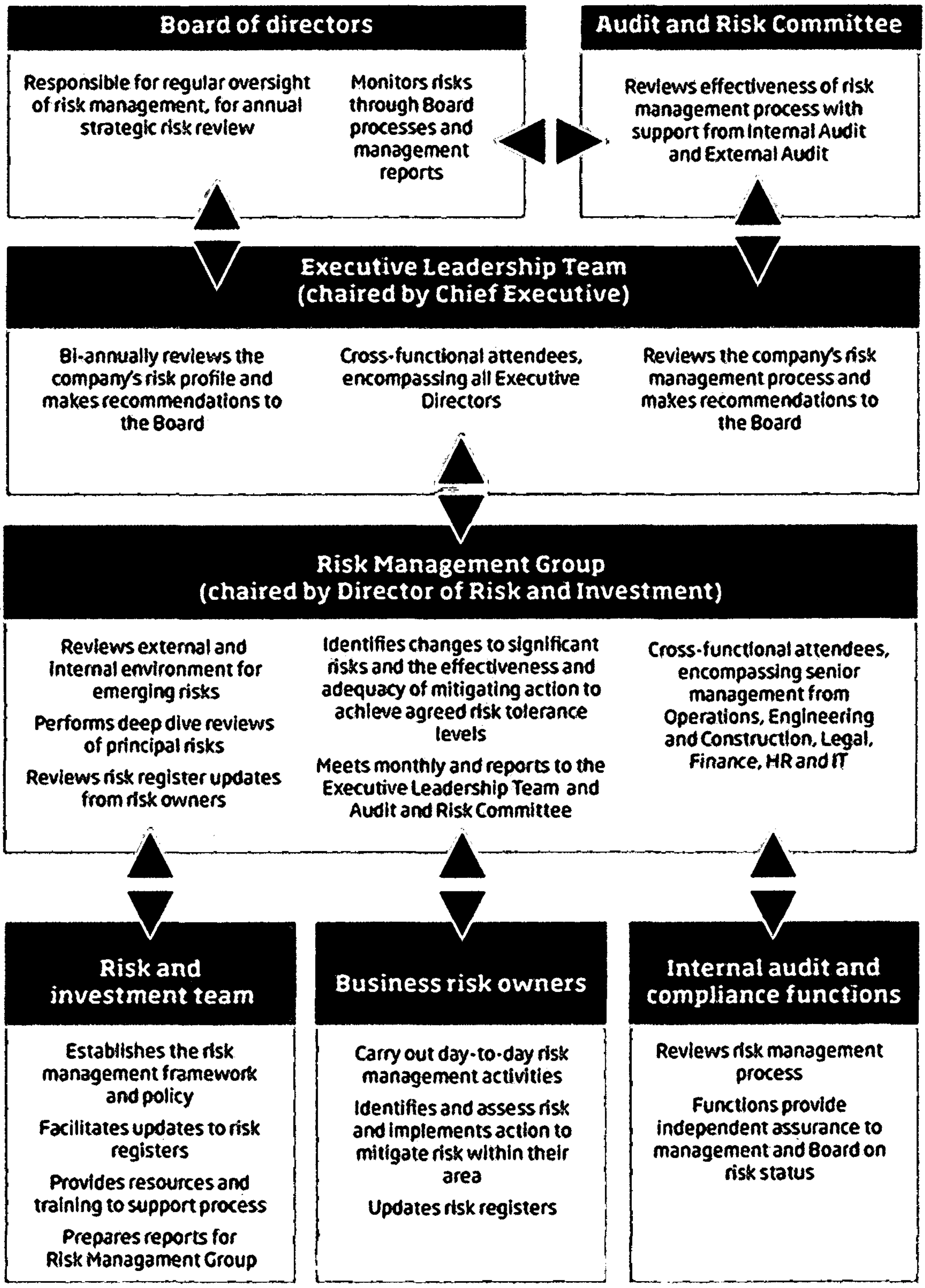
The CEO submits a bi-annual risk review paper to the Board for its review. This paper details the risk review process, identifies the current principal risks (listed below) to the business and the mitigation measures. It also records the status of emerging risks that have been identified as well as any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

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

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



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

- following the procurement of a governance, risk and compliance tool, the internal audit module has gone live and the operational and enterprise risk modules will go live over the coming months
- the Board have reviewed the risk appetite framework and agreed appetite and tolerance positions. The process was agreed at the Audit and Risk committee
- updated the definitions of our risk scores to reflect the priorities of the Board following the review of the risk appetite framework.

Further improvements are planned as part of the implementation of our risk and investment framework over 2021-2022.

Principal risks

While the corporate risk register holds 40-50 risks at any time, the principal risks are those that the Board consider could have a material impact on the capability of the business to perform its functions. All these risks are subject to active mitigation strategies and the Board considers that the Company is taking appropriate action to mitigate the severity and likelihood of those risks to an acceptable level.

Since 2019-2020, there has been one new principal risk, supply chain failure, particularly related to chemicals. Several events in the chemical supply chain have highlighted the fragility of some of the industry's suppliers. The government has also identified that the most significant single risk to public water supplies is a failure in the chemical supply chain. This is a market issue where we only have limited means of proactively mitigating any supply chain loss, although we are relatively well placed due to our procurement and contingency arrangements.

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
Health and safety	Failure of operational controls or an external hazard that affects the health and safety of employees, contractors or the public	**Stable**[1]
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	**Stable**
Anti-competitive behaviour	Ineffective internal controls resulting in anti-competitive behaviour	**Stable**[2]
Digital resilience	A malicious attack or failure of cyber security that results in the corruption or loss of data and/or inefficient operations	**Stable**
Supply of unfit water	External factors (eg, contamination of supply or customer pipes) or internal factors (eg, asset failure or poor operating performance) that results in the supply of unfit water affecting public health	**Stable**
Major pollution incident	External factors (eg, sewer misuse or asset failure caused by a third party) or internal eg, asset failure or poor operating performance) that results in a major pollution incident significantly affecting the natural environment	**Decreasing**
Insider threat	A disgruntled, vulnerable or radicalised employee or contractor causes malicious damage to operational activities and/or the company's reputation	**Decreasing**
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	**Increasing**[3]
Pandemic infection	Loss of resources (goods/services/people) and/or revenue inhibit our ability to operate	**Stable**
Ability to raise finance	We are unable to fund the business sufficiently in order to meet our liabilities as they fall due	**Stable**
Supply chain failure	The supply chain for chemicals in particular has become increasingly more fragile.	**New**

1. The board is committed to understanding why the tragic incident at Avonmouth happened and sharing any lessons with the wider industry.
2. Internal controls remain robust; however, we believe the regulator has signalled it is more likely to use its enforcement powers because it wants to do more to promote competitive markets
3. It is expected that it will be more challenging to achieve consistently high performance against the stretching new AMP7 performance commitments.

Health and safety

Description of the risk

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

Context

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

The company was devastated to have experienced the tragic loss of colleagues during the year. The Board is committed to understanding why the incident happened and sharing any lessons with the wider industry.

Mitigation and controls include

- Embedded framework and strategy coordinated through H&S Management Group reporting to Executive
- Implemented a cross-business health & safety management process
- Inclusion of H&S considerations in design standards
- Embedded behavioural safety programmes
- OHSAS 18001 certified for our engineering and construction activities
- Easy reporting of incidents, near misses and observation through our health and safety app
- Supporting our employees through resilience building, mental health and financial wellbeing initiatives
- Improved communication with employees on H&S issues
- Sharing of best practice and advice between Water UK members

Political/ regulatory action

Description of the risk

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

Context

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

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

Mitigation and controls include

- Consult with customers and stakeholders to understand their requirements
- Communicate value to customers and stakeholders of our operational performance and investment
- Embedded culture that embraces Ofwat's challenges to seek opportunities
- Engage in relevant government and regulatory consultations
- Keep abreast of changing or new legislation and regulatory requirements

Anti-competitive behaviour

Description of the risk

Ineffective internal controls resulting in anti-competitive behaviour.

Context

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

Mitigation and controls include

- Governance framework
- Whistleblowing policy
- Company-wide training
- External assurance of our policies and procedures

Digital resilience

Description of the risk

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

Context

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

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

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

The programme is due to continue to 2025.

Mitigation and controls include

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

Supply of unfit water

Description of the risk

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

Context

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

There are many risks that can affect our ability to deliver the right quantity and quality of water to our customers cost effectively. Raw water quality issues such as pesticides, nitrates, turbidity are increasing, the desire to remove borehole licences reduces the quantity of water.

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

Mitigation and controls include

- Mature drinking water safety planning approach that meets regulatory requirements
- Risk-based prioritisation process for the maintenance and replacement of our assets
- ISO 9001 (Quality management) certified
- Robust monitoring of our operations 24/7
- Rigorous sampling/testing programme
- Emergency planning and business continuity plans
- Water Smart training

Major pollution incident

Description of the risk

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

Context

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

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

Mitigation and controls include

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

Insider threat

Description of the risk

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

Context

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

Mitigation and controls include

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

Resources and skills

Description of the risk

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

Context

Our business is made up of more than 2,500 employees undertaking a wide range of roles with varying skills requirements. We have a predominance of positions requiring STEM (Science, Technology, Engineering and Maths) skills. There is a national shortage of STEM skills across the UK, particularly Engineering. The construction project at Hinkley C in Somerset has exacerbated the STEM skills shortage in our region and we anticipate this risk to increase as a result of the extent of our 2020-2025 investment programme.

Mitigation and controls include

- Apprenticeship and graduate programmes
- Improved attraction and retention of colleagues, ie, Increased flexible working
- Implementation of a new learner management system
- Succession planning for senior and key positions
- Continued commitment to training and development

Failure to meet performance commitments

Description of the risk

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

Context

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

One impact of Covid-19 is that alternative forms of delivery of service and greater use of digital communication with our customers is necessary. While the implementation of these changes has been successful, the regulatory framework has not yet recognised these alternative approaches.

Mitigation and controls include

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

Pandemic infection

Description of the risk

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

Context

We directly employ 2,500 people, obtain the goods or services from over 1,500 suppliers and receive £500m revenue from 2.4 million customers each year. This supports our ability to provide industry leading service to our customers and fulfil our regulatory requirements. Pandemic infection has a direct impact on our employees, supply chain and customers.

Mitigation and controls include

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

Ability to raise finance

Description of the risk

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

Context

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

Mitigation and controls include

- Maintain strong relationships with financial institutions and credit rating agencies
- Maintain and annually review borrowing policy
- Regular monitoring of position

Supply chain failure

Description of the risk

The supply chain for chemicals in particular has become increasingly more fragile.

Context

Several events in the chemical supply chain have highlighted the fragility of some of the industry's suppliers. The government has also identified that the most significant single risk to public water supplies is a failure in the chemical supply chain. This is a market issue where we only have a limited means of proactively mitigating any supply chain loss, although we are relatively well placed compared to other water companies. Our controls are particularly important, and we have reviewed our business continuity arrangements for loss of supply of chemicals and loss of critical supplies generally.

Mitigation and controls include

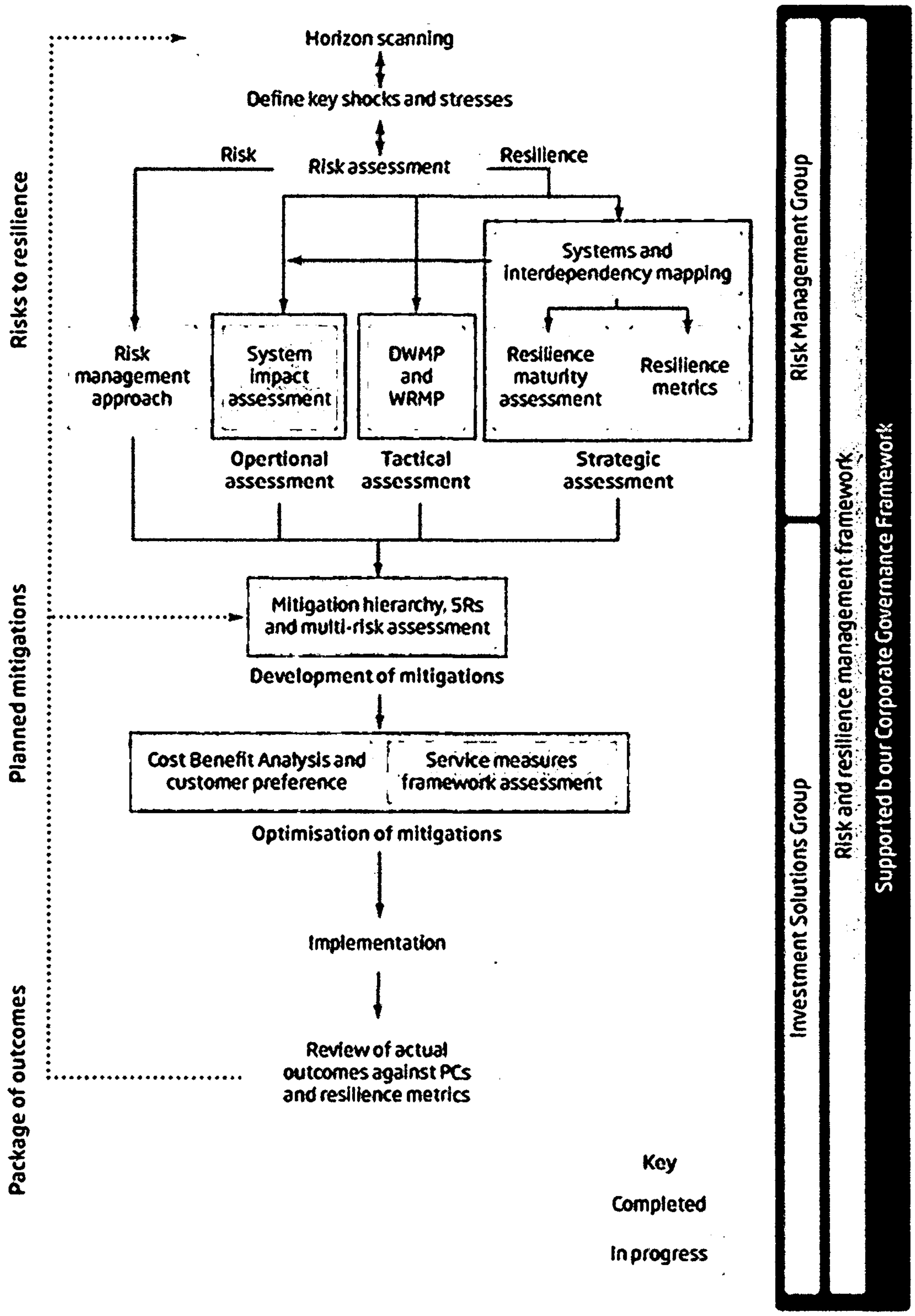
- Maintain strong relationships with the supply chain
- Minimise risk of failure through procurement of alternative arrangements and emergency call-off arrangements
- Detailed and tested contingency arrangements in place
- Regular monitoring of position and reporting to Risk Management Group

Resilience

As part of our submission of the Resilience Action Plan (RAP) we proposed to update, audit and publish the plan on an annual basis. We published the updated RAP in September 2020.

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

Our system-based risk and resilience framework (updated September 2020)



Resilience assessment

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

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

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

Customer behaviours/expectations - Changes in the way people live, causing a change in the resources used and expectations of services provision.

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

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

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

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

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

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

This process then derives specific risks against which we assess our current mitigation effectiveness. Where we have found material gaps that require further investment we then include these within our business plan. As well as growth/capacity investment on our PR19 plan we also proposed and funded specific works related to resilience improvements, both related to sites and our technology resilience.

Our principal metric is gross greenhouse gas emissions (carbon dioxide equivalent), which is one of our performance commitments for 2020-2025. We will consider changing this to net emissions for 2025-30 in line with our net zero target.

As part of our monitoring we keep track of energy use and renewable energy generation on a monthly basis.

Other performance commitments include aspects that can be influenced heavily by extreme weather events.

Long-term viability statement

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

Over 2018 and 2019 as part of the Company's business planning cycle the Board considered an operational business plan that included financial projections up to 2030.

The Directors have therefore determined that currently the period to 31 March 2030 is still an appropriate period over which to provide its Viability Statement, using our latest delivery plan up to 2025 and our projections submitted as part of the business planning process from 2025 to 2030.

Once robust operational plans post 2030 are developed through the PR24 process, the viability statement will incorporate these.

For the going concern period up to September 2022 the Directors have taken into account:

- the current financial position of the Company, its cash deposits and available funds
- the expected turnover up to September 2022 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 30 September 2022. The mix of borrowings is spread between fixed, floating and index linked, and that predictions of interest rate increases are moderate
- that there are sufficient finance facilities in place to fund our working capital requirements
- the potential range of impacts that may result from the ongoing Covid–19 pandemic.

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

- the principal risks as shown on page 59
- the shocks and stresses shown in the companies resilience action plan
- the liquidity of the Company over the year
- compliance with financial covenants in respect of gearing and interest cover.

Having done so, the Directors confirm that they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due up to 30 September 2022.

The Company's approach to the assessment and consideration of the full range of risks, including common external risks that affect the water sector as whole as well as specific Company risks is detailed in the previous section of this Annual report and accounts document (see pages 56 to 73).

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

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

The shocks and scenarios and levels of sensitivity considered within the financial viability assessment are reviewed and agreed by the Director of Risk and Investment, Director of Regulation and Financial Controller. Our full approach to risk identification, management and mitigation is described on pages 56 to 73 of this annual report and accounts. These are then presented to the Company's Audit and Risk Committee for review.

The shocks considered include 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.

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

In total the Company modelled 26 scenarios, the most severe of which consider multiple concurrent and linked risks as follows.

<table>
<tr><th>Scenario</th><th>Details and sensitivity testing</th></tr>
<tr><td>Waste water incident</td><td rowspan="2">This might include a major pollution incident or the widespread distribution of unfit water, either driven by catastrophic asset failure, extreme weather events or malicious damage. The base scenarios include the capital costs of rectification and then increases severity by progressively including risks of fines, penalties from regulatory delivery incentives, customer compensation payments and at the most extreme the withholding of customer bill payments.</td></tr>
<tr><td>Water supply incident</td></tr>
<tr><td>Simultaneous water and waste water incidents</td><td>As above but assumes incidents occur concurrently.</td></tr>
</table>

Macroeconomy	This scenario assumes a sustained economic downturn in the UK that increases company input prices and reduces productivity resulting in sustained overspends of regulatory cost allowances while depressing indices of consumer prices and reducing company sales. An accompanying credit squeeze means that the costs of new finance increase.
Combined operational and macroeconomic shock	Assumes operational failure coincides with higher input costs resulting in consistent overspends against regulatory allowances. Alongside this depressed consumer price indices reduce sales and regulatory value. Sensitivity testing increases the severity by assuming demand and sales volumes also decrease and the company suffers higher interest costs through a credit rating downgrade.
New unfunded obligations	This scenario assumes that government or regulators impose new obligations on the Company that create additional costs and diverts management focus leading to operational failure. These are modelled individually and then alongside operational or macroeconomic shocks to fully test the resilience of the company.
Extreme weather event	Extreme weather event (either a 'beast form the east' or a prolonged dry period) causes overspend on opex and asset failures resulting in ODI penalties.
Climate change	Ongoing climate change causes more uncertain weather, dryer summers and wetted winters lead to additional operational and maintenance costs. This was modelled individually and alongside operational and macroeconomic shocks to fully test the resilience of the company.
Extreme Covid-19 impact	Covid-19 impact on the non-household market continues throughout most of this financial year with a severe longer-term impact on the economy.

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. These include reducing any non-essential expenditure and not paying dividends. In this regard the Directors have noted the Company's flexible dividend policy and performance related executive pay and bonus arrangements.

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

The final determination significantly reduces the headroom available. The Directors noted that under these assumptions several scenarios would breach the financial covenants in our bank facilities.

The first line of mitigation given this position is to restrict expenditure. We have reflected our current view on possible efficiencies against the final determination and which specific expenditure has limited short to medium-term benefits. However, if this restriction on expenditure is required over the longer term this will place more stress on the business and reduce its long-term resilience. This, combined with the mitigations referred to above, are sufficient to resolve all the covenant breaches.

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

In a small number of instances, not all metrics are held above a level that is required to maintain an investment grade rating. In these instances the Directors considered the circumstances of the modelled scenarios more deeply. In all cases these breaches are short-lived, relating to specific shocks and recover promptly to appropriate levels. The Directors considered that in these cases the impact would not affect the underlying viability of the Company.

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

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

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

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

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 2021.

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

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

Principal activities

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

Going concern

The Directors have considered the financial position of the Company and have concluded that they will be able to meet their liabilities as they fall due. For these purposes this is taken to mean a period of 12 months from the date of approval of these accounts. In coming to this conclusion, the directors have evaluated the impact of Covid-19 on revenues and debt collectability and reviewed the financing requirements of the company for the 12-month period from the date of the approval of these accounts. During the year the Directors addressed future financing requirements by issuing a £300m 1.25% bond which will be used to repay the £300m 4% bond due in September 2021. This is in addition to reviewing the existing unused credit facilities of £225m.

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

Environment, social purpose and governance

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

Ethical policy

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

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

Our people

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

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

Employment

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

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

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

Streamlined energy and carbon reporting

Global GHG emissions and energy use data for year to 30th June 2021

	2020-21		2019-20		unit
Energy consumption used to calculate emissions	UK & offshore	Global (excl. UK & offshore)	UK & offshore	Global (excl. UK & offshore)	kWh
	350,022,985	-	361,396,721	-	
Emissions from activities for which the company is responsible including combustion of fuel & operation of facilities (Scope 1)	53,079		49,909		t CO_2e
Emissions from purchase of electricity, heat, steam and cooling purchased for own use (Scope 2)	52,067		59,368		t CO_2e
Total gross Scope 1 & Scope 2 emissions	105,146		109,277		t CO_2e
Emissions outside of operational control (Scope 3)	6,861		9,932		t CO_2e
Gross emissions	**112,008**		**119,209**		t CO_2e
Exported renewable energy	(1,562)		(1,743)		t CO_2e
Total annual net emissions	**110,446**		**117,466**		**t CO_2e**

	2020-21	2019-20	Calculation
Intensity metric 1	167	185	kg t CO2e / Ml water treated
Intensity metric 2	195	142	kg t CO2e / Ml sewage treated (flow to full treatment)
Intensity metric 3	427	312	kg t CO2e / Ml sewage treated (water distribution input

Methodology

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

The data presented follows the annual reporting period April-March to align with Wessex Water's regulatory reporting year. However, emissions reported here differ from those used to calculate our Ofwat performance commitment value; the latter is calculated using the 2018-2019 edition of the Carbon Accounting Workbook, and BEIS' 2017 forecast for grid electricity carbon intensity for 2020-2021.

Energy efficiency measures

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

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

The Modern Slavery Act 2015

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

Environment policy

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

Research and development

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

Market value of land and buildings

In the opinion of the Directors, the market value of land and buildings of the Company exceeds the book value of these assets at 30 June 2021.

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 2021 trade creditors represented approximately 24 days trade purchases (2020 – 20 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 £737,739 was donated to UK charities (2020 – £967,751) of which £225,306 (2020 – £215,404) 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

Colin Skellett

Director

8 September 2021

Statement of Directors' responsibilities

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Company's financial statements in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006.

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

In preparing these financial statements the Directors are required to:

- select suitable accounting policies in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance;
- in respect of the company's financial statements, state whether International Accounting Standards in conformity with the requirements of the Companies Act 2006 have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is appropriate to presume that the Company will not continue in business.

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

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

Directors' responsibility statement

The Directors confirm, to the best of their knowledge:

- that the financial statements, prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 give a true and fair view of the assets, liabilities, financial position and profit for the Company; and
- that the annual report, including the strategic report, includes a fair review of the development and performance of the business and the position of the Company together with a description of the principal risks and uncertainties that they face; and
- that they consider the annual report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position, performance, business model and strategy.

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

Opinion

We have audited the financial statements of Wessex Water Services Limited ('the Company') for the year ended 30 June 2021 which comprise the Income Statement, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement and the related notes 1 to 33, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006.

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 30 June 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

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

Conclusions relating to going concern

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

- We gained an understanding of the process undertaken by management to perform the going concern assessment, including their assessment of risks and evaluation of the ongoing impact of COVID-19 on the Company, including discussion with management to ensure all key factors were taken into account.
- We obtained management's forecast cash flows and covenant calculations covering the period from the date of signing to 30 September 2022 and we agreed these to the Board and regulatory approved budgets and forecasts.
- We tested the mathematical accuracy of the cash flows, as well as the calculation of the forecast covenants.
- We considered the Company's access to available sources of liquidity and agreed available facilities to underlying agreements and the extent of drawings thereunder to external confirmations.
- We performed the forecast covenant testing and considered any indicators of breach.
- We challenged management in respect of the assumptions used in the going concern assessment and reverse stress test reflecting their principal risks and uncertainties, including the risk of a further lockdown later in FY21 and the impact this would have on

liquidity, on compliance with financial covenants, and whether the scenarios have no more than a remote possibility of occurring.

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

Our key observations

- We have observed that the Company is experiencing a minimal level of disruption from the impact of the pandemic from both a revenue and profitability perspective.
- In January 2021, the Company received £300 million from the bonds issued by the company's subsidiary, amounting to circa £310 million. The bond issuance provides the Company with sufficient funds to repay the subsidiary's bond, guaranteed by the Company which is due on September 2021 of circa £300 million.
- The Company has £225 million of revolving bank facility available throughout the going concern period, and under management's base case scenario, there is significant liquidity headroom greater than £100 million throughout the period.

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

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

Other information

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

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 82, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are
    - International Accounting Standards
    - Tax legislation (Governed by HM Revenue and Customs)
    - General Data Protection Regulation
    - The UK Bribery Act
    - Anti-Money Laundering Legislation
    - Health & Safety Legislation
    - Wates Principles
    - Ofwat regulations
    - The Water Act 2003
    - Environment Act 1995

- We understood how Wessex Water Services Limited is complying with those frameworks by making enquiries of management and those charged with governance, to understand how the company maintains and communicates its policies and procedures in these areas. We evaluated the entity level control environment through discussions with management and company in-house legal counsel, inspections and observations in the control environment to understand procedures implemented by management to reduce the opportunities for fraudulent transactions. We performed procedures, including reading minutes of the board meetings and making enquiries with the management for any correspondence of non-compliance with the tax authorities, and noted no significant issues. We performed journal entry testing to ensure that there are no unusual legal or penalty expenses incurred during the year and to ensure that the management is in compliance with the applicable framework.
- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur by inquiring with management and those charged with governance and performing a walkthrough of all significant process, including financial statement closing process. We understood the programmes and controls that the company has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those programmes and controls. We determined revenue recognition to be a fraud risk due to management override of controls, therefore we tested manual journal entries posted to revenue, focusing on journals around the year end, and also performed year end cut off procedures. Further, we performed overall analytical procedures to assess the fairness of the overall financial performance and the position as at and for the year ended. In relation to management override we used data analytics to sample from the entire population of journals, identifying specific transactions which did not meet our expectations based on specific criteria, to investigate to gain an understanding and agree to source documentation.
- Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures involved making enquiries of key management, those charged with governance and legal counsel, reading key policies, inspecting legal registers and correspondence with regulators and reading key management meeting minutes.
- The Company operates in the water sector which is highly regulated. As such the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of an expert where appropriate.

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

Use of our report

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

Paul Mapleston

Paul Mapleston (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

Bristol

8 September 2021

Financial Statements

Income Statement

For the year ended 30 June 2021

	Note	2021 £m	2020 £m
Revenue	*3,4*	**516.9**	540.8
Charge for bad and doubtful debts		**(13.0)**	(19.2)
Other operating costs		**(352.7)**	(325.4)
Total operating costs	*5*	**(365.7)**	(344.6)
Other income		**9.2**	3.5
Operating profit	*3*	**160.4**	199.7
Financial income	*8*	**0.4**	0.5
Financial expenses	*8*	**(84.3)**	(90.5)
Net financing expense		**(83.9)**	(90.0)
Profit before tax		**76.5**	109.7
Taxation	*9*	**(111.0)**	(52.1)
(Loss)/profit for the year		**(34.5)**	57.6

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 2021

	Note	**2021 £m**	2020 £m
(Loss)/Profit for the year		**(34.5)**	57.6
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Remeasurements of defined benefit liability	*20*	**80.5**	(43.3)
Income tax on items that will not be reclassified to profit or loss	*9*	**(54.0)**	(4.2)
Other comprehensive income/(loss) for the year, net of income tax		**26.5**	(47.5)
Total comprehensive (loss)/income for the year		**(8.0)**	10.1

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

Statement of Financial Position
At 30 June 2021

	Note	2021 £m	2020 £m
Non-current assets			
Property, plant and equipment	*11*	**3,926.0**	3,789.1
Intangible assets	*13*	**53.6**	58.4
Investments in subsidiaries	*14*	**-**	-
		3,979.6	3,847.5
Current assets			
Inventories	*15*	**4.1**	4.1
Trade and other receivables	*16*	**190.7**	187.4
Corporation tax receivable	*16*	**6.9**	2.6
Other financial assets	*17*	**-**	98.0
Cash and cash equivalents	*17*	**328.3**	32.3
		530.0	324.4
Total assets		**4,509.6**	4,171.9
Current liabilities			
Other interest-bearing loans and borrowings	*18*	**(391.0)**	(8.4)
Trade and other payables	*19*	**(183.3)**	(159.0)
Provisions	*22*	**(0.1)**	(0.2)
		(574.4)	(167.6)
Non-current liabilities			
Other interest-bearing loans and borrowings	*18*	**(2,286.1)**	(2,366.1)
Contract liabilities	*19*	**(5.5)**	(6.2)
Employee benefits	*20*	**(76.1)**	(165.1)
Deferred grants and contributions	*21*	**(299.9)**	(293.1)
Deferred tax liabilities	*23*	**(564.5)**	(403.7)
		(3,232.1)	(3,234.2)
Total liabilities		**(3,806.5)**	(3,401.8)
Net assets	*3*	**703.1**	770.1
Equity			
Share capital	*24*	**-**	-
Retained earnings		**703.1**	770.1
Total equity		**703.1**	770.1

The notes on pages 93 to 138 form an integral part of these financial statements.
These financial statements were approved by the Board of Directors on 8 September 2021 and were signed on its behalf by:

Colin Skellett, Director

Statement of Changes in Equity
For the year ended 30 June 2021

	Note	Share capital £m	Retained earnings £m	Total equity £m
Balance at 1 July 2019		-	838.5	838.5
Total comprehensive income for the year				
Profit for the year		-	57.6	57.6
Other comprehensive income		-	(47.5)	(47.5)
Total comprehensive income for the year		-	10.1	10.1
Transactions with owners, recorded directly in equity				
Dividends	*10*	-	(78.5)	(78.5)
Total contributions by and distributions to owners		-	(78.5)	(78.5)
Balance at 30 June 2020		-	770.1	770.1
Balance at 1 July 2020		-	770.1	770.1
Total comprehensive income for the year				
(Loss) for the year		-	(34.5)	(34.5)
Other comprehensive income		-	26.5	26.5
Total comprehensive (loss) for the year		-	(8.0)	(8.0)
Transactions with owners, recorded directly in equity				
Dividends	*10*	-	(59.0)	(59.0)
Total contributions by and distributions to owners		-	(59.0)	(59.0)
Balance at 30 June 2021		**-**	**703.1**	**703.1**

Included in retained earnings are £528.1m of undistributable reserves (2020 - £533.3m) created on first time adoption of IFRS when restating infrastructure assets to fair value.

Statement of Cash Flows
For the year ended 30 June 2021

	Note	2021 £m	2020 £m
Cash flows from operating activities			
(Loss)/Profit for the year		**(34.5)**	57.6
Adjustments for:			
Depreciation and amortisation		**121.2**	114.6
Financial income	*8*	**(0.4)**	(0.5)
Financial expense	*8*	**84.3**	90.5
Taxation	*9*	**111.0**	52.1
		281.6	314.3
(Increase)/decrease in trade and other receivables		**(6.8)**	12.5
(Increase) in inventories		**-**	(0.7)
Increase/(decrease) in trade and other payables		**22.8**	(16.7)
(Decrease) in provisions and employee benefits		**(10.9)**	(13.1)
		5.1	(18.0)
Tax paid		**(7.9)**	(26.5)
Net cash from operating activities		**278.8**	269.8
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**10.1**	2.2
Interest received		**0.4**	0.5
Acquisition of property, plant and equipment		**(255.9)**	(212.1)
Proceeds from infrastructure charges and capital contributions		**9.1**	6.7
Purchase of financial instruments	*17*	**-**	(98.0)
Sale of financial instruments	*17*	**98.0**	-
Acquisition of other intangible assets		**(5.1)**	(29.0)
Net cash used in investing activities		**(143.4)**	(329.7)
Cash flows from financing activities			
Proceeds from new loan		**294.7**	306.9
Interest paid		**(67.9)**	(63.9)
Repayment of borrowings		**(8.0)**	(60.0)
Payment of lease liabilities		**(0.7)**	(0.7)
Dividends paid		**(57.5)**	(88.0)
Net cash from financing activities		**160.6**	94.3
Increase in cash and cash equivalents		**296.0**	34.4
Cash and cash equivalents at 1 July		**32.3**	(2.1)
Cash and cash equivalents at 30 June	*17*	**328.3**	32.3

Notes to the financial statements

1. Accounting policies

1.1 Basis of preparation

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

The Company financial statements have been prepared and approved by the Directors in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006.

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

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

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

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

1.2 Measurement convention

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

1.3 Going concern

The Directors have considered the financial position of the Company and have concluded that they will be able to meet their liabilities as they fall due. For these purposes this is taken to mean a period of 12 months from the date of approval of these accounts. In coming to this conclusion, the directors have evaluated the impact of Covid-19 on revenues and debt collectability and reviewed the financing requirements of the company for the 12-month period from the date of the approval of these accounts. During the year the Directors addressed future financing requirements by issuing a £300m 1.25% bond which will be used to repay the £300m 4% bond due in September 2021. This is in addition to reviewing the existing unused credit facilities of £225m.

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

1. Accounting policies *(continued)*

1.4 Foreign currency

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

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

1.5 Financial instruments

Cash and cash equivalents

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

Financial assets

Initial recognition and measurement

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

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

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

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

Subsequent measurement

Financial assets at amortised cost (debt instruments)

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

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

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

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

1. Accounting policies *(continued)*

1.5 Financial instruments (continued)

Derecognition

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

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

Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement - Loans and borrowings

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

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

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

Derecognition

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

1. Accounting policies *(continued)*

1.6 Property, plant and equipment

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

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

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

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

Under IFRS 15 sewers adopted at nil cost to the Company are included in 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 3 to 10 years

Infrastructure assets comprise these eight components:

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

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

1.7 Intangible assets

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

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

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

1.8 Inventories

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

1. Accounting policies *(continued)*

1.9 Impairment excluding inventories and deferred tax assets

Financial assets (including receivables)

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

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

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

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

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

Non-financial assets

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

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

1. Accounting policies *(continued)*

1.10 Employee benefits

Defined benefit plans

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

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

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

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

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

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

Defined contribution plans

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

Short-term benefits

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

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 income statement and an inter-company liability.

1. Accounting policies *(continued)*

1.11 Provisions

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

1.12 Deferred grants and contributions

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

Grants and contributions relating to infrastructure assets are amortised over 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.

1.13 Revenue

<u>Supply of water and sewerage services</u>

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

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

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

Variable consideration

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

1. Accounting policies *(continued)*

1.13 Revenue (continued)

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).

Financing component

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

Other Revenue

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

1.14 Expenses

Operating lease payments

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

IFRS16 lease payments

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

1. Accounting policies *(continued)*

1.14 Expenses (continued)

Financing income and expenses

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

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

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

1.15 Taxation

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

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

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

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

1.16 Dividends

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

1.17 Contract balances

Contract assets

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

1.18 Leases

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

Company as a lessee

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

i) Right-of-use assets

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

- land and property 10 to 80 years
- plant and machinery 3 to 30 years
- motor vehicles and other equipment 3 to 10 years

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

ii) Lease liabilities

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

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

The Company's lease liabilities are included in Interest-bearing loans and borrowings (see Note 18).

1. Accounting policies *(continued)*

1.18 Leases (continued)

iii) Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases that are low value. Lease payments on short-term leases and leases of low value assets are recognised as expense on a straight-line basis over the lease term.

Company as a lessor

Leases in which the Company does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

1.19 Adopted IFRS not yet applied

There are no adopted IFRS not yet applied in these financial statements

2. Changes in accounting policies and disclosures

There were no changes in accounting policies or disclosures during the year.

3. Segmental information

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

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

	2021	2020
	£m	£m
Turnover		
Regulated	**504.2**	528.7
Unregulated	**12.7**	12.1
	516.9	540.8
Operating profit		
Regulated	**160.4**	199.7
Unregulated	**-**	-
	160.4	199.7
Net assets		
Regulated	**703.1**	770.1
Unregulated	**-**	-
	703.1	770.1

For management purposes, the Company is organised into units based on the business environment it operates in and has two reportable segments, Regulated and Unregulated.

The board monitors the operating results of business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on a combination of turnover, operating profit and net asset value and is measured consistently with the consolidated financial statements.

4. Revenue from contracts with customers

Current year	**House-hold £m**	**Non-house-hold £m**	**Total £m**
Wholesale revenue - Water Supply			
Unmeasured	**47.6**	**1.5**	**49.1**
Measured	**78.3**	**39.1**	**117.4**
	125.9	**40.6**	**166.5**
Wholesale revenue - Waste Water			
Unmeasured	**96.0**	**1.9**	**97.9**
Measured	**152.5**	**41.2**	**193.7**
	248.5	**43.1**	**291.6**
Retail revenue			
Unmeasured	**10.1**	**-**	**10.1**
Measured	**25.9**	**-**	**25.9**
	36.0	**-**	**36.0**
Other revenue			
Regulated			**10.1**
Unregulated			**12.7**
Total revenue			**516.9**

Prior Year	House-hold £m	Non-house-hold £m	Total £m
Wholesale revenue - Water Supply			
Unmeasured	50.0	1.5	51.5
Measured	73.5	47.9	121.4
	123.5	49.4	172.9
Wholesale revenue - Waste Water			
Unmeasured	103.1	1.9	105.0
Measured	145.1	59.3	204.4
	248.2	61.2	309.4
Retail revenue			
Unmeasured	10.2	-	10.2
Measured	26.8	-	26.8
	37.0	-	37.0
Other revenue			
Regulated			9.4
Unregulated			12.1
Total revenue			540.8

4. Revenue from contracts with customers (continued)

In accordance with IFRS 15, revenue has been disaggregated based on what is recognised in relation to the core services of supplying clean water and the removing and treating of 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

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 £3.3m (2020: £2.0m) are included in the statement of financial position under trade and other receivables, see note 16. At the year-end there were liabilities for receipts in advance relating to contracts of £58.2m (2020: £55.2m), see note 19.

5. Operating costs and auditor's remuneration

Included in profit/loss are the following:

	2021	2020
	£m	£m
Employee costs (note 6)	**130.5**	123.3
Power	**32.6**	34.4
Raw Materials and consumables	**14.8**	17.3
Rates	**24.5**	25.1
Charge for bad and doubtful debts (note 25)	**13.0**	19.2
Service charges	**6.5**	5.9
Depreciation of property, plant and equipment (note 11)	**119.9**	108.5
Depreciation of right-of-use assets (note 12)	**0.6**	0.7
Amortisation of intangible assets (note 13)	**9.9**	8.9
Short term lease expense (note 12)	**4.7**	4.6
Hire of plant and machinery	**0.3**	0.3
Research and development expensed as incurred	**-**	1.7
Infrastructure maintenance expenditure	**22.8**	20.9
Ofwat licence fee	**1.7**	1.7
Cost of finished goods and W.I.P.	**6.4**	4.1
Other operating costs	**80.1**	68.4
	468.3	445.0
Own work capitalised	**(102.6)**	(100.4)
	365.7	344.6

5. Operating costs and auditor's remuneration *(continued)*

During the year the following fees were charged by the auditors:

	2021	2020
	£000	£000
Fees payable to the Company's auditor for :		
Audit of the Company's annual accounts	**45**	74
Other assurance services	**217**	144
	262	218

Fees payable for the audit of the Company's annual accounts include £570 (2020: £1,636) for out of pocket expenses incurred for the delivery of the audit.

Other assurance services include certain agreed upon procedures performed by Ernst & Young in connection with the Company's regulatory reporting requirements for Ofwat.

6. Staff numbers and costs

The average number of employees (including Directors) during the year was as follows.

	Number of employees	
	2021	2020
Average number of employees	**2,502**	2,522

The aggregate payroll costs of these employees:

	2020	2020
	£m	£m
Wages and salaries	**102.9**	96.6
Social security costs	**11.2**	10.3
Pension costs - defined contribution	**6.0**	5.4
Pension costs - defined benefit	**10.4**	11.0
	130.5	123.3

7. Directors' remuneration

	2021	2020
	£000	£000
Total Directors' remuneration including benefits in kind	**2,369**	1,387
Remuneration of highest paid Director	**520**	398

Details of Directors' remuneration can be found in the Governance Report. Directors' remuneration is in respect of four Executive Directors, seven Non-Executive Directors and six YTL appointed Directors (2020 - five Executive Directors, seven Non-Executive Directors and six YTL appointed Directors).

8. Finance income and expense

Recognised in the Income Statement

	2021 £m	2020 £m
Finance income		
Interest receivable on short-term bank deposits	**0.4**	0.5
Total finance income	**0.4**	0.5
Finance expense		
To subsidiary undertakings	**(78.7)**	(80.7)
Net interest on net defined benefit pension plan liability	**(2.5)**	(3.0)
On bank loans and leases	**(7.4)**	(10.3)
Interest capitalised	**4.3**	3.5
	(84.3)	(90.5)
Net interest payable	**(83.9)**	(90.0)

In accordance with IAS 23 borrowing costs of £4.3m (2020 - £3.5m) associated with the funding of eligible capital projects have been capitalised at an average interest rate of 3.7% (2020 – 4.2%).

9. Taxation

Recognised in the Income Statement

	2021 £m	2020 £m
Current tax expense		
Current year	**9.8**	14.9
Adjustments for prior years	**(5.6)**	(2.2)
Current tax expense	**4.2**	12.7
Deferred tax expense		
Origination and reversal of temporary differences	**6.0**	6.5
Increase in tax rate	**95.3**	29.9
Adjustments for prior years	**5.5**	3.0
Deferred tax expense	**106.8**	39.4
Total tax expense	**111.0**	52.1

Taxation recognised in other comprehensive income

	2021 £m	2020 £m
Remeasurements of defined benefit liability	**(20.1)**	8.2
Change in tax rate	**(33.9)**	(12.4)
Tax credit	**(54.0)**	(4.2)

Reconciliation of effective tax rate

	2021 £m	2020 £m
(Loss)/profit for the year	**(34.5)**	57.6
Total tax expense	**111.0**	52.1
Profit excluding taxation:	**76.5**	109.7
Tax using the UK corporation tax rate of 19% (2020 - 19%)	**14.5**	20.8
Impact of rate change	**95.3**	29.9
Rate difference on current year earnings	**1.4**	0.0
Non-deductible expenses	**0.9**	0.6
(Over)/under provided in prior years	**(0.1)**	0.8
Capital transaction	**(1.0)**	-
Total tax expense	**111.0**	52.1

9. Taxation *(continued)*

The UK Budget announcements on 3 March 2021 included a proposed increase in the statutory rate of corporation tax from 19% to 25% effective from 1 April 2023. This measure was included as part of the 2021 Finance Bill which was substantively enacted before the balance sheet date. As a result, the closing deferred tax balances have been remeasured at the tax rate the temporary differences expect to reverse. This has resulted in a £95.3m charged to the income statement and £33.9m charged in Other Comprehensive Income.

The June 2020 comparative figures reflect the increase in the statutory rate of corporation tax from 17% to 19% effective 1 April 2020. In that period, deferred tax balances were remeasured at 19% which resulted in a deferred tax charge of £29.9m in the income statement and £12.4m charge in Other Comprehensive Income.

10. Dividends

The dividend policy is to declare dividends consistent with the Company's performance and prudent management of the economic risk of the business.

Dividend payments are reviewed and approved on a quarterly basis by the Board after taking into account both current and projected business performance.

In particular the Board takes into account:

- the company's current and projected performance in delivering the level of service customers expect from an efficient water and sewerage company and that where that level of service has not been delivered, that customers have been adequately compensated
- that the company is delivering the required quality and environmental outputs and making sufficient investment in its infrastructure to maintain and, where necessary, increase resilience
- that the correct amount of tax has been paid
- that the Company has met any unexpected additional expenditure needs that may have arisen during the year to date, as new operational risks emerge
- the level of regulatory gearing and its comparison with Ofwat's expectations pertaining at the time
- the sufficiency of distributable reserves.

The company will maintain a solid investment grade credit rating at all times.

	2021	2020
	£m	£m
Interim dividends for the current year	**45.0**	66.0
Final dividend for the current year	**14.0**	12.5
	59.0	78.5

11. Property, plant and equipment

	Land & buildings £m	Infra-structure assets £m	Plant & equipment £m	Motor vehicles £m	Office & IT equipment £m	Assets under construction £m	Company total £m
Cost							
Balance at 1 July 2019	882.3	2,214.9	1,945.8	-	39.8	-	5,082.8
Cost of ROU assets on adoption of IFRS 16	1.0	-	1.1	-	-	-	2.1
Transfer between categories	-	-	(46.1)	46.1	-	-	-
Additions	64.7	84.1	65.3	2.9	11.1	-	228.1
Transfer on commissioning	-	-	-	-	-	-	-
Disposals	(1.7)	(0.1)	(28.5)	(4.6)	(5.1)	-	(40.0)
Balance at 30 June 2020	946.3	2,298.9	1,937.6	44.4	45.8	-	5,273.0
Balance at 1 July 2020	946.3	2,298.9	1,937.6	44.4	45.8	-	5,273.0
Cost of ROU assets	1.0	-	-	0.3	-	-	1.3
Transfer between categories [1]	(0.9)	(48.5)	(187.6)	-	(8.3)	245.3	-
Additions	-	-	-	-	-	260.4	260.4
Transfer on commissioning	55.1	75.9	137.5	7.3	3.1	(278.9)	-
ROU assets terminated	-	-	(1.1)	-	-	-	(1.1)
Disposals	(4.6)	(0.1)	(33.4)	(8.0)	-	-	(46.1)
Balance at 30 June 2021	996.9	2,326.2	1,853.0	44.0	40.6	226.8	5,487.5
Depreciation and impairment							
Balance at 1 July 2019	(311.0)	(106.0)	(971.8)	-	(24.0)	-	(1,412.8)
Depreciation on ROU assets	(0.1)	-	(0.6)	-	-	-	(0.7)
Transfer between categories	-	-	25.5	(25.5)	-	-	
Depreciation charge for the year	(14.5)	(20.3)	(65.5)	(4.6)	(3.6)	-	(108.5)
Disposals	0.9	-	28.1	4.0	5.1	-	38.1
Balance at 30 June 2020	(324.7)	(126.3)	(984.3)	(26.1)	(22.5)	-	(1,483.9)
Balance at 1 July 2020	(324.7)	(126.3)	(984.3)	(26.1)	(22.5)	-	(1,483.9)
Depreciation on ROU assets	(0.1)	-	(0.5)	-	-	-	(0.6)
Depreciation charge for the year	(15.5)	(21.4)	(73.3)	(5.3)	(4.4)	-	(119.9)
Depreciaton on ROU assets terminated	-	-	1.1	-	-	-	1.1
Disposals	2.3	-	33.0	6.5	-	-	41.8
Balance at 30 June 2021	(338.0)	(147.7)	(1,024.0)	(24.9)	(26.9)	-	(1,561.5)
Net Book Value							
At 1 July 2019	571.3	2,108.9	974.0	-	15.8	-	3,670.0
At 30 June 2020	621.6	2,172.6	953.3	18.3	23.3	-	3,789.1
At 30 June 2021	**658.9**	**2,178.5**	**829.0**	**19.1**	**13.7**	**226.8**	**3,926.0**

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

Infrastructure assets comprise a network of systems of mains and sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines, sea outfalls and infrastructure investigations and studies.

Included in infrastructure assets at cost is £705.1m fair value adjustment on first time adoption of IFRS.

There is no impairment loss recognised in these financial statements (2020 - £nil).

Cumulative borrowing costs capitalised and included above were £18.5m (2020 - £14.2m).

Included in freehold land and buildings above is an amount of £15.5m (2020 - £15.1m) in respect of land which is not depreciated.

[1] In the prior year expenditure on assets still under construction was included in the various reporting categories. In the current year management has decided to show assets under construction (AUC) as a separate category as it is believed this will aid users of the accounts.

12. Leases

Company as a lessee

The Company has lease contracts for various items of property, plant, machinery, vehicles and other equipment used in its operations. Leases of plant and machinery generally have lease terms between 3 and 15 years, while motor vehicles and other equipment generally have lease terms between 3 and 5 years. The Company's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the Company is restricted from assigning and subleasing the leased assets. There are several lease contracts that include extension and termination options and variable lease payments, which are further discussed below.

The Company also has certain leases of machinery with lease terms of 12 months or less and leases of office equipment with low value. The Company applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases. Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period:

	Land & buildings £m	Plant & machinery £m	Vehicles £m	Total £m
As at 1 July 2020	0.9	0.5	-	1.4
Additions	1.0	-	0.3	1.3
Depreciation expense	(0.1)	(0.5)	-	(0.6)
As at 30 June 2021	1.8	-	0.3	2.1

12. Leases *(continued)*

Set out below are the carrying amounts of lease liabilities (included under interest-bearing loans and borrowings) and the movements during the year:

			2021
			£m
As at 1 July 2020			1.5
Additions			1.3
Accretion of interest			-
Payments			(0.7)
As at 30 June 2021			2.1
Current	Note	18	-
Non-current	Note	18	2.1

The maturity analysis of lease liabilities is also disclosed in Note 18.

The following are the amounts recognised in profit or loss:

	2021	2020
	£m	£m
Depreciation expense of right-of use assets	**0.6**	0.7
Interest expense on lease liabilities	**-**	0.1
Expenses relating to short-term leases	**4.7**	4.6
	5.3	5.4

The Company had total cash outflows for leases of £0.7m in 2021 (£0.7m in 2020). The Company also had non-cash additions to right-of-use assets and lease liabilities of £1.3m in 2021 (£nil in 2020).

Company as a lessor

The Company has entered into operating leases consisting of certain land and buildings. Rental income recognised by the Company during the year is £0.9m (2020: £1.4m).

Future minimum rentals receivable under non-cancellable operating leases as at 30 June 2021 are as follows:

	2021	2020
	£m	£m
Within one year	**0.5**	0.4
After one year but not more than five years	**1.7**	1.2
More than five years	**1.6**	1.9
	3.8	3.5

13. Intangible assets

	Software develop-ment £m	Total £m
Cost		
Balance at 1 July 2018	33.4	33.4
Additions	18.4	18.4
Balance at 30 June 2019	51.8	51.8
Balance at 1 July 2019	51.8	51.8
Additions	29.0	29.0
Balance at 30 June 2020	80.8	80.8
Balance at 1 July 2020	80.8	80.8
Additions	5.1	5.1
Balance at 30 June 2021	85.9	85.9
Depreciation and impairment		
Balance at 1 July 2018	(8.8)	(8.8)
Depreciation charge for the year	(4.7)	(4.7)
Balance at 30 June 2019	(13.5)	(13.5)
Balance at 1 July 2019	(13.5)	(13.5)
Depreciation charge for the year	(8.9)	(8.9)
Balance at 30 June 2020	(22.4)	(22.4)
Balance at 1 July 2020	(22.4)	(22.4)
Depreciation charge for the year	(9.9)	(9.9)
Balance at 30 June 2021	(32.3)	(32.3)
Net Book Value		
At 1 July 2019	38.3	38.3
At 30 June 2020	58.4	58.4
At 30 June 2021	**53.6**	**53.6**

14. Investments in subsidiaries

The Company has an investment of £13,001 (2020 – £13,001) in 100% of the ordinary share capital of a subsidiary company Wessex Water Services Finance Plc, whose registered address is Wessex Water Operations Centre, Claverton Down, Bath, BA2 7WW.

15. Inventories

	2021	2020
	£m	£m
Raw materials and consumables	**4.1**	4.1
	4.1	4.1

There was no write-down of inventories to net realisable value in either year.

16. *Trade and other receivables*

	2021	2020
	£m	£m
Amounts receivable from customers	**121.2**	119.0
Owed by immediate holding company	**17.5**	22.1
Owed by fellow subsidiary companies	**22.9**	25.2
Owed by other group companies	**0.3**	0.2
Owed by associate companies	**0.9**	1.9
Prepayments	**15.6**	11.1
Corporation tax	**6.9**	2.6
Contract assets	**3.3**	2.0
Other debtors	**9.0**	5.9
	197.6	190.0

Trade receivables are expected to be recovered in no more than 12 months.

All outstanding related party receivable balances are owed on commercial terms and arise through normal business operations. The company has considered the present value of the contractual cash flows and compared this to a prudent assessment of the present value of the cash flows that are expected to be received. Having performed this assessment, the company has determined that no material expected credit loss provisions are required as at year-end for related party balances owed

Contract cost assets

	2021	2020
	£m	£m
Balance at 1 July	**2.0**	1.6
Incurred during the year	**7.7**	4.5
Recognised as costs during the year	**(6.4)**	(4.1)
Balance at 30 June	**3.3**	2.0

17. Cash and cash equivalents

	2021 £m	2020 £m
Short-term bank deposits	**310.0**	29.0
Cash at bank and in hand	**18.3**	3.3
	328.3	32.3

Other financial assets

Term deposits with UK banks from 3 to 6 months	**-**	98.0

18. Other interest-bearing loans and borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Company's exposure to interest rate and foreign currency risk, see note 25(e).

	2021 £m	2020 £m
Non-current liabilities		
Bank loans	**374.7**	465.4
Finance lease liabilities	**2.1**	1.0
Inter-company loans	**1,909.3**	1,899.7
	2,286.1	2,366.1
Current liabilities		
Short-term bank borrowing	**90.9**	7.9
Finance lease liabilities	**-**	0.5
Inter-company loans	**300.1**	-
	391.0	8.4

18. Other interest-bearing loans and borrowings *(continued)*

Terms and debt repayment schedule:

	Currency	Nominal interest rate %	Year of maturity	**Issue value 2021 £m**	**Carrying amount 2021 £m**	Issue value 2020 £m	Carrying amount 2020 £m
Bank loans - EIB	Sterling	0.74%-2.36%	2021-25	**200.0**	**200.0**	275.0	275.0
Bank loans - KFW	Sterling	1.161%	2026	**176.0**	**174.7**	192.0	190.4
Inter-company loans:							
Bond	Sterling	5.375%	2028	**200.0**	**198.9**	200.0	198.8
Bond	Sterling	5.75%	2033	**350.0**	**346.7**	350.0	346.5
Bond	Sterling	4.00%	2021	**200.0**	**199.9**	200.0	199.7
Bond	Sterling	4.00%	2021	**100.0**	**100.2**	100.0	101.1
Bond	Sterling	1.50%	2029	**250.0**	**247.7**	250.0	247.7
Bond	Sterling	1.25%	2036	**300.0**	**294.9**	-	-
Index Linked Bond	Sterling	3.52%	2023	**50.0**	**84.1**	50.0	82.7
Index Linked Bond	Sterling	2.186%	2039	**50.0**	**69.4**	50.0	68.4
Index Linked Bond	Sterling	1.75%	2046	**75.0**	**113.1**	75.0	111.3
Index Linked Bond	Sterling	1.75%	2051	**75.0**	**113.1**	75.0	111.3
Index Linked Bond	Sterling	1.369%	2057	**75.0**	**113.1**	75.0	111.3
Index Linked Bond	Sterling	1.374%	2057	**75.0**	**113.2**	75.0	111.2
Index Linked Bond	Sterling	1.489%	2058	**50.0**	**71.7**	50.0	69.9
Index Linked Bond	Sterling	1.495%	2058	**50.0**	**71.7**	50.0	69.9
Index Linked Bond	Sterling	1.499%	2058	**50.0**	**71.7**	50.0	69.9
Short term loans:							
Bank loans - EIB	Sterling	0.715%	2021	**75.0**	**75.0**	-	-
Bank loans	Sterling	1.161%	2021	**16.0**	**15.9**	8.0	7.9
				2,417.0	**2,675.0**	2,125.0	2,373.0

Note: Bank overdrafts and revolving credit facilities with less than 3 months to mature are excluded from this schedule.
The Index-linked Bonds accrue annually in line with the Retail Prices Index each year.

Finance lease liabilities

Finance lease liabilities are payable as follows:

	Minimum lease payments 2021 £m	**Interest 2021 £m**	**Principal 2021 £m**	Minimum lease payments 2020 £m	Interest 2020 £m	Principal 2020 £m
Less than one year	-	-	-	0.5	-	0.5
Between one and five years	0.7	(0.1)	0.6	0.1	-	0.1
More than five years	2.1	(0.6)	1.5	1.4	(0.5)	0.9
	2.8	**(0.7)**	**2.1**	2.0	(0.5)	1.5

18. Other interest-bearing loans and borrowings *(continued)*

Changes in liabilities arising from financing activities

	1st July 2020	**Cash flows**	**New leases**	**Other**	**30th June 2021**
	£m	**£m**	**£m**	**£m**	**£m**
Current interest-bearing loans and borrowings (excluding items listed below)	7.9	(8.0)	-	391.1	391.0
Current obligations under finance leases and hire purchase contracts	0.5	(0.7)	0.2	-	-
Non-current interest-bearing loans and borrowings (excluding items listed below)	2,365.1	226.8	-	(307.9)	2,284.0
Non-current obligations under finance leases and hire purchase contracts	1.0	-	1.1	-	2.1
Total liabilities from financing activities	**2,374.5**	**218.1**	**1.3**	**83.2**	**2,677.1**

	1st July 2019	Cash flows	Transition to IFRS 16 Leases	Other	30th June 2020
	£m	£m	£m	£m	£m
Current interest-bearing loans and borrowings (excluding items listed below)	60.0	(60.0)	-	7.9	7.9
Current obligations under finance leases and hire purchase contracts	-	(0.7)	0.7	0.5	0.5
Non-current interest-bearing loans and borrowings (excluding items listed below)	2,045.0	243.0	-	77.1	2,365.1
Non-current obligations under finance leases and hire purchase contracts	-	-	1.5	(0.5)	1.0
Total liabilities from financing activities	2,105.0	182.3	2.2	85.0	2,374.5

The 'Other' column includes the effect of reclassification of the non-current portion of interest-bearing loans and borrowings, including obligations under leases and hire purchase contracts to current due to the passage of time and the effect of accrued but not yet paid interest on interest-bearing loans and borrowings. The Company classifies interest paid as cash flows from financing activities.

19. Trade and other payables

	2021 £m	2020 £m
Current		
Owed to subsidiary company	**36.2**	34.4
Owed to other group companies	**1.3**	0.6
Trade payables	**21.7**	8.3
Dividend	**14.0**	12.5
Other creditors	**4.5**	4.3
Taxation and social security	**3.0**	3.6
Accrued expenses	**49.9**	46.3
Contract liabilities	**52.7**	49.0
	183.3	159.0
Non-current		
Contract liabilities	**5.5**	6.2
	188.8	165.2

Analysis of contract liabilities

	2021 £m	2020 £m
At 1 July	**55.2**	55.7
Deferred during the year	**129.8**	137.2
Recognised as revenue during the year	**(126.8)**	(137.7)
At 30 June	**58.2**	55.2

The contract liabilities within current payables all relate to performance obligations due to be settled within the following 12 months. Non-current contract liabilities relate to performance obligations due to be settled over a 15-year period.

20. Employee benefits

Pension plans

	2021 £m	2020 £m
Fair value of scheme assets	**744.5**	675.0
Present value of defined benefit obligations	**(819.7)**	(839.1)
Net liability for defined benefit obligations	**(75.2)**	(164.1)
Unfunded and compensatory added years pension	**(0.9)**	(1.0)
Total employee benefits	**(76.1)**	(165.1)

20. Employee benefits *(continued)*

The Company sponsors a funded defined benefit pension plan for qualifying UK employees. The plan is administered by a separate Board of Trustees which is legally separate from the Company. The Trustees are composed of representatives of both the employer and employees. The Trustees are required by law to act in the interest of all relevant beneficiaries and are responsible for the investment policy with regard to the assets plus the day to day administration of the benefits.

Under the plan, employees are entitled to annual pensions on retirement using an accrual rate, final pensionable salary and service. Benefits are also payable on death and following other events such as withdrawing from active service. No other post-retirement benefits are provided to these employees.

Liabilities for an unfunded arrangement and a compensatory payment for added years' service are held outside the defined benefit scheme. The Company also operates a defined contribution section within the main pension scheme.

Profile of the scheme

The defined benefit obligation includes benefits for current employees, former employees and current pensioners. Broadly, about 28% of the liabilities are attributable to current employees, 17% to former employees and 55% to current pensioners. The Scheme duration is an indicator of the weighted-average time until benefit payments are made. For the Scheme as a whole, the duration is approximately 18 years reflecting the appropriate split of the defined benefit obligation between current employees (duration of c24 years), deferred members (duration of c24 years) and current pensioners (duration of c13 years).

Funding requirements

UK legislation requires that pension schemes are funded prudently. The last funding valuation of the Scheme was carried out by a qualified actuary as at 30 September 2019 and showed a deficit of £157.0 million. The Company is paying deficit contributions of:

- £14.80m by 1 July 2021; £16.60m by 1 July 2022
- £18.40m by 1 July 2023; £20.20m by 1 July 2024; £22.00m by 1 July 2025
- £23.80m by 1 April 2026;

which, along with investment returns from return-seeking assets, is expected to make good this shortfall by 1st April 2026. The next funding valuation is due no later than 30 September 2022 at which progress towards full funding will be reviewed.

The Company also pays contributions of 24.6% of pensionable salaries in respect of current accrual and non-investment related expenses, with active members paying a further 7.4% of pensionable salaries on average. A contribution of £14.80m is expected to be paid by the Company during the year ending on 30 June 2022.

Risks associated with the scheme

Asset volatility - The liabilities are calculated using a discount rate set with reference to corporate bond yields; if assets underperform this yield, this will create a deficit. The Scheme holds a significant proportion of growth assets (equities including a diversified growth fund and a global absolute return fund) which, though expected to outperform corporate bonds in the long-term, create volatility and risk in the short-term. The allocation to growth assets is monitored to ensure it remains appropriate given the Scheme's long-term objectives.

Changes in bond yields - A decrease in corporate bond yields will increase the value placed on the Scheme's liabilities for accounting purposes, although this will be partially offset by an increase in the value of the Scheme's bond holdings.

Inflation risk - The majority of the Scheme's benefit obligations are linked to inflation and higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect against extreme inflation). The majority of the assets are either unaffected by or only loosely correlated with inflation, meaning that an increase in inflation will also increase the deficit.

Life expectancy - The majority of the Scheme's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the liabilities. The Trustees insure certain benefits payable on death before retirement.

Reporting at 30 June 2021

The results of the latest funding valuation at 30 September 2019 have been adjusted to the balance sheet date taking account of experience over the period since 30 September 2019, changes in market conditions, and differences in the financial and demographic assumptions. The present value of the defined benefit obligation, and the related current service cost, were measured using the Projected Unit Cost Method.
The principal assumptions used to calculate the liabilities under IAS 19 are set out below. The major assumptions used by the actuary were:

	30.06.21	30.06.20
Rate of increase in salaries – year 1	**1.9%**	1.8%
Rate of increase in salaries – long term	**1.9%**	1.8%
Rate of increase in pensions		
- WWPS and 1/80ths members	**2.9%**	2.6%
- MIS members	**2.5%**	2.2%
- Reduced level members	**2.1%**	2.0%
- Post 88 GMP	**2.1%**	1.9%
Discount rate	**1.9%**	1.6%
Inflation assumption – RPI	**3.0%**	2.7%
Inflation assumption – CPI	**2.5%**	2.2%

Mortality assumptions:

The mortality assumptions are based upon the recent actual mortality experience of Scheme members and allow for expected future improvements in mortality rates.

	2021 Male years	**2021 Female years**	2020 Male years	2020 Female Years
Life expectancy - current age 60	**25.9**	**28.4**	25.9	28.3
Life expectancy - current age 40	**47.1**	**49.6**	47.0	49.5

20. Employee benefits *(continued)*

The mortality table adopted is based upon 105% of standard tables S3P(M/F)A adjusted to allow for individual years of birth. Future improvements are assumed to be in line with the CMI 2018 core projection, with a long-term improvement rate of 1.0% p.a. for all members.

Members are assumed to take four times their pre-commutation pension as cash at retirement.

Sensitivity analysis:

The key assumptions used for IAS 19 are: discount rate, inflation and mortality. If different assumptions are used, this could have a material effect on the results disclosed. The sensitivity of the results to these assumptions are set out below. For the purposes of these sensitivities it has been assumed that the change in the discount rate and inflation has no impact on the value of Scheme assets.

A reduction in the discount rate of 0.1% would increase the scheme liabilities by £14.7m from £819.7m to £834.4m, increasing the scheme deficit to £89.9m.

An increase in the inflation assumption of 0.1% would increase the scheme liabilities by £11.2m from £819.7m to £830.9m, increasing the scheme deficit to £86.4m.

An increase in life expectancy of 1 year would increase the scheme liabilities by £34.2m from £819.7m to £853.9m, increasing the scheme deficit to £109.4m.

The sensitivity information shown above has been prepared using the same method as adopted when adjusting the results of the latest funding valuation to the balance sheet date. This is the same approach as has been adopted in previous periods.

The value of the assets:

	2021	2020
	£m	£m
Equities	**311.1**	216.9
Property	**41.8**	36.8
Government Bonds	**107.2**	225.7
Corporate Bonds	**257.3**	144.3
Other	**27.1**	51.3
	744.5	675.0

20. Employee benefits *(continued)*

The amounts recognised in comprehensive income:

	2021	2020
	£m	£m
Operating cost – service cost		
Current service cost	**10.1**	10.7
Administration expenses	**0.6**	0.7
Past service cost	**0.1**	-
Financing cost		
Interest on net benefit liability	**2.5**	3.0
Pension expense recognised in profit and loss	**13.3**	14.4
Re-measurements in Other Comprehensive Income (OCI)		
Return on plan assets (in excess of) that recognised in net interest	**(62.7)**	(17.7)
Actuarial losses / (gains) due to changes in financial assumptions	**(6.9)**	60.7
Actuarial (gains) due to changes in demographic assumptions	**-**	(13.9)
Actuarial (gains) / losses due to liability experience	**(10.9)**	14.2
Losses / (gains) recognised in OCI	**(80.5)**	43.3
Losses / (gains) recognised in profit and loss and OCI	**(67.2)**	57.7

Changes to the present value of the defined benefit obligations during the year

	2021	2020
	£m	£m
Opening defined benefit obligation	**839.1**	776.3
Current service cost	**10.1**	10.7
Interest expense on defined benefit obligation	**13.6**	18.0
Contributions by scheme participants	**-**	0.1
Actuarial (gains) due to changes in demographic assumptions	**-**	(13.9)
Actuarial losses / (gains) due to changes in financial assumptions	**(6.9)**	60.7
Actuarial (gains) / losses due to liability experience	**(10.9)**	14.2
Net benefits paid out	**(25.4)**	(27.0)
Past service cost	**0.1**	-
Closing defined benefit obligation	**819.7**	839.1

20. Employee benefits *(continued)*

Changes to the fair value of scheme assets during the year

	2021	2020
	£m	£m
Opening fair value of scheme assets	**675.0**	646.3
Interest income on scheme assets	**11.1**	15.0
Re-measurement (losses)/gains on scheme assets	**62.7**	17.7
Contributions by employer	**21.7**	23.6
Contributions by scheme participants	**-**	0.1
Net benefits paid out	**(25.4)**	(27.0)
Administration costs incurred	**(0.6)**	(0.7)
Closing fair value of scheme assets	**744.5**	675.0

Additional analysis:	**2021**	2020
	£m	£m
Actual return on scheme assets		
Interest income on scheme assets	**11.1**	15.0
Re-measurement gains on scheme assets	**62.7**	17.7
Actual return on scheme assets	**73.8**	32.7
Analysis of amounts recognised in Other Comprehensive Income		
Total re-measurement gains/(losses)	**80.5**	(43.3)
Total gain/(losses)	**80.5**	(43.3)

20. 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:

Scheme	Vesting date	Expiry date	Exercise price RM	Fair value RM
01/06/2012 Unapproved	01/06/2015	31/03/2021	1.38	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 income statement 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 options outstanding were as follows:

Granted – Ordinary shares of RM0.50 each	Outstanding at 30/06/2020	Forfeited	Lapsed	Outstanding at 30/06/2021
01/06/2012 Unapproved	5,979,000	(473,000)	(5,506,000)	-
01/06/2012 Approved	35,364,000	(227,000)	(35,137,000)	-
Total	41,343,000	(700,000)	(40,643,000)	-

The share price at 30 June 2021 was RM0.70 or £0.12.

21. Deferred grants and contributions

	Requisi-tions £m	Other contribu-tions £m	Sewer adoptions £m	Infra-structure charges £m	Total £m
Balance at 1 July 2019	30.5	27.3	86.1	128.4	272.3
Received during the year	2.9	1.4	17.3	2.4	24.0
Amortisation	(0.3)	(0.6)	(1.0)	(1.3)	(3.2)
Balance at 30 June 2020	33.1	28.1	102.4	129.5	293.1
Balance at 1 July 2020	33.1	28.1	102.4	129.5	293.1
Received during the year	2.3	4.3	0.9	2.5	10.0
Amortisation	(0.3)	(0.6)	(1.0)	(1.3)	(3.2)
Balance at 30 June 2021	**35.1**	**31.8**	**102.3**	**130.7**	**299.9**

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

22. Provisions

	Restructuring costs £m	Total £m
Balance at 1 July 2020	0.2	0.2
Provisions made during the year	-	-
Provisions used during the year	(0.1)	(0.1)
Balance at 30 June 2021	**0.1**	**0.1**
Non-current	-	-
Current	0.1	0.1
	0.1	**0.1**

In the ordinary course of business, the Company is sometimes subject to claims and potential litigation, whether from regulatory bodies, individuals or particular groups, related to one off matters. The Directors consider that, where it is possible to be estimated, a reasonable and appropriate position has been taken in reflecting such items in these Financial Statements in the note above.

It is not currently possible to estimate the financial effect and likely timing of any associated outflow of some matters, given that some are in early stages of discussion, the limited likelihood of the claims against the Company being successful, or the potential range of possible outcomes, and accordingly no provision has been made in the Financial Statements. No reasonably possible financial outcome that would be significant to the Financial Statements has been identified in relation to these remaining matters at the date of the issue of these Financial Statements.

23. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Liabilities		Assets		Net	
	2021	2020	**2021**	2020	**2021**	2020
	£m	£m	**£m**	£m	**£m**	£m
Property, plant and equipment	**624.6**	466.3	**(42.9)**	(31.4)	**581.7**	434.9
Employee benefits	**-**	-	**(17.2)**	(31.2)	**(17.2)**	(31.2)
Provisions	**-**	-	**-**	-	**-**	-
Tax (assets) / liabilities	**624.6**	466.3	**(60.1)**	(62.6)	**564.5**	403.7
Net of tax liabilities/(assets)	**(60.1)**	(62.6)	**60.1**	62.6	**-**	-
Net tax (assets) / liabilities	**564.5**	403.7	**-**	-	**564.5**	403.7

Movement in deferred tax during the year

	1 July 2020 £m	**Recognised in income £m**	**Recognised in equity £m**	**30 June 2021 £m**
Property, plant and equipment	434.9	107.3	39.5	581.7
Employee benefits	(31.2)	(0.5)	14.5	(17.2)
	403.7	106.8	54.0	564.5

Movement in deferred tax during the prior year

	1 July 2019 £m	**Recognised in income £m**	**Recognised in equity £m**	**30 June 2020 £m**
Property, plant and equipment	382.4	39.0	13.5	**434.9**
Employee benefits	(22.3)	0.4	(9.3)	**(31.2)**
	360.1	39.4	4.2	**403.7**

24. Capital and reserves

	2021	2020
	£	£
Issued, allotted, called up and fully paid		
Ordinary shares of £1each	**1**	1
	1	1
Shares classified as liabilities	**-**	-
Shares classified in shareholders' funds	**1**	1
	1	1

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

25. Financial instruments

(a) Fair values of financial instruments

Fair value is the amount at which a financial instrument could be exchanged in an arms-length transaction between informed and willing parties, other than a forced or liquidation sale. The fair value of short term and floating rate borrowings approximate to book value. The fair value of long-term fixed rate borrowings has been calculated using market values or discounted cash flow techniques.

The IFRS 13 fair value hierarchy is a categorisation relating to the extent that the fair value can be determined by reference to comparable market values. The hierarchy ranges from level 1 where instruments are quoted on an active market through to level 3 where the assumptions used to derive fair value do not have comparable market data.

The fair values of long-term fixed-rate inter-company borrowings are classified as level 1 in the IFRS 13 fair value hierarchy and have a carrying value of £1,388.3m and a fair value of £1,518.9m. The fair values of long term index-linked inter-company borrowings are classified as level 1 in the IFRS 13 fair value hierarchy and have a carrying value of £821.1m and a fair value of £1,132.5m. Bank loans are classified as level 2 and have a carrying value of £465.6m and fair value of £467.4m. All other loans and leases are classified as level 2 and have a carrying value and fair value of £2.1m.

It is the Company's policy to recognise all the transfers into the levels and transfers out of the levels at the date of the event or change in circumstances that caused the transfer. No liabilities are classified as level 3.

25. Financial instruments *(continued)*

(a) Fair values of financial instruments (continued)

Set out below is a comparison, by class, of the carrying amounts and fair values of the Company's financial instruments, other than those with carrying amounts that are reasonable approximations of fair values:

	Carrying amount	**Fair value**	**Level 1**	**Level 2**	Carrying amount	Fair value	Level 1	Level 2
	2021	**2021**	**2021**	**2021**	2020	2020	2020	2020
	£m	**£m**	**£m**	**£m**	£m	£m	£m	£m
Financial liabilities								
Interest-bearing loans and borrowings:								
Fixed rate borrowings	**1,488.3**	**1,618.9**	**1,518.9**	**100.0**	1,195.3	1,449.9	1,346.8	103.1
Floating rate borrowings	**367.7**	**367.7**	**-**	**367.7**	373.3	373.3	-	373.3
Indexed-linked borrowings	**821.1**	**1,132.5**	**1,132.5**	**-**	805.9	1,126.4	1,126.4	-
Total financial liabilities	**2,677.1**	**3,119.1**	**2,651.4**	**467.7**	2,374.5	2,949.6	2,473.2	476.4

The management assessed that the fair values of cash and short-term deposits, trade receivables, trade payables, bank overdrafts and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

(b) Credit risk

Financial risk management;

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and investment securities.

Other financial assets are short term deposits with terms of more than three months. The counterparties have a credit rating of A1+/P1 or A1/P1, and hence there is no exposure to credit risk for these values.

Cash and cash equivalents are short term deposits with counterparties that have a credit rating of A1+/P1 or A1/P1, and hence there is minimal exposure to credit risk for these values.

25. Financial instruments *(continued)*

(b) Credit risk *(continued)*

	2021 £m	2020 £m
Other financial assets	-	98.0
Cash and cash equivalents	328.3	32.3
	328.3	130.3

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

	2021 £m	2020 £m
South West England	121.2	119.0
	121.2	119.0

Billed and unbilled receivables are from domestic and business customers. No individual customer or industrial sector has a material balance outstanding at either year end, aside from £9.5m from Water2Business Ltd, a fellow subsidiary in the water industry.

No credit risk exists in relation to amounts owed by fellow group companies.

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

	2021 £m	2020 £m
Billed receivables	93.5	103.3
Unbilled receivables	64.1	60.3
Expected credit losses	(36.4)	(44.6)
	121.2	119.0

	Gross 2021 £m	ECL rate 2021 %	ECL 2021 £m
Less than 1 year	111.2	12.1%	(13.4)
1 to 2 years	16.8	32.7%	(5.5)
2 to 3 years	14.1	42.6%	(6.0)
3 to 4 years	10.2	60.8%	(6.2)
More than 4 years	5.3	100.0%	(5.3)
	157.6	23.1%	(36.4)

25. Financial instruments *(continued)*

(b) Credit risk (continued)

	Gross 2020 £m	ECL rate 2020 %	ECL 2020 £m
Less than 1 year	102.4	10.5%	(10.8)
1 to 2 years	19.2	31.3%	(6.0)
2 to 3 years	15.0	41.3%	(6.2)
3 to 4 years	13.3	59.4%	(7.9)
More than 4 years	13.7	100.0%	(13.7)
	163.6	27.3%	(44.6)

	Measured billing			**Unmeasured billing**		
Payment Method	**Direct Debit %**	**Normal %**	**Other %**	**Direct Debit %**	**Normal %**	**Other %**
Less than 1 year	5.1%	11.0%	17.9%	16.3%	15.5%	29.3%
1 to 2 years	7.7%	28.6%	26.6%	0.0%	26.8%	51.0%
2 to 3 years	6.6%	39.6%	37.9%	0.0%	38.2%	66.3%
3 to 4 years	7.7%	55.1%	53.8%	0.0%	49.5%	80.5%
More than 4 years	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

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

	2021 £m	2020 £m
Balance at 1 July	**(44.6)**	(39.4)
Written off	**22.6**	14.5
Non-payers adjustment	**(1.4)**	(0.5)
Charge to profit and loss	**(13.0)**	(19.2)
Balance at 30 June	**(36.4)**	(44.6)

The expected credit loss provision policy is shown in the accounting policies (note 1.9).

(c) Cash flow hedges

The Company does not have any cash flow hedges (2020 – none).

25. Financial Instruments *(continued)*

(d) Liquidity risk

Financial risk management

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company is a regulated utility with a five-year settlement with the industry regulator, which allows it to plan to a certain degree of accuracy the financial obligations in the medium term. The Company has also secured long-term funding through bonds issued by its subsidiary company. This means that the need to obtain additional finance has been spread over future years and is not considered onerous in any one regulatory period.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the effect of netting agreements:

	Carrying amount	**Contractual cash flows**	**Year 1**	**Years 2 to 5**	**Over 5 years**
	2021 £m	**2021 £m**	**2021 £m**	**2021 £m**	**2021 £m**
Non-derivative financial instruments					
Lease liabilities	2.1	2.8	-	0.7	2.1
Secured bank loans	465.6	484.0	96.4	387.6	-
Inter-company loans	2,209.4	3,851.5	365.3	293.8	3,192.4
Total financial instruments	2,677.1	4,338.3	461.7	682.1	3,194.5

	Carrying amount	Contractual cash flows	Year 1	Years 2 to 5	Over 5 years
	2020 £m	2020 £m	2020 £m	2020 £m	2020 £m
Non-derivative financial instruments					
Lease liabilities	1.5	2.0	0.5	0.1	1.4
Secured bank loans	473.3	505.7	15.9	361.1	128.7
Inter-company loans	1,899.7	3,855.5	61.6	598.2	3,195.7
Total financial instruments	2,374.5	4,363.2	78.0	959.4	3,325.8

25. Financial instruments *(continued)*

(e) Market risk

There is no exposure to equity or foreign currency risk, the interest rate risk is shown below.

Interest rate risk;

At the year end the interest rate profile of the Company's interest-bearing financial instruments was:

	2021	2020
	£m	£m
Fixed rate instruments	**1,488.3**	1,193.8
Floating rate instruments	**367.7**	374.8
Index linked instruments	**821.1**	805.9
	2,677.1	2,374.5

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 £8.2m.

26. Capital management

For the purpose of the Company's capital management, capital includes issued capital, share premium and all other equity reserves attributable to the equity holders. The primary objective of the Company's capital management is to maximise the shareholder value.

The Company manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the financial covenants. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Company monitors capital using a gearing ratio, which is net debt divided Regulatory Capital Value (RCV). The Company's policy is to keep the gearing ratio below 70%. The Company includes within net debt interest bearing loans and borrowings, less cash and short-term deposits, excluding discontinued operations.

	2021	2020
	£m	£m
Cash at bank	**(18.3)**	(3.3)
Short term deposits	**(310.0)**	(127.0)
Bank Loans	**465.6**	473.3
Finance leases	**2.1**	1.5
Bonds	**2,209.4**	1,899.7
Total net debt	**2,348.8**	2,244.2
RCV at 30 June	**3,355.2**	3,344.0
Gearing	**70.0%**	67.1%

The RCV for each regulated water and sewerage company is published by Ofwat here: Regulatory capital values 2021 - Ofwat

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 2021 and 2020.

27. Commitments

Capital expenditure contracted but not provided at 30 June 2021 was £50.3m (2020 - £73.9m).

The Company has guaranteed Bonds of £2,209.4m (2020 - £1,899.7m) issued by its wholly owned subsidiary company Wessex Water Services Finance Plc.

The Company has provided performance guarantees on its own behalf of £0.2m (2020 – £0.3m).

28. Contingencies

Claims under the Environmental Information Regulations 2001 (EIR)

The Company has been notified of a potential claim under the EIR relating to charges levied for drainage and water searches carried out since 2004, which it is argued should have been provided free of charge. The potential value of the claims is unclear, as very little detail has been provided, however the company intends to defend all claims.

Innovation competition

As part of the regulatory settlement for 2020-2025 Ofwat established a £200 million Innovation competition to grow the water sector's capacity to innovate. The competition is to be funded from additional revenues collected from customer's bills.

Each year companies are invited to submit projects which if successful are awarded funding from the revenues already collected. If the company is unsuccessful the revenues are to be transferred to those companies that were successful. If at the end of the regulatory period the revenues have not been fully utilised the balance is returned to customers over the subsequent regulatory period.

Due to the uncertainty surrounding the nature, timing and value of any spend and the early stage of the competition, the Company does not believe a provision is appropriate.

Incident at Avonmouth Water Recycling Centre

On 3rd December 2020 there was an incident at Avonmouth WRC that resulted in the tragic loss of 4 lives. Investigations are still on going and the Company is fully co-operating with the investigating authorities. At this stage the potential value of any claims or fines remains unclear.

29. Significant transactions with related parties

There were no transactions with key management personnel.

Directors' emoluments have been disclosed in the Remuneration Committee Report.

There have been no transactions with pre-penultimate, penultimate and ultimate holding companies described in note 30, with the exception of the share-based payment charge disclosed in note 20.

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

	2021 £m	2020 £m
Sales of goods and services:		
Immediate holding company	**5.3**	5.6
Fellow subsidiaries	**81.3**	103.4
Other group companies	**0.4**	0.2
Associate companies	**1.1**	0.8
Purchase of goods and services:		
Immediate holding company	**1.4**	0.8
Fellow subsidiaries	**4.5**	5.0
Other group companies	**2.6**	2.2
Associate companies	**12.7**	10.2
Interest expense:		
Subsidiary	**78.7**	80.7
Year-end balances owing by:		
Immediate holding company	**17.5**	22.1
Fellow subsidiaries	**22.9**	25.2
Other group companies	**0.3**	0.2
Associate companies	**0.9**	1.9
Year-end balances owing to:		
Subsidiary	**2,245.6**	1,934.1
Immediate holding company	**14.0**	12.5
Other group companies	**1.3**	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.

The Company has guaranteed Bonds of £2,209.4m (2020 - £1,899.7m) issued by its wholly owned subsidiary company Wessex Water Services Finance Plc. The bond proceeds are lent to WWSL on the same terms as the bonds themselves.

30. Ultimate parent company and parent company of larger group

The smallest group into which the financial statements of the Company are consolidated is that headed by Wessex Water Ltd, a company incorporated in England whose registered address is Wessex Water Operations Centre, Claverton Down, Bath, BA2 7WW.

The pre-penultimate, penultimate and ultimate holding companies are YTL Corporation Berhad, Yeoh Tiong Lay & Sons Holdings Sdn Bhd (both registered in Malaysia) and Yeoh Tiong Lay & Sons Family Holdings Ltd registered in Jersey.

The largest group in which the results of the Company are consolidated is that headed by YTL Corporation Berhad incorporated in Malaysia. The consolidated financial statements of these groups are available to the public and can be obtained from Menara YTL, 205 Jalan Bukit Bintang, 55100 Kuala Lumpur, Malaysia.

31. Subsequent events

The final dividend for the year was declared in June 2021 and paid in July 2021.

32. Accounting estimates and judgements

In preparing the financial statements and applying the accounting policies, the Company is required to make reasonable estimates and judgements based on the available information, the most significant of which are;

a) Defined benefit pension scheme deficit

In recognising the deficit on the balance sheet there are a number of assumptions concerning inflation, rate of increase of salaries and pensions, mortality rates and interest rates that can have a significant effect on the deficit recorded. These assumptions are discussed with independent qualified actuaries and disclosed in note 20 to the financial statements.

b) 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. In particular for the year ended 30 June 2021 this has included additional considerations of the possible impact of the COVID-19 pandemic on the expected collection rates of outstanding receivables at the balance sheet date. These assumptions are discussed in note 25.

c) Revenue recognition

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

32. Accounting estimates and judgements *(continued)*

d) Asset lives

Assets recorded in the Company's fixed asset register are depreciated systematically using asset lives assigned to the classification of the asset into a number of standard asset types. These asset lives are subject to review based on historical performance, new technologies or new areas of capital investment.

e) Leases – estimating the incremental borrowing rate

The Company cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Company 'would have to pay', which requires estimation when no observable rates are available. The Company estimates the IBR using observable inputs (such as market interest rates) when available

Significant judgements

f) Classification of capital expenditure

Due to the high value of capital expenditure the judgements made on the classification of expenses as operating or capital, and within capital between maintenance and enhancement, are key to the preparation of the accounts. The Company follows both accounting standards and guidelines issued by Ofwat in making these judgements.