WESSEX WATER SERVICES LIMITED

Annual Report and Financial Statements 30 June 2023

Registered in England & Wales No. 02366648

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Strategic Report

Chairman's Foreword

YTL has now owned Wessex Water for over 20 years, making us the longest single owner of a UK water and sewerage company. We have a demonstrable track record of responsible ownership and of making Wessex Water one of the best performers in the sector. Nevertheless, unprecedented criticism from the public, media, and politicians about the state of rivers and the impact of storm overflows has challenged us to fundamentally re-assess our investment programme and priorities.

The entire water industry in this country failed to recognise early enough that the legacy of storm overflows is simply unacceptable in the 21st century, and we were no exception. So let me say very clearly: I get it, my Board and everyone in Wessex Water gets it. Overflows must be either treated or eliminated, and as quickly as possible. Fixing storm overflows is a top priority and will remain so until we have dealt with the problem. Our Chief Executive sets out in his foreword to this annual report the steps we have already taken and our proposals for the future.

However, I must be clear that, unfortunately, there are no quick fixes; solving this problem will take many years of sustained effort and investment. It is also vital that the solutions we employ stand the test of time, against a background of climate emergency and changing rainfall patterns. So wherever possible, we will use nature-based treatment or, even better, the separation of surface water from the sewerage network.

Our changing climate impacts all aspects of the Wessex Water business. This last year saw unprecedented droughts across large parts of Europe, including the worst drought in the UK since 1976. So the Board was pleased that our investment over several years in developing a regional water supply grid, together with halving leakage from our 12,116 kilometres of pipes, meant that we had no need to seek any restrictions on the use of water across the Wessex Water region.

The high quality of our customer service was again recognised, both in the Ofwat league tables and in our excellent Trustpilot score. We are also the best rated water and sewerage company in the Institute of Customer Services national league table of companies from all sectors. Compliance with stringent standards for drinking water, as reported by the DWI, also showed us as the best performer.

However, we were extremely disappointed that we failed to maintain our record on environmental performance. We have undertaken a detailed root cause analysis, made Director and management changes, and established a separate compliance directorate with Board level leadership. The Board is determined to do whatever it takes to restore our industry-leading position. As a result of last year's results, no director has received any of the 30% bonus potential relating to environmental performance.

Our financial health has always been, and remains, robust. We maintain stable and prudent gearing, a simple financial structure, and a solid credit rating. We only pay shareholder dividends and executive bonuses when they are warranted by performance and would not harm our financial resilience. We have also put in place a Sustainable Financing Framework, which provides opportunities for investors to ally with us in delivering tangible environmental and social benefits, for nature and customers.

The impact of high levels of inflation has increased the number of customers finding it difficult to pay their bills, so we have widened the affordability support we provide, and made it faster and easier to access. We now have almost 60,000 customers benefiting from this assistance.

As I write this foreword, we are preparing to submit our business plan for the five years beginning 1 April 2025. This will be a challenging time, given the significant increase in statutory and regulatory improvements we will be required to make. Current projections suggest that investment will need to increase at least threefold from current levels, with consequent impact on customers and investors.

This brings me to the role of investors in this vital sector. Experience across the world shows that the availability of public finance is seldom able to keep pace with investment needs – indeed that was the main rationale for water privatisation in the UK. I was delighted that YTL Corporation was recently named as the UK-Malaysia Business of the Year because of our commitment to invest in the UK. We stand ready to invest into Wessex Water, for a fair return, to help finance the much-enlarged investment programme. The cost of efficient investment is closely linked to regulatory and political risk, so the greater the certainty, the more attractive the sector will be to investors.

The high standing of our Wessex Water business depends on its people, so I want to pay tribute to all of them for their hard work, perseverance, and dedication through difficult times. I also want to thank our outstanding non-executives who play such a vital role in holding the executives to account and in guiding the strategic direction of the Wessex Water business.

I thank the Lord Jesus for his constant grace and guidance and pray that we will be able to rise to the challenges we face.

Tan Sri (Sir) Francis Yeoh KBE

Chairman

Chief Executive's Review

As our Chairman, Sir Francis Yeoh, makes clear in his foreword, we fully understand public concerns about river health and, in particular, storm overflows; and we are committed to doing more, doing it faster and transparently reporting progress.

Storm overflows are the legacy of over 100 years, when sewerage systems were built using the same pipe to carry both sewage and rainwater, with overflows designed to protect property from flooding during very heavy rain. Wessex Water has 1,300 overflows on our 35,089 kilometres of sewers and we have been steadily eliminating or improving these, but not fast enough. We have already increased investment and are currently spending £3 million per month – at no additional cost to customers – to make a 25% reduction in the operation of storm overflows by 2025, from the 2020 level.

After 2025, we are proposing a threefold increase in investment to £9 million per month, with the aim of fully treating or eliminating any discharge from storm overflows by 2050. It is simply not possible to reach that goal in the shorter timescales many would like. The solutions we choose must also be sustainable for the long-term, taking into account the impact of climate change. So, wherever possible, we will separate surface water from sewage flows or use nature-based treatment solutions. We recognise any form of overflow is unacceptable including those caused by groundwater infiltrating the sewage network either through our network or private pipes. We are progressively using nature-based solutions to treat this groundwater, as is the case at Shrewton, which ensures water discharged is cleaner than the river itself. We will continue to report transparently on the operation of overflows and our progress towards treatment or elimination, so that we can rightfully be held to account.

The consequences of climate change were also clearly demonstrated during last year, which was one of the driest on record. We implemented our well-rehearsed drought plans during the summer and succeeded in avoiding any restrictions to supply – maintaining our 47-year unbroken record of no restrictions. But to keep pace with the changing climate, we need to continue our drive to further reduce leakage, and to work with customers to help them use less water, as well as planning for additional water storage for the longer term.

Climate change also means lower flows for longer periods in many of our rivers and watercourses. This, coupled with a growing population and new houses, means that the level of nutrients is too high, resulting in excessive growth of algae and consequent damage to the water environment. Because of this, Government are proposing new standards. These prospective new standards could affect almost half the Wessex Water region and have the potential to be the largest driver of our investment programme from 2025.

This has been a tough year for many of our customers, with extremely high energy prices and food bills fuelled by high inflation. As a provider of an essential service, we made it a priority to mobilise support for our customers and communities who needed it most. We did this by expanding our industry-leading Tailored Assistance Programme of affordability help, making it easier and quicker for customers to access the help they need.

We will continue to champion innovation and markets to drive down costs and, as a result, bills. In particular, we are seeking to implement nature-based solutions and partnerships, which would have multiple benefits in keeping costs down, having a lower carbon footprint, supporting nature recovery and improving resilience.

Robust risk management is essential to our business so we regularly horizon-scan to identify material risks that could impact our ability to deliver the services on which our region depends. We have a systematic company-wide approach under which risk management reviews progress through a hierarchy of expert colleagues, senior managers, and executive directors, overseen by a dedicated Risk Management Group that meets quarterly and reports to the Board.

Throughout the last year, as in every year, we strived to be the top performing water company in all aspects of our services. We remain the best company on customer satisfaction, water supply quality and resilience, but our environmental performance, as rated by the Environment Agency, remained at two stars – following many years where we had been the leading performer. We have undertaken a root-cause review out of which a pollution reduction plan has been developed to enable us to regain our industry leading position.

During the year, we undertook an extensive consultation programme with customers, listening to their views to help us understand what matters to them most and what they expect from us.

We are determined that we will meet their expectations.

Colin Skellett
Chief Executive

About us

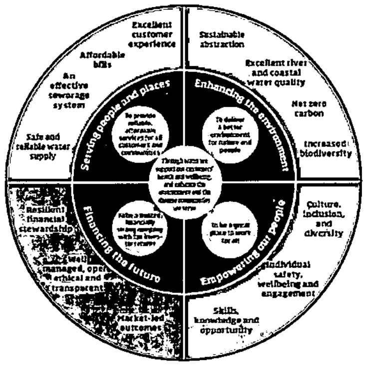
We are a regional water and sewerage business serving 2.9 million customers across the south west of England. We are recognised by our regulators as one of the leading water and sewerage companies in England and Wales.

We play a critical role that goes beyond providing an essential public service. We aim to help tackle the climate emergency, support the communities we serve and contribute to the growth of the UK economy. These aims form the core of our long-term commitment to build a sustainable future with the support of our customers, communities, employees, and stakeholders.

Our long-term plan for delivery of our purpose is set out in our Strategic Direction Statement, published on our website here. The statement sets out our vision and ambitions though to 2050, to give all our stakeholders trust and confidence that we intend to rise to unprecedented challenges, now and in the future.

At its heart are eight outcomes that our customers and stakeholders have told us are their priorities.

- safe and reliable water supply
- an effective sewerage system
- affordable bills
- excellent customer experience
- sustainable abstraction
- excellent river and coastal water quality
- net zero carbon
- increased biodiversity



Our eight outcomes are underpinned by six enablers centred around strong financing and governance, and empowered people, that we need to embed in our business over the long term. These are:

- Culture, inclusion, and diversity: we will have an inclusive workforce that reflects the cultures and diversity of the region we serve
- Individual safety, wellbeing, and engagement: our colleagues will be safe at work, proud to work for us and fully engaged in their roles
- Skills, knowledge, and opportunity: our colleagues will have all the skills and knowledge they need to confidently carry out their roles.
- Market-led outcomes: we will harness the power of markets to drive the most efficient solutions
- Resilient financial stewardship: we will demonstrate long-term financial stability
- Strong governance, ethics, and accountability: we will prove that we are honest and ethical in the way we conduct our business

Serving people and places

To provide reliable, affordable services for all customers and communities

OUTCOMES	Target 2050	Actual 22/23	Previous year	Progress
Safe and reliable water supply Water supply interruptions (mm: ss)	0.00	04:10	04:12	⬆
Compliance risk index score	0:00	1.04	0.37	⬇
An effective sewerage system Sewer flooding impact score	264	496	533	⬆
Affordable bills Percentage of customers spending more than 5% of their disposable income on their water bill*	0%	6.5%	6.5%	⇔
Great customer experience Position in the UK Customer Satisfaction Index	Top 10	93rd	221st	⬆

*Based on the March 2021 CEPA report - https://www.water.org.uk/wp-content/uploads/2021/04/Quantitative-analysis-of-water-poverty-in-England-and-Wales.pdf.

The performance indicators above and that follow show the performance over the regulatory year ended 31 March 2023.

Overview

It is our duty to provide safe, reliable, and affordable water and wastewater services to all our customers, and to protect the environment in which they live.

Last year was testing. Drought and unprecedented heat in the summer required careful operational management. Meanwhile, our customers faced a rapidly accelerating cost of living which inevitably squeezed their budgets. This made affordability difficult for many, but particularly for those in vulnerable circumstances.

Against that challenging backdrop, we remained among the best in the water industry in terms of drinking water quality and managed to improve our performance on supply interruptions and sewer flooding.

We devoted a lot of attention to our range of support packages, which are collectively called our tailored assistance programme (tap), to help our customers afford their bills through very difficult times. We made several changes to tap to enable quicker and easier access and to make it available to more people.

Over the years, we have forged a reputation as a top performer on customer service and were the top water company in the latest UK Customer Satisfaction Index (UKCSI) survey. We are also excited to be piloting a brand-new engagement scheme, Community Connectors, through which we aim to transform how we work with communities in our area. We are identifying shared priorities which we can deliver together.

However, we were extremely disappointed that we failed to maintain our record on environmental performance. The Board is determined to do whatever it takes to restore our industry-leading position.

Our journey

2022 marks another milestone on our journey towards our long-term ambitions for people and places. In our strategic direction statement, which sets out our aims for 2050, we are targeting:

- 100% water quality compliance
- zero water supply interruptions of longer than three hours
- halving the impact of sewer flooding
- zero water poverty – no one will spend more than 5% of their disposable income on water
- being a top 10 customer service provider across all companies in the UK

In the following pages we set out how we have performed against our current regulatory performance commitments for serving people and places.

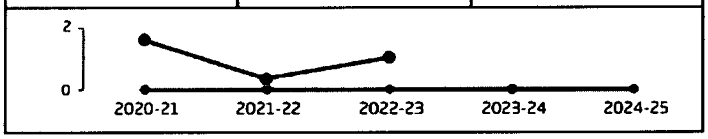
Safe and reliable water supply

Drinking water quality

2022 was a challenging year for water companies in terms of drinking water quality compliance. The exceptionally hot, dry summer led to a prolonged period where water temperatures were higher than normal. We had to manage supplies flexibly to ensure there was always enough high-quality water available for customers.

The Drinking Water Inspectorate (DWI) measures drinking water quality compliance using two main metrics: the Compliance Risk Index (CRI) and the Event Risk Index (ERI). We will not receive our confirmed scores from the DWI until summer 2023 but we have calculated our provisional scores.

Water quality compliance (CRI) (score)		
Target 22/23 **0.00**	ACTUAL 22/23 **1.04**	PREVIOUS YEAR **0.37**

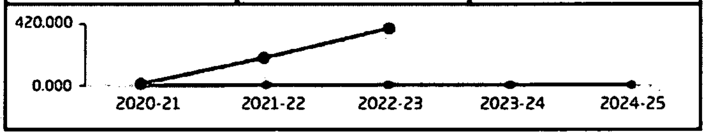


We anticipate a CRI score of 1.039 for 2022, a deterioration from our 2021 score of 0.366. The increase in our score is attributable to the detection of a single coliform at one of our biggest treatment centres.

We ensure we learn from every sample failure, putting in place actions to prevent recurrence, to ensure our CRI remains as low as possible.

We expect to remain among the best performing water companies; the provisional industry average score is significantly worse at around 5.

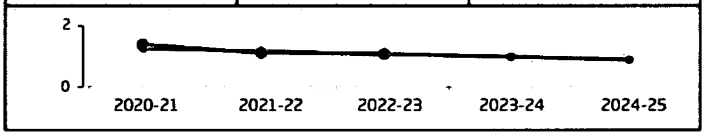
Event risk index (Wessex Water) (ERI WW) (score)		
Target 22/23 12.800	ACTUAL 22/23 402.796	PREVIOUS YEAR 193.699



Our provisional ERI score is 402.796, up from 193.699 in 2021 and our poorest performance since the metric was introduced in 2017. Although less than half of the provisional industry average score of 833.148, this is very disappointing. Potentially, this is attributable to a change in the DWI's approach to risk, which is shown by the 30% increase in the average industry ERI score from the previous year.

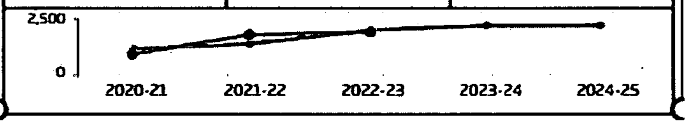
Of our provisional ERI score, 89% came from just two events. One of them involved detection of a specific pesticide which takes a long time to identify, which in turn caused a long duration event and pushed our score up by >200, demonstrating the volatility of the index.

Water quality customer contacts (number per 1,000 population)		
Target 22/23 1.12	ACTUAL 22/23 1.14	PREVIOUS YEAR 1.17



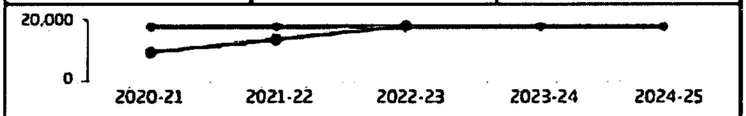
Despite the challenges, complaints from customers about the taste, odour or appearance of their water fell for the fourth consecutive year. We received 1,525 contacts from 1.4 million customers, the lowest level ever – down from 1,559 in 2021 and 1,904 in 2020.This translates to a rate of 1.14 contacts per 1,000 customers.

Lead communication service pipes replaced (Wessex Water assets) (number)		
TARGET 22/23 2010	ACTUAL 22/23 1,928	PREVIOUS YEAR 1,809



Although we were slightly below our target for lead communication pipes replaced for this year, we are ahead of our cumulative target.

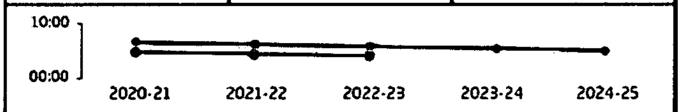
Tackling water quality at home and in the work place (score)		
TARGET 22/23 18,297	ACTUAL 22/23 18,596	PREVIOUS YEAR 14,181



We are pleased to have met our target on tackling water quality at home and in the workplace, where activity saw a return to pre-Covid levels.

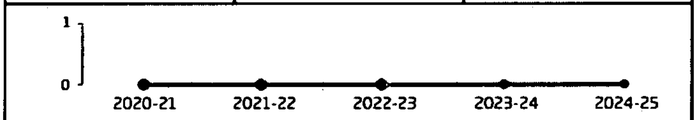
Supply interruptions

Water supply interruptions (mm:ss per property per year)		
Target 22/23 05:45	ACTUAL 22/23 04:10	PREVIOUS YEAR 04:12



We achieved our best ever performance on interruptions to supply, which edged further down to an average of 4 minutes 10 seconds per property from 4 minutes 12 seconds in 2021.

Restrictions on water use (hosepipe bans) (number)		
TARGET 22/23 0	ACTUAL 22/23 0	PREVIOUS YEAR 0



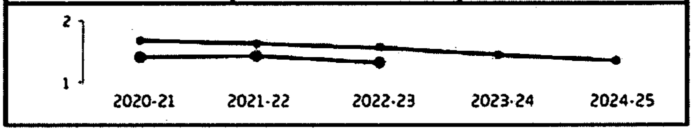
We did not need to impose any usage restrictions on our customers, even during the drought.

An effective sewerage system

Sewer flooding

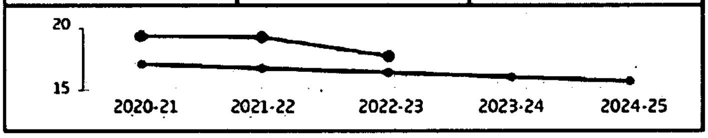
Any escape of sewage into homes or gardens is an escape too many.

Internal sewer flooding (incidents per 10,000 sewer connections)		
Target 22/23 1.58	ACTUAL 22/23 1.31	PREVIOUS YEAR 1.43



Last year we secured a fall in the number of internal sewer flooding incidents (inside properties) from 182 in 2021, to 168 in 2022, a rate of 1.31 incidents per 10,000 sewer connections.

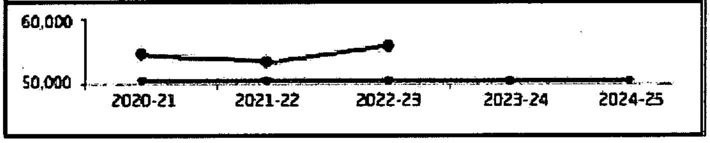
Customer property sewer flooding (external) (incidents per 10,000 connections)		
Target 22/23 16.38	ACTUAL 22/23 17.83	PREVIOUS YEAR 19.27



External sewer flooding incidents (outside properties) fell from 2,460 in 2021 to 2,295 in 2022, a rate of 17.83 incidents per 10,000 sewer connections. We are disappointed not to have met our target.

We welcome the news that the government intends to ban plastics in wet wipes. 90% of external sewer flooding incidents and 85% of internal sewer flooding incidents were a result of sewer blockages, with wipes the single biggest cause of those blockages. We anticipate that the ban, once implemented, will significantly reduce the number of customers blighted by sewer flooding. We also hope it raises public awareness more generally about the need to stop flushing unflushable items.

Sewer flooding risk (score)		
Target 22/23 **50,651**	ACTUAL 22/23 **56,258**	PREVIOUS YEAR **53,737**



We did not achieve our target on the sewer flooding risk measure, which assesses the probability and impact of flooding incidents. Performance was affected by the high levels of rainfall with the wettest March for over 40 years.

North Bristol Sewer Scheme - Trym catchment (months)		
TARGET 22/23 **0**	ACTUAL 22/23 **0**	PREVIOUS YEAR **n/a**

The North Bristol Sewer Scheme is designed to reduce overflows, flooding incidents and pollution risk whilst building capacity for future population growth and potential climate change. The target relates to the number of months delay on delivery of the scheme. We are on track and have met our target.

Affordable bills

Financial vulnerability

Water must be affordable for everyone, all the time. We offer our customers extensive financial and debt support through a range of schemes and low-rate tariffs under our tailored assistance programme (tap).

We increased this in 2022 as customer incomes were increasingly squeezed by inflation and the high cost of living. We are tripling the numbers on our financial support schemes over the next couple of years, making help much easier and quicker to access, auto-enrolling customers on to discounted tariffs where we can, and injecting additional funding into the debt advice sector to build extra capacity.

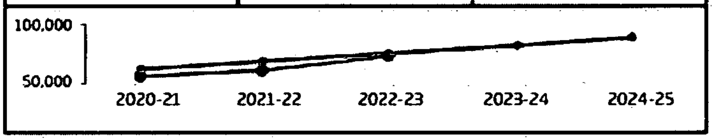
We made the following changes in the past year.

- Worked to fast track up to another 60,000 customers on to our Assist social tariff, so they can benefit from discounts of up to 90% on their water bills more quickly and easily
- Worked with the Department of Work and Pensions to automatically apply a 20% discount to the bills of up to 55,000 low-income pensioners. Overall, more than 23,900 low-income pensioners received around £60 off their bill
- Set up data shares with local councils to auto-enrol customers on to help schemes
- Promoted our schemes using a variety of communication channels and using imagery and wording customers have said will best encourage them to get in touch. We also built new partnerships with organisations to increase take-up.
- Simplified the application process for our schemes based on feedback from customers through focus groups
- Injected an additional £160,000 from out-performance into the debt advice sector, funding seven new projects across our region to directly increase capacity
- Ran a large pilot with debt advice organisation Money Wellness to directly refer our customers to them through a web portal. With consent, we are also able to receive customer data back and support them with the right scheme

The number of customers benefiting from our social tariffs increased during 2022-23. More than 18,300 customers received discounts of up to 90% through Assist.

Total bill reduction to customers on social tariffs per 10,000 households (£ per 10,000 customers)

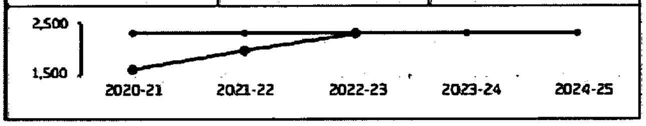
Target 22/23	ACTUAL 22/23	PREVIOUS YEAR
74,606	72,723	61,133



We did not meet our target for the value of the bill reduction to customers on social tariffs. This is calculated by assessing the difference between the bill a customer would have paid under standard charges and the bill they actually paid under the social tariff. Performance is linked to the level of inflation and the number of customers on social tariffs - Assist, WaterSure and the discount for low-income pensioners.

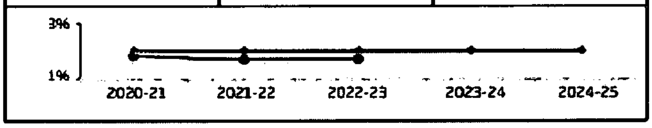
The number of customers benefiting from our social tariffs increased during 2022-23. More than 18,300 customers received discounts of up to 90% through Assist. But a scheme to automatically apply the discount for low-income pensioners was implemented later than we anticipated, which impacted our performance. We expect to meet our target next year.

Successful applications for assistance received by the independent advice sector/third parties (number)		
Target 22/23 2,300	ACTUAL 22/23 2,474	PREVIOUS YEAR 1,977

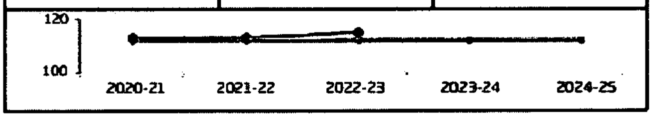


We are pleased that the number of applications to our financial support schemes from funded advice agencies met our ambitions for the first time, following work to increase the number of partners we work with. We beat our target of 2,300 with a figure of 2,474 successful applications this year.

Void sites (%)		
TARGET 22/23 2.00%	ACTUAL 22/23 1.72%	PREVIOUS YEAR 1.70%



Gap sites (number)		
TARGET 22/23 112	ACTUAL 22/23 115	PREVIOUS YEAR 113

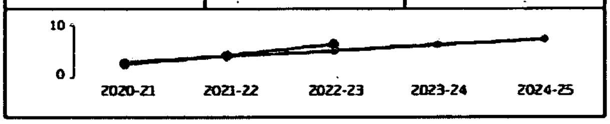


We have met our target for both void and gap sites, which are designed to help ensure we bill customers fairly.

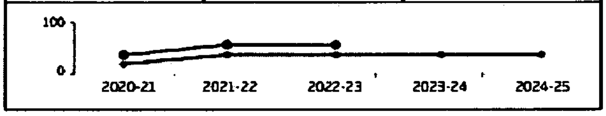
Wider vulnerability

While financial vulnerability has been a particular concern this year, we have maintained our commitment to providing a tailored and inclusive service to all customers, whatever their age, physical health, mental health, literacy level, language skills or personal challenges. Our vulnerability strategy, Every Customer Matters, provides details on how we approach this.

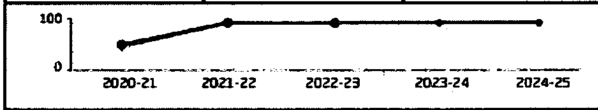
Priority Services for customers in vulnerable circumstances: reach (%)		
Target 22/23 4.9	ACTUAL 22/23 6.1	PREVIOUS YEAR 4.0



Priority Services for customers in vulnerable circumstances: actual contact (%)		
Target 22/23 **35.00**	ACTUAL 22/23 **54.8**	PREVIOUS YEAR **55.0**



Priority Services for customers in vulnerable circumstances: attempted contact (%)		
Target 22/23 **90.00**	ACTUAL 22/23 **90.8**	PREVIOUS YEAR **91.6**



In 2022, we added just under 27,000 customers to our Priority Services Register, meaning 6.1% of households are now signed up. This exceeds our target reach not only for 2023 but also for 2024.

Delivering for customers in vulnerable circumstances (certification status)		
Target 22/23 **Maintained**	ACTUAL 22/23 **Maintained**	PREVIOUS YEAR **Maintained**

We once again retained the British Standard for Inclusive Service Provision and the Customer Service Excellence award.

To deliver our commitment to inclusive and tailored service, we give our staff the tools and training they need to deal with complex customer situations. This year we invested further in specialist training for colleagues, including deaf awareness iLearn, Speakeasy presentation, and a Virtual Dementia Tour Bus, where employees had the opportunity to experience what it can be like living with dementia. We also introduced tailored feedback survey questions for Priority Service customers.

Another vital element of our approach is working in partnership. We greatly value the insights of around 300 partners who help us support our vulnerable customers, and we are always looking at ways to work more effectively with them and to develop new relationships. Some recent examples include:

- asking disability charity Scope to review the accessibility of our bills, which resulted in us making changes to the language and colours we use
- co-funding a project with Bristol Water and our two energy distribution networks for the Royal Association for the Deaf to signpost or register customers for Priority Services and/or affordability support through promotional literature, social media, community outreach events and home visits

We have more activities planned for 2023/24 to ensure water is affordable and accessible for everyone. These include in-depth training with Age UK, and UK Kidney Care during a new 'vulnerability week' planned for colleagues in May; exploring data sharing with more councils and the fire service to auto-enroll customers on to help schemes; and launching a new online eligibility calculator to enable customers to find the right affordability scheme for them.

We will also continue to work with the Consumer Council for Water (CCW) and the rest of the water industry to provide options to the government regarding the introduction of a single social tariff.

Excellent customer experience

Service and satisfaction

We are extremely proud of our customer experience record. We assess our performance using several different metrics.

We are targeting being a top 10 company in the all-sector UK Customer Satisfaction Index (UKCSI) by 2050. We are the top water company in the latest UKCSI survey.

C-Mex (score)		
TARGET 22/23 -	ACTUAL 22/23 83.12	PREVIOUS YEAR 84.82

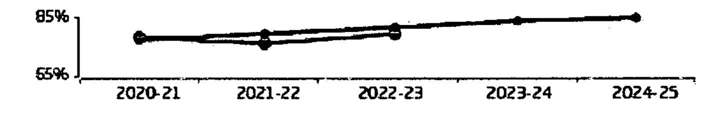
In 2022, we again delivered very strong performance in the water sector customer satisfaction metric (C-MeX,) coming third overall. This was in part a product of our dedicated Customer Experience Group, continually reviewing C-MeX performance and feedback from customers to drive continuous improvement.

D-Mex (score)		
TARGET 22/23 -	ACTUAL 22/23 89.89	PREVIOUS YEAR 89.65

We improved our performance in the water sector developer services measure of experience (D-Mex). Our scored of 89.89 was fifth overall.

In addition, 87% of customers told us they are satisfied with our service. This is a slight fall from 2021 (92%) but remains very high given that extreme weather affected our response times and there was negative media coverage about the wider water sector in the year.

Value for money (%)		
TARGET 22/23 81%	ACTUAL 22/23 79%	PREVIOUS YEAR 76%



79% of customers said our service was good or very good value for money; a higher proportion than in 2021 but still below our target.

In 2022, we again received the Customer Service Excellence award and retained the Service Mark with distinction from the Institute of Customer Service, one of only 20 companies in the country to hold the accreditation.

Our average Trustpilot rating for 2022 was 4.6 stars out of 5, and 86% of reviewers gave us the top possible rating of five stars.

Communicating with customers

We provide a variety of ways to get in touch with us, so customers can use whichever option suits them best. The number opting for self-service, text messaging and web chat continues to grow, and 164,000 customers are now signed up to eBilling.

In 2022 we made further improvements to our self-service options, enhancing our tool to allow customers to report a problem online. We plan further improvements next year, including enhancing the tracking of jobs and introducing single sign on for all digital projects, which will enable customers to update their contact details easily and facilitate more relevant and targeted communications.

This year we also focused on improving how we proactively communicate with customers during a high-impact event, such as a burst water main. We have taken a multi-channel approach and become more joined up in our communications across text, web, and live chat. We plan to further enhance our contact management system for managing high-impact incidents in 2023-24 to:

- improve the incident reporting journey for the customer
- provide more personalised incident updates
- increase customers' ability to self-serve information to reduce contact and customer effort

We ensure our colleagues are trained to look after customers well. This year we introduced a new Going the Extra Mile refresher training course and ran an in-house Every Word Matters course to help colleagues improve their written style. Other new initiatives included introducing a customer service training passport and an iLearn module on the legal Guaranteed Standards Scheme and our enhanced Wessex Water Promise.

Complaints

We have further improved on our 2021 complaints performance, registering 2,744 complaints, a 28% fall on last year. We remain committed to doing even better and continue to implement all the improvements outlined in our best practice Complaints Action Plan. For example, by extending our promise to pay compensation for a late response to a complaint received via any channel, rather than limiting this to written complaints as set out in law.

CCW has recognised our all-round high performance regarding complaints. Its latest complaints report noted: *"Wessex Water was the only water and sewerage company to achieve good performance in written complaints and better than average performance in complaint handling. It is encouraging to see that the company built on previous good performance by reducing written complaints by almost a third and it remains the best performing WaSC for this measure."* We are delighted to share our insights and support CCW and Ofwat with their national work to improve the end-to-end complaint journey for water customers across the country.

More widely, we proactively support open learning by seeking to share the benefit of our experience with others, and by listening to insights that others have to share. Some examples from 2022 include:

- hosting or attending best practice visits with companies from outside the water sector, such as UK Power Networks
- sharing best practice with other water companies
- working with CCW on its Ending Sewer Flooding Misery campaign, which involved both sharing our best practice insights and adopting CCW's minimum standards for supporting customers who have to deal with the horror of a sewer flood.

Acting on feedback

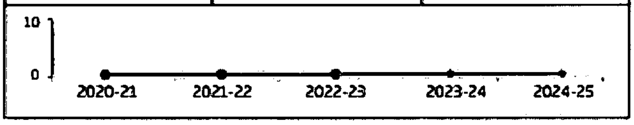
In 2020 we introduced a customer feedback strategy, which enables us to gather views on our service, rapidly spot any dissatisfied customers, and ensure continuous improvement to our processes, policies, systems, and training. We continued work to refine the strategy in 2022.

For instance, under the guidance of our Customer Experience Group, we reviewed several key journeys from the perspective of a variety of customer personas – such as what it is like to experience internal and external sewer flooding. We developed improved feedback dashboards and better root cause analysis reporting. We are working to explore the use of AI to analyse verbatim feedback from customers.

We also introduced a feedback card with a quick-scan QR code to capture views when we carry out work such as mains rehabilitation. This is not linked to customer contact, but it is valuable for us to understand how the wider community perceives our activities.

Cyber security

Security non-SEMD outputs (months)		
Target 22/23 0	ACTUAL 22/23 0	PREVIOUS YEAR 0



We are working to deliver improved cyber security to enhance customer protection. Performance is measured in months of delay in delivery of specific packages of work. To date we have implemented three specific packages of work: cultural awareness and upskilling; security incident and event monitoring; and a 24/7 cyber security operations centre. We have delivered the outputs required for this year.

Business customers

We provide wholesale water and wastewater services to business customers. Since 2017, all non-household water users have been able to shop around for a retailer to provide billing and customer services.

This year we scored 86% in the operational performance standards, the market measure of customer service. The transition to a new IT system and the operational challenges of the 2022 drought had an impact on our overall score, which fell in comparison to last year.

Building stronger communities

After two years of Covid disruption, we were delighted to fully reconnect with our customers and communities in 2022-23 through events, volunteering, recreation, and innovative engagement activities.

Community Connectors

In April 2022, we launched a brand new, place-based engagement scheme, Community Connectors, through which we aim to transform how we work with communities in our area.

We are piloting the idea in two places, Chippenham, and Bridport, for two years. The aim is to identify, in partnership with the local communities in each place, shared goals for the future that we could work together to achieve. We will award gold, silver and bronze Watermark accreditation to recognise environmental and water saving achievements where agreed goals are reached.

So far, in each area we have:

- conducted face-to-face customer research to collate baseline data
- appointed a Community Connector manager and established local advisory groups with representation from councils, Citizens Advice, catchment and environmental groups, and others

- run workshops to agree common goals
- established panels to award funding for projects to meet agreed outcomes

Two primary concerns have surfaced from the communities: climate change and the sharp rise in the cost of living.

The next steps will be to agree the work Wessex Water can do to address these concerns and support the goals. For instance, providing Home Check services and installing water butts – and to select local projects to fund and community actions to support. The pilots run to April 2024, but an interim report is available here: Community Connectors | Wessex Water.

If the approach proves successful in Chippenham and Bridport, we will expand the programme to other communities across our region, to co-create and co-deliver shared outcomes for 2025-30 and beyond.

Charity and volunteering

Water Force, our staff volunteering programme, really thrived this year. 541 colleagues, more than 22% of our whole workforce, took part, donating 3,148 hours of work to 26 different local charities. Activities included beach cleans in Dorset and Somerset, Christmas tree recycling collections for hospices, gardening support for therapy gardens, packing Christmas parcels for food banks and the Salvation Army, animal sanctuary support, and work for the Bristol Avon Rivers Trust and the Dorset, Avon, Wiltshire, and Somerset Wildlife Trusts.

Our Water Guardians – local volunteers who monitor watercourses and funded by us in partnership with the Somerset, Dorset, and Wiltshire Wildlife Trusts – also continued their good work. Among other things, they report possible pollutions, litter pick and record wildlife sightings.

The charitable Wessex Water Foundation spent just over £800,000 in 2022-23 supporting thousands of people and environmental initiatives across the southwest.

Every year, the Foundation distributes £225,000 of core funding to Citizens Advice Bureau and £70,000 to five key environmental partners. This year, in recognition of the cost-of-living crisis, we provided an extra £160,000 to our debt advice partners. And as part of the Community Connectors launch, £66,360 of new funding was devoted to supporting community-led projects in Chippenham and Bridport.

The Wessex Water Foundation also delivered two community funding rounds in 2022:

- the Environment Fund awarded more than £72,000 to help 63 community groups make improvements to their local environment. Some great examples include £1,500 awards to the Birch Collective in Bristol to reclaim derelict allotments to create a wildlife-friendly orchard, and to the Seed of Hope social enterprise in Somerset to install rainwater harvesting in its therapeutic community garden for those with mental health problems
- the Community Fund awarded £176,000 to 67 charitable and community groups to support a variety of activities which aim to improve the lives of people throughout the southwest. Examples include £3,000 for the Love Glastonbury charity to fund a community fridge and £2,825 for Westbury-based charity Crosspoint, to provide debt advice.

Wellbeing and recreation

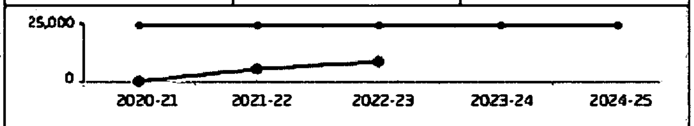
In 2022 we completed the installation of 24 new drinking water refill units across the region. The units are well used, providing free water to thirsty people on the go and preventing more than 245,000 single-use plastic bottles going to landfill every year.

We were also able to provide free drinking water at local sporting events again. We provided water stations at runs across our region, including Cancer Research UK's Race for Life and the Bath Half Marathon, hydrating over 16,000 athletes, and eliminating more than 20,000 single-use plastic bottles from landfill.

We are working to make our Clatworthy and Sutton Bingham reservoir sites more accessible, engaging, and educational. During summer 2022, we completed adaptations to provide wheelchair accessible routes at the sites. We are improving signage and information to better explain how the reservoirs provide security of water supply and valuable homes for wildlife – and what visitors can do to support both missions. We also hosted multiple education and engagement events through the summer and school holidays at the sites.

Spreading the word

Number of children/students engaged (number)		
TARGET 22/23 24,370	ACTUAL 22/23 8,916	PREVIOUS YEAR 5,726



Our team of education advisers were able to return to in-person schools visits and outreach this year. Numbers have been limited until now, mainly due to Covid.

We engaged with 8,916 young people, providing curriculum focused content. This is an increase compared to last year but continues to be below our target as highlighted. We are working to increase the numbers we engage with as part of this measure.

In addition, we hosted Around the Bend tours of our water recycling centres, where hundreds of customers learned about the sewage treatment process and what not to flush down the loo.

We also took the opportunity to talk to customers about sewer misuse and water efficiency when we attended the summer county shows in Gillingham and Shaftesbury, Dorset, and Somerset.

Enhancing the environment

To deliver a better environment for nature and people

OUTCOMES	Target 2050	Actual 22/23	Previous year	Progress
Sustainable abstraction				
Compliance with abstraction licences	100%	98%	97%	↑
Great river and coastal water quality				
Number of pollution incidents	0	110	72	↓
Total tonnes of phosphorous removed from rivers and coastal waters per day	*	1.7	1.4	↑
Total tonnes of nitrogen removed from rivers and coastal waters per day	*	3.7	4.1	↓
Net zero carbon				
Total ktCO2e per year (operational)	0**	104	106	↑
Increased biodiversity				
Number of biodiversity units	Double our contribution	613	613	↔

*Target will depend on what is required, which we cannot forecast.
**Zero target is 2040 for net zero carbon

The performance indicators above and that follow show the performance over the regulatory year ended 31 March 2023.

Overview

Our performance against our commitments to enhance the environment was mixed. We made improvements in some areas but failed to advance in others. We are taking urgent steps to improve our record across all our environmental activities.

This is particularly true of our pollution performance, which deteriorated significantly. There were some relevant contextual factors. The rollout of our monitoring programme increased our ability to identify pollutions. Moreover, the dry summer and subsequent low river levels meant discharges were not as diluted as in normal conditions and the environmental impact was greater. We are resolute in our intention to regain our industry-leading position on environmental performance, including through greater use of intelligent monitoring.

More widely, 2022 demonstrated the extent to which weather affects our business and the water environment. The shadow of the severe drought of the summer can be seen in many aspects of our performance.

The dry weather benefited our storm overflow discharge rates, with discharge hours falling 45% from 2020. That was very welcome, but we are working on robust plans to reduce and ultimately eliminate spills whatever the weather, chiefly by separating rainwater from sewerage infrastructure. We are making innovative use of data to give water users near real-time information on discharges and water quality.

Leakage increased as the ground around pipes dried. Conversely, awareness of the drought stimulated customers to engage with our water saving messages, lowering average per capita consumption across the year to pre-Covid levels. We beat our performance commitment target for the volume of water saved through water efficiency activities.

Thankfully, we head into 2023-24 with our water resources recovered. We worked hard in 2022 making robust preparations for the future. It was a milestone year for water resources planning, with the publication of both our own draft Water Resources Management Plan and the first ever water resource plan for the West Country region. Our operational carbon emissions continued to fall and our work to boost biodiversity on our landholdings continued apace.

Our journey

The tumultuous weather of 2022 and its obvious short-term impacts make it clear that our climate is changing with significant consequences. A long-term view is much needed as we work to enhance the environment. In our strategic direction statement, which sets out our aims for 2050, we are targeting:

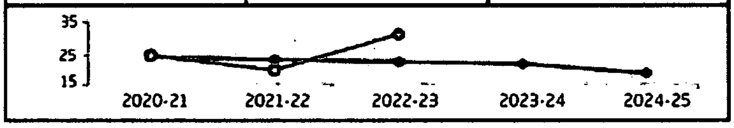
- never harming the health of the water environment through our abstraction
- restoring the quality of our rivers and coastal waters
- being a net zero carbon business (by 2040)
- doubling our contribution to the region's biodiversity

In the following pages we set out how we have performed against our current regulatory performance commitments for enhancing the environment.

Excellent river and coastal water quality

Pollution incidents

Pollution incidents (number per 10,000km sewer)		
TARGET 22/23 23.00	ACTUAL 22/23 31.48	PREVIOUS YEAR 20.60



We are extremely disappointed with our 2022 pollution performance. Having reduced pollutions to 72 in 2021, this year we recorded 110 incidents, a rate of 31 per 10,000km of sewer. Of these,105 had a minor or short-lived impact on the environment, but five were more serious. We regret that we achieved only a two-star rating in the Environment Agency's Environmental Performance Assessment.

The drought conditions experienced in 2022 and the increase in Event Duration Monitoring (EDM) contributed to the increase in pollution incidents. The dry summer and subsequent low river levels provided little dilution effect compared to normal conditions. Coupled with the pre-existing environmental stress due to drought conditions, this meant more incidents had an impact on the environment than in normal years. In addition, monitors installed under the EDM programme identified pollution incidents that the company were not previously aware of.

We are determined to improve. Our intelligent sewer monitoring system, which predicts problems before they occur, is now in place at all our storm overflows. We have a plan to install monitors at many locations near waterbodies so we can reach and clear blockages before sewage escapes, causing water pollution.

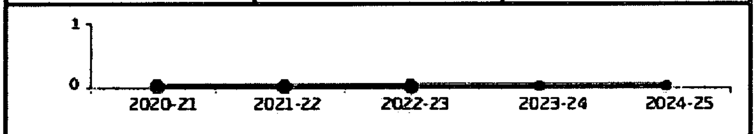
Storm overflows

Responding to public concern, we have committed to eliminating all storm overflow discharges by 2050.

The number of hours our storm overflows discharged this year fell by 45% – from 238,049 hours in 2020 to 129,957 in 2022. This was despite a 27% increase in monitor coverage and largely because of the dry weather.

We reported operational data from 91% of our 1,300 overflows, and 100% will be monitored by the end of 2023. We are also preparing to provide near real-time data regarding when all our overflows operate; currently this is available at 79 sites near bathing, shellfish, and amenity waters.

Reduce frequent spilling overflows (non-WINEP) (number)		
TARGET 22/23 0	ACTUAL 22/23 0	PREVIOUS YEAR 0



As part of our work to reduce the number of overflows, we currently have 93 improvement projects in progress and many more to come. However, we are clear that a traditional response, building more storage, would be short-sighted and have unintended consequences, not least of which would be the massive carbon cost of pouring quantities of concrete and pumping and treating more rainwater.

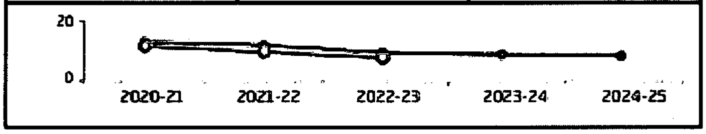
We are prioritising diversion of rainwater from combined sewers and working on the associated legislative and regulatory hurdles, as well as a delivery path. We plan to deliver a number of improvements using nature-based solutions including reed beds, which deliver wider environment benefits - Storm Overflows Improvement Plan (wessexwater.co.uk)

In the meantime, monitoring data from the Environment Agency's Catchment Data Explorer shows storm overflows contribute just 0.8% (9/1,074) of the reasons why rivers in our area are not achieving good ecological status.

Planning for the future

We have several measures that will deliver benefits over the long term.

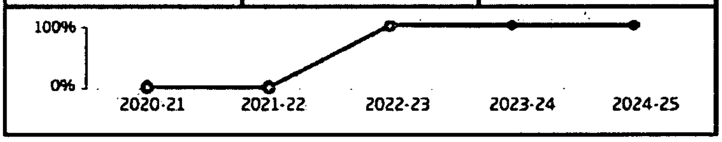
Risk of sewer flooding in a storm (%)		
TARGET 22/23 9.45	ACTUAL 22/23 7.98	PREVIOUS YEAR 9.84



The risk of sewer flooding in a storm measure relates to our understanding of flood risk in our region. We can use this knowledge to develop strategies to reduce the risk of sewer flooding over the long term.

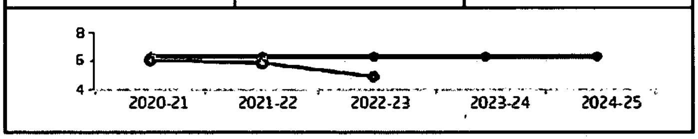
The percentage of the population at risk is lower than our target. This reflects improvements in our understanding of risk delivered through better model coverage.

Drainage and wastewater management plans (DWMPs) (%)		
TARGET 22/23 100%	ACTUAL 22/23 100%	PREVIOUS YEAR 0



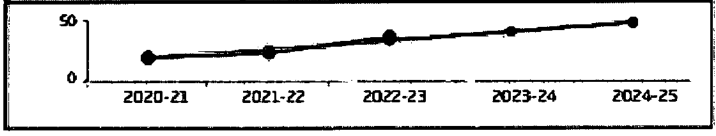
In May 2023 we published our drainage and wastewater management plan (DWMP) on our website, providing a strategic long-term plan for our network - Drainage and Wastewater Management Plan (wessexwater.co.uk).

Sewer collapses (number per 1,000km sewer)		
TARGET 22/23 6.33	ACTUAL 22/23 5.22	PREVIOUS YEAR 5.91



We are pleased to have met our target on reducing sewer collapses for the third year in a row. The measure is designed to ensure that the overall asset health of the below-ground wastewater assets is maintained and improved for the benefit of current and future generations.

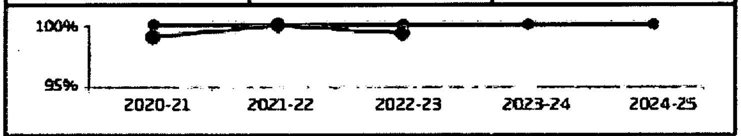
Working with communities to improve bathing water experience (number of beaches)		
TARGET 22/23 33	ACTUAL 22/23 36	PREVIOUS YEAR 24



Under this measure we are incentivised to work with local communities and stakeholders to improve the amenity value of beaches with bathing waters. We have made improvements at 36 beaches, exceeding the target of 33. We recognise there is still work to do in this regard and will continue to work with local and national stakeholders to make further improvements alongside developing new technologies to monitor and improve the quality of bathing waters.

Discharge compliance

Treatment works compliance (%)		
TARGET 22/23 100	ACTUAL 22/23 99.4	PREVIOUS YEAR 100



Water discharge compliance from our 18 water treatment and 290 water recycling centres remained very high at 99.4%. But this was below our 100% target with two sites failing in the year. We have implemented process improvements to restore and maintain compliance at the specific sites. We are also working to make improvements to our systems that will benefit compliance across all sites in our region.

We are part way through a programme to roll out flowmeters and will report on our flow compliance in future years.

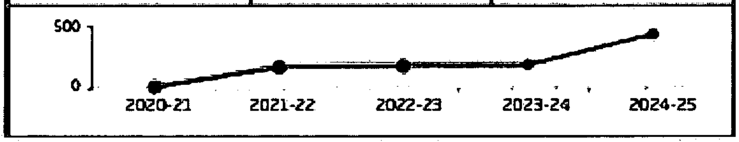
Water quality

Delivery of water industry national environment programme requirements (status of obligations)		
TARGET 22/23 met	ACTUAL 22/23 met	PREVIOUS YEAR met

We develop the Water Industry National Environment Programme (WINEP) in collaboration with our regulators. It identifies specific environmental measures that we need to take to meet legislation. We have met all our obligations for this year.

Length of river with improved water quality through WINEP delivery (km)

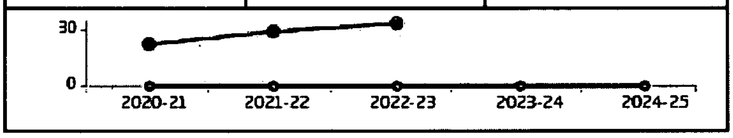
TARGET 22/23	ACTUAL 22/23	PREVIOUS YEAR
167.4	157.8	149.8



Although we delivered our WINEP obligations for this year, we have not met our cumulative target for the length of river with improved water quality. This relates to one project, where we have agreed an extended date with the Environment Agency. This change is not reflected in the Ofwat target, which relates to the WINEP as of 31 March 2019. This project will be delivered next year. We therefore expect to meet or exceed our target next year.

Km of river improved (non-WINEP) (km)

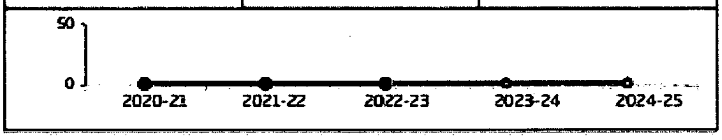
TARGET 22/23	ACTUAL 22/23	PREVIOUS YEAR
0.00	32.4	29.9



We have exceeded our target in this measure, which relates to removal of nutrients (nitrogen and phosphorus).

WINEP requirements (Bristol (Avonmouth) STW) (months)

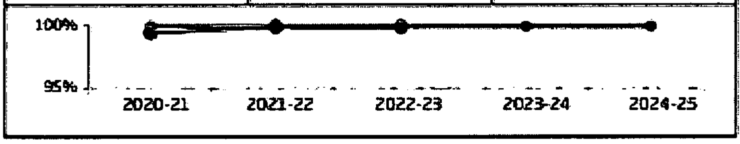
TARGET 22/23	ACTUAL 22/23	PREVIOUS YEAR
0	0	0



This measure is related to a scheme to increase treatment capacity at our largest works in Bristol, which is due to be completed in March 2028. The target is expressed in terms of the number of months the scheme is delayed, where zero indicates no delay. For more information, please see Bristol's water recycling centre (wessexwater.co.uk)

Bioresources

Satisfactory sludge disposal (%)		
TARGET 22/23 100	ACTUAL 22/23 100	PREVIOUS YEAR 100



We have maintained our performance on disposal of sludge to land with 100% compliance. However, we expect the availability of the landbank to reduce over the coming years due to changes in environmental regulations and other pressures. As part of our long-term delivery strategy, we are exploring alternatives to secure our ability to satisfactorily disposal of all our sludge.

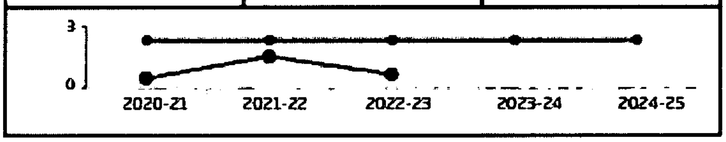
Sustainable abstraction

Water supply

The unprecedented heat of 2022, combined with the second driest year on record in our region, made for the most challenging conditions we have faced since 1976. Demand soared as reservoir and groundwater levels plummeted and drought followed.

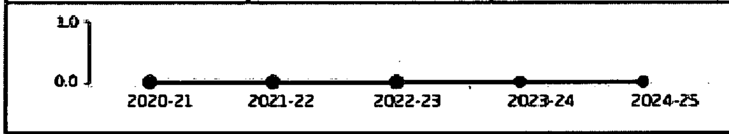
We coped successfully with these extreme conditions, maintaining supplies to all customers, avoiding any usage restrictions, and maintaining flow support to several vulnerable streams and rivers.

Unplanned outage (%)		
TARGET 22/23 2.34	ACTUAL 22/23 0.76	PREVIOUS YEAR 1.59



Our performance on unplanned outage in 2022-23 is a decrease on 2021-22 and is well within our target.

Risk of severe restrictions in a drought (%)		
TARGET 22/23 0	ACTUAL 22/23 0	PREVIOUS YEAR 0

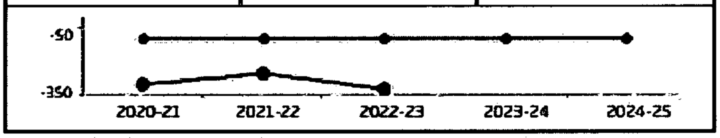


We have assessed that 0% of the population would be at risk of severe restrictions in a drought, which is consistent with our target.

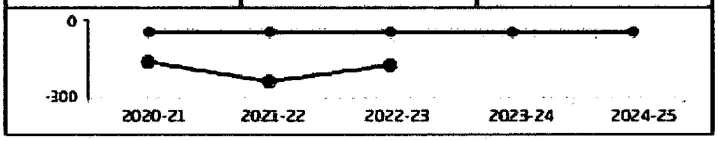
Conditions eased through autumn and winter, and we saw good reservoir and groundwater recharge, with only the driest February for 30 years interrupting proceedings. March was the wettest in more than 40 years, with 235% of long-term average rainfall. This led to reservoir storage at the end of March 2023 returning to 100% and to the soil moisture deficit dropping back to zero, meaning that groundwater levels were also able to recharge.

Groundwater had returned to average levels in both the chalk and Great Oolite aquifers by the end of March, with chalk levels slightly higher than at the same time last year. We are in a good position heading into summer and we do not expect to experience water shortages.

Abstraction Incentive Mechanism (Mere) (Megalitres per year)		
TARGET 22/23 -100	ACTUAL 22/23 -319	PREVIOUS YEAR -251



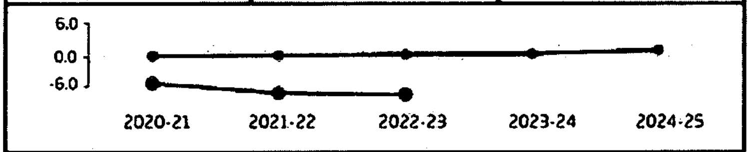
Abstraction Incentive mechanism (Stubhampton) (Megalitres per year)		
TARGET 22/23 -45	ACTUAL 22/23 -169	PREVIOUS YEAR -231



We continued to meet our performance commitments for the abstraction incentive mechanism at both Mere and Stubhampton. Under this mechanism, we are incentivised to voluntarily reduce our abstraction from environmentally sensitive water sources when river flows are low.

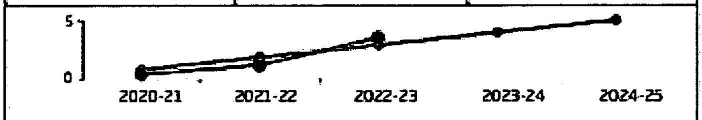
Demand management

Per capita consumption (% reduction)		
TARGET 22/23 0.3	ACTUAL 22/23 -5.4	PREVIOUS YEAR -5.2



Our peak day demand for the year was on 12 August 2022 during the second of two heatwaves, reaching 425Ml/d. However, our overall average per capita consumption was 138.8 litres/person/day in 2022-23, which is comparable to demand levels prior to the pandemic. This equates to a 5.4% reduction over the past three years.

Volume of water saved by efficiency engagement (megalitres per day)		
TARGET 22/23 3.0	ACTUAL 22/23 3.6	PREVIOUS YEAR 1.4



We are proud, particularly given altered water consumption patterns since Covid, to have exceeded our performance commitment target for the volume of water saved through water efficiency activities, delivering savings of 3.6 Ml/d compared to an end of year target of 3.0 Ml/d.

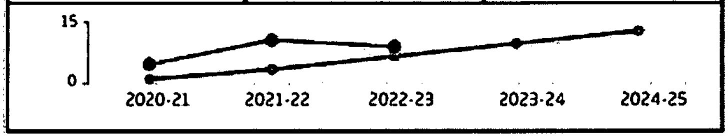
Our water efficiency promotions were very popular with customers who were motivated by the twin pressures of drought and high energy prices, which are relevant to hot water use. We re-launched our Home Check service to install water saving devices and offer bespoke behavioural advice to customers in their homes in April 2022. By the end of the year, we had visited 4,439 customers and plumbers returned to 750 of these to fix leaking toilets and taps.

We promoted our free water saving device pack through social media and in e-newsletters and distributed more than18,000 packs during the year, including nearly 11,500 eco shower heads. More than 21,000 households also signed up to use our online GetWaterFit water use calculator, up from 14,000 the previous year.

In August 2022 we launched a new non-household water efficiency programme, targeting schools for device installations and leak fixes – we had supported 91 schools by the end of March.

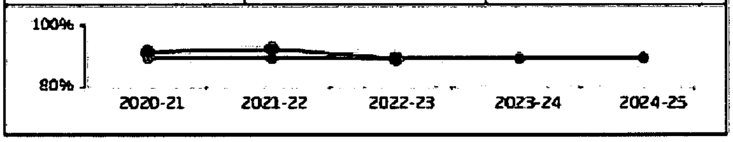
Leakage

Leakage (% reduction)		
TARGET 22/23 6.9	ACTUAL 22/23 9.3	PREVIOUS YEAR 10.8



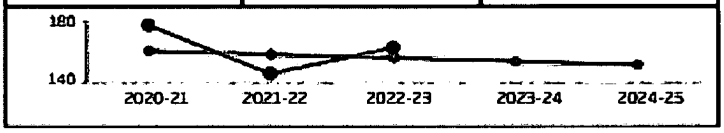
We remain on track for our three-year average leakage target, despite 2022 being a difficult year due to both the extreme heat-drought in the summer and a significant freeze-thaw event in the winter. Alongside other water companies in the south of England, our leakage rate increased – to 71.2 Ml/d - despite the continued enhancement of our active leakage control activities and pressure management.

Customer reported leaks fixed within a day (%)		
TARGET 22/23 90	ACTUAL 22/23 90	PREVIOUS YEAR 93



We are pleased to have met our target on customer reported leaks fixed within a day despite a year of extremes of weather, both drought conditions in the summer and severe freeze thaw incidents in the winter.

Mains repairs (number per km mains)		
TARGET 22/23 156.9	ACTUAL 22/23 163.5	PREVIOUS YEAR 147.1



The number of mains repairs was above our target and reflects the extreme weather conditions experienced this year.

Water resources planning

Last year was a milestone year for water resource planning. We published our new draft Water Resources Management Plan in the autumn, as well as playing our part with our neighboring water companies, in producing the first ever regional plan in January, as part of the West Country Water Resources Group.

The strategic regional water resource options we are involved in continue through the RAPID assessment process:

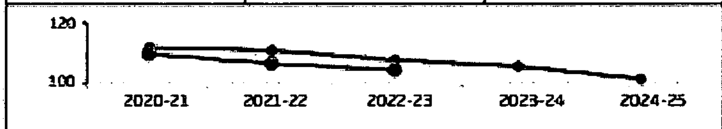
- the Poole recycling and transfer schemes
- the Cheddar resource and transfer option
- the repurposing of a quarry in the Mendips as a reservoir.

We will be preparing invitations to tender for the RAPID Gate 3 design, planning and environmental works over the next 18 months.

Net zero carbon

Emissions and energy performance

Greenhouse gas emissions (KtCO2e)		
TARGET 22/23 107	ACTUAL 22/23 104	PREVIOUS YEAR 106



Our trajectory of diminishing annual gross greenhouse gas emissions continued in 2022-23, falling to 104 kilotonnes of carbon dioxide equivalent, the lowest annual operational carbon footprint since we began reporting in 1997. A combination of energy efficiency improvements, renewable energy generation and the rapidly falling carbon dioxide intensity of UK grid electricity has led to steadily falling emissions over the last seven years.

Our electricity use, at 254 gigawatt hours, was relatively low in the context of the last five years, in part due to the dry summer, but close to our average consumption over the last 10 to 15 years. We continue to pursue energy efficiency opportunities to offset rising energy use driven by tighter water and sewage treatment standards, and the operation of our regional water supply grid.

This year, 12% of our electricity demand came from renewable electricity generated at our sites. Furthermore, the biomethane that we exported to the gas grid was 2.5 times the natural gas that we consumed ourselves.

Decarbonisation plans: 2030 and 2040

We aim to achieve net zero carbon emissions from our operations by 2030. We are accelerating our efforts in order to meet this target. We set out the details in our net zero carbon routemap - Wessex Water routemap to net zero carbon emissions | Wessex Water.

Some methods are well-established, including advancing our energy efficiency, increasing our use of renewable energy, decarbonising our fleet, and pursuing nature-based solutions in preference to asset-based solutions.

Other methods require further exploration and innovation. Notably, measures to combat emissions of methane and nitrous oxide from treatment processes need attention as they account for a much larger part of our total emissions than past estimates indicated. We are collaborating with others across the UK water sector to understand how to address this difficult challenge, and we will be starting direct measurement at some of our largest sites during 2023-24.

By 2040, 10 years ahead of the UK government target, we aim for our entire business to be net zero total carbon. This will include the embodied carbon associated with construction materials, treatment chemicals and other products that we consume. We are adopting tools that provide detailed estimates of the whole life carbon of capital schemes to assist our decision making on the lowest carbon options, including for our business plan for 2025-30.

Pursuing both our 2030 and 2040 targets will involve all parts of our business as well as co-operative relationships with solution providers, technology developers, our customers, local communities, and regulators, among others.

Climate adaptation

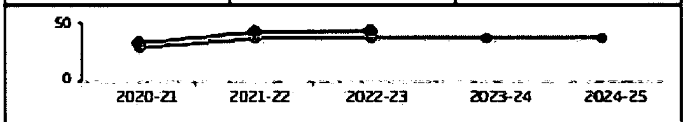
We report how we are adapting to climate change under provisions set out in the Climate Change Act. In 2021, we produced our third climate change adaptation report. We review the risks posed to our services from the changing climate and explain the measures we are taking to maintain resilience in light of these risks.

We are publishing our second report using the framework of the Taskforce for Climate-Related Financial Disclosures in this year's Annual Report.

Increased biodiversity

Biodiversity value

Working with catchment partners to improve natural capital (number of projects)		
TARGET 22/23 37	ACTUAL 22/23 43	PREVIOUS YEAR 42



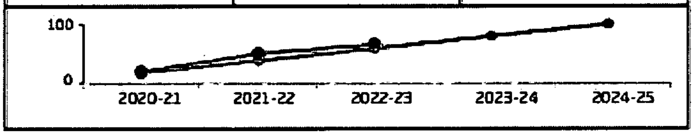
We are pleased to have exceeded our target on this measure, which incentivises us to work with farmers and biodiversity partners to deliver improvement projects for the environment.

In 2022-23, we continued to draw on insights derived from the baseline biodiversity value assessment we conducted in 2021. This used Defra's Biodiversity Metric 3.0 and valued our landholding at 14,348 biodiversity units.

We have identified that our 333 larger sites, each of more than 0.5 hectares, contribute the lion's share of our biodiversity units (13,952), whereas our 1,825 small sites contribute far fewer (395). Some individual sites make an enormous contribution, including Clatworthy Reservoir (13.5%), Charmy Down (10% – see case study) and Shapwick Heath (10%). Neutral grasslands provide the greatest value of all habitat types, followed by reservoirs and lowland mixed deciduous woodland.

Protected sites

Natural capital: improve Sites of Special Scientific Interest (SSSI sites) (%)		
TARGET 22/23 60	ACTUAL 22/23 67	PREVIOUS YEAR 52



We have agreed actions with Natural England to improve several SSSI sites in our region. We have exceeded the target number of actions to be delivered by 2022-23.

Of our Sites of Special Scientific Interest (SSSI) landholding, 63% is in favourable condition, and 30% is classified as unfavourable – recovering, a total of 93%. This is unchanged from 2021. We continue to work towards the government's 25 Year Environment Plan target to restore 75% of protected sites to favourable condition.

Empowering our people

To be a great place to work for all.

The performance indicators that follow show the performance over the regulatory year ended 31 March 2023.

Overview

Our staff are valuable, skilled, and caring people, motivated by a strong sense of public service. They strive day in day out to do their very best for our customers, communities and environment. Last year was a difficult year to work in water with extreme operational conditions and an unprecedented amount of negative publicity about the wider sector, which we appreciate has been challenging as a backdrop to their work.

We appreciate everything our staff do to make possible the delivery of all the outcomes we provide for society and the environment. In return, we work hard to keep them safe, treat them well and fairly, and ensure they have all the training and support they need to do their jobs.

Society's growing focus on equality, diversity and inclusion rightly continued in 2022-23. We know we have work to do to make our workforce reflective of the community we serve, and we continue our focus on achieving that goal. In 2022, we formed new groups to champion and advocate for those from ethnic minority communities and those with disabilities. We also appointed executive sponsors for all underrepresented groups, to provide senior support for initiatives to improve opportunities for all.

We are committed to ensuring Wessex Water is a safe, welcoming, and inclusive workplace.

Our journey

Empowering our people is an ongoing priority and needs our continuing focus as circumstances and needs change.

We commit to always:

- prioritising individual safety and wellbeing
- investing in our people so they are fully equipped collectively and individually with all the skills and tools they need to work effectively, fostering a culture that is inclusive for all, where everyone belongs and thrives
- inspiring our people to become advocates of the company, the work it does, and the role it plays in the community and society.

Individual safety, wellbeing, and engagement

Health and safety – reporting and culture

Our Health and Safety Committee has paid particular attention to process safety, focusing on the safety of our people, the continual improvement of our processes, the future resilience of our plant, and learning from the expert input of its Advisory Board. We also continue to co-operate with the investigating authorities as they carry out their investigations into the tragic incident at Avonmouth in 2020.

Our new dedicated health and safety reporting platform, Engage EHS, has been in place for its first full year. It ensures consistent reporting across the Company and improves visibility and action management. We are already seeing improved safety trends and quicker response times from improved visibility of actions and are analysing behaviours to inform our proactive intervention strategies.

To support these improvements, we continue to actively encourage and communicate the benefits of reporting safety incidents and sharing safety observations. In 2022, employee engagement increased 17%, resulting in an 11% increase in reported incidents. We interpreted this as a successful drive for openness and reporting rather than as a failure, as injury and frequency rates both reduced. This included a 15% fall in serious (RIDDOR) incidents; a 9% reduction in injuries; and a 12% fall in our all-injury frequency rate.

More widely, we promoted the 'Make It Right' ethos throughout the year, which is designed to encourage colleague engagement and ethical thinking.

Organisation and leadership

We reviewed legislative requirements and plan to develop a new range of health and safety standards.

During the year, we restructured and augmented our safety team, including implementing a multi-disciplined up-skilling programme for our health and safety advisers. Some of our health and safety professionals also undertook the nationally recognised Kelvin TOP-SET incident investigation training, to improve, among other things, root cause analysis and prevention.

We completed more than 3,000 safety audits, and site visits from senior leaders increased by 41%. We also introduced a QR code induction process for all sites, automating key site-specific safety controls.

We introduced an automated occupational health screening process, supporting fast track help for our colleagues. Working with Avon Partnership NHS, we also developed a new occupational health reporting system, enabling improved visibility of data trends to support targeted intervention.

Throughout the year, we continued learning from others, engaging continuously with Water UK's Occupational Health and Safety Group, sharing knowledge and benchmarking data. In collaboration with others, we learned from best practice applied at the Hinkley Point nuclear plant.

Awards and accreditations

Once again, we were very proud to receive the Royal Society for the Prevention of Accidents' President's Award, which is reserved for organisations which have achieved 10 or more consecutive gold awards. This year we made it 11 golds. We also retained our ISO45001 certification.

Skills, knowledge, and opportunity

Early careers

We welcomed 27 entry apprentices, 16 career development apprentices, 13 people on industrial placements and 13 graduates in the year. We were excited to launch the YTL Wessex Academy – a government recognised employer provider for apprenticeship delivery. This will allow us to deliver high quality training in-house.

So far, more than 150 people have benefited from our early career programmes, with an additional 35 having formal advice and guidance sessions on their potential career development steps. We've also opened our doors to 40 work experience placements, showcasing career insights into the water industry. We have benefited from the creation of a fantastic pipeline of talent to help us futureproof our business.

Managing learning

In 2021, we launched a new learning management system which enables staff to book courses and access resources online in one place and tracks all mandatory and compliance training. The system has enabled us to provide more detailed reporting and governance of our training requirements, ensuring compliance standards are being maintained.

We are continuing to enhance the platform, adding new functionality such as the ability to rate our courses to ensure the quality is high and can be continuously improved.

Training

We delivered more than 1,000 training courses and added a 'learning bites' section to our platform to provide quick and simple eLearning opportunities for staff.

We expanded our eLearning catalogue by adding new courses to help users refresh knowledge quickly, including new courses for customer service and national water hygiene.

A key focus has been the inclusion of competencies, where learners must demonstrate that they have acquired a specific skill. After a successful project on permitting, we intend to roll out the use of training competencies to the rest of the business, to further support our people to carry out their roles with great skill and confidence.

Culture, inclusion, and diversity

Our ambition is to build a workforce that reflects the communities we serve, and we are committed to improving all areas of diversity and inclusion.

Our programme for the year continued with a broad spectrum of activities across gender, ethnicity, disability, sexual orientation, and social mobility. We have an active working group overseeing all our efforts in this area.

Benchmarking

To better understand how we are doing, we took part in the 2022 Energy and Utility Skills Diversity and Inclusion Measurement Framework. This provided excellent insight into how we compare with the utility industry in the UK, including the water sector, both nationally and regionally.

While we are making good progress on ensuring our workforce reflects the community we serve, our ethnicity results are below the UK industry average. In response, we formed the Race at Work Group – an internal network of colleagues from across our business, to plan how we can provide more opportunities for those from ethnic minorities.

Similarly, we formed a Disability Advisory Group, again consisting of colleagues across our business, with an interest in promoting opportunities for those with a disability, including hidden disabilities. The group will provide feedback and advice on improving opportunities.

Leadership and networks

In September 2022, during our promotion of National Inclusion Week, we announced executive sponsors for all key characteristic areas. This was to demonstrate senior level commitment to improving diversity and inclusion, and to provide practical executive level support for our working group members to help them enact their plans.

The internal networks we created in 2021 gathered momentum in 2022. The ARC Alliance, formed to promote acceptance, respect and celebration of our LGBTQ+ colleagues, provided valuable advice and recommendations, while our Working Families Group provided ongoing help to colleagues juggling work and family life. Tangible policy progress was made here, too. After undertaking external benchmarking on our family leave policies, we improved our leave and benefits entitlements to help us attract and retain talent and build a reputation as an employer of choice, especially in male dominated business areas.

Our Menopause Network has also proved highly successful, running a series of events for both men and women, and providing useful information across our internal media.

Partnerships with external organisations continued to thrive. For instance, we provided work placements to help women re-enter employment in collaboration with the Women's Work Lab, and our work with Seetec Plus and Bristol Future Talent Partnership expanded.

Gender-pay gap

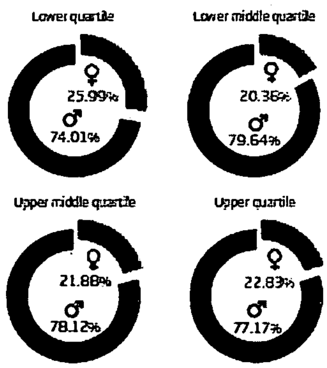
The gender pay gap is the difference in average hourly pay received by men and women. It is distinct from equal pay, which is the right for men and women to be paid the same rate of pay for doing work that is of equal value.

Gender pay data	2022
Wessex Water mean	1.56%
Wessex Water median	2.35%
National mean*	13.90%
National median*	14.90%

* Gender pay gap in the UK 2022 ONS published 26 October 2022

The data above represents our gender pay gap figures as of 5 April 2023. Our gap is well below the national median, and we continually work to close it further.

The distribution of men ♂ and women ♁ in salary quartiles is shown below.



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

Financing the future

To be a trusted, financially strong company with fair investor returns

The financial indicators that follow reference the performance over the statutory year ended 30 June 2023.

Overview

Last year was a tumultuous one for the economy, featuring extraordinarily high inflation and soaring interest rates. This proved a challenging backdrop for both us and our customers. A multitude of scenarios affected our financial performance, including the cost-of-living crisis for our customers, and inflationary and global market pressures.

We have remained steady through the storm and our strong financial foundations have continued to underpin the delivery of leading service provision for our customers and communities.

Our pro-competition ethos has also remained firm, and we continue to seek to unlock efficiencies and innovation through markets. We expanded our pioneering work creating nutrient markets and trading for other environmental services. We also put two new 'challenges' through our online platform, the Wessex Water Marketplace. This is where we issue a competitive invitation to tender for projects to address specific challenges we have. One challenge concerned sewer network monitoring and the other bioresources capacity. These two initiatives had very different outcomes, but both have yielded valuable lessons.

Our Sustainable Financing Framework is now in place, providing opportunities for investors to ally with us in delivering tangible environmental and social benefits.

Our journey

We always aim to exhibit exemplary governance, transparency, accountability, efficiency, and financial resilience. YTL has now owned Wessex Water for over 20 years, making us the longest single owner of a UK water and sewerage company. We have a simple financial structure and do not engage in any aggressive or artificial tax planning.

We stand ready to invest into Wessex Water, for a fair return, to help finance the much-enlarged investment programme. Building on this, in our strategic direction statement to 2050 we have committed to:

- being the most efficient water company in the industry – harnessing the power of markets and real competition and championing an outcomes-based approach to regulation where efficiency can be maximised through flexibility and choice
- keeping gearing below 70%
- providing fair returns to investors and being well-regarded by financial stakeholders
- delivering for wider society and the environment through sustainable financing, measured using ESG metrics

Resilient financial stewardship

Corporate Structure

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 all debt raised by the Company at market rates provided by external third parties.

Overall performance

Household consumption was lower as we successfully encouraged people to consume less and they were spurred on to do so by awareness of the summer drought and high energy prices, which prompted more frugal use of hot water. Simultaneously, our operating costs were affected by inflationary and global market pressures, including energy and chemicals costs. We also saw a near-term impact on earnings driven by inflationary pressures, especially on indexed debt.

Financial Highlights

	2022-23	2021-22	2020-21	2019-20	2018-19
Revenue (£m)	**541.8**	517.8	516.9	540.8	556.0
Profit Before Tax (£m)	**(35.4)**	54.0	75.2	109.7	131.5
Equity (£m)	**609.0**	747.1	700.1	768.4	838.6
Total Assets (£m)	**4,644.1**	4,317.7	4,506.6	4,170.2	3,911.6
Net Debt (£m)	**2,734.0**	2,472.7	2,348.8	2,244.2	2,107.1
Regulatory Gearing	**66.3%**	66.9%	70.0%	67.1%	64.6%

- operating profit decreased by £26.8m from £144.2m to £117.4m
- turnover increased by £24.0m or 4.6% while underlying operating costs increased by £49.9m or 13.1%. Increasing costs resulted from inflationary pressures on energy and raw materials, operational drivers such as supporting improvements to leakage and pollutions performance and extreme weather events
- the average cost of debt increased from 3.8% to 5.9%. We maintained a balanced mix of financial instruments and maturities
- Interest costs increased by £67.5m (74.8%) to £157.8m primarily reflecting the impact of inflation on index linked borrowings
- capital expenditure on tangible and intangible assets (including infrastructure maintenance expensed through the income statement) delivered during the year was £319.9m, an increase of £61.0m over £258.9m last year and in line with expectations

- profit before tax fell by £89.4m from £54.0m last year to a loss of £35.4m. This was primarily due to the underlying increase in operating and interest costs
- interest cover, as measured by net interest payable excluding indexation to earnings before interest, tax and depreciation reduced from 4.68x to 3.58x

Return on Regulatory Equity ('RoRE')

RoRE is a performance indicator for the regulated business and reflects our combined performance on totex, customer ODI's and financing against the base return allowed in Ofwat's Final Determination.

The Company delivered a RoRE of 11.3% in the year to March 2023, outperforming the base return by 7.4% because of:

- Our broadly neutral ODI performance;
- Underperforming our totex position by 5.6% reflecting the impact of high energy prices and inflationary pressures; and
- Financing outperformance of 13.0%, driven by our financing strategy and the tax benefit of super deduction capital allowances.

Sustainable Finance Framework

Our ability to create value for all stakeholders in a sustainable manner is core to our beliefs. Our Sustainable Finance Framework, which supports our financing ambitions to deliver tangible environmental and social benefits, is now in place. The framework aligns our purpose – to support our customers' health and well-being and enhance the environment and the diverse communities we serve – and our business plan commitments to our financing ambitions through targeted financing.

Under the framework, we may issue environmental or social debt instruments to support our environmental and social objectives, enabling investors to participate in the provision of a sustainable future. Through a Sustainable Finance Framework to finance our plans, investors will be able to monitor how the funding supports delivery of Wessex Water's environmental and sustainability goals.

We need certainty to remain attractive for private investment and to plan for the future. We will continue to ensure customers' bills are affordable while investing in our infrastructure, protecting the environment, and innovating to find the best, cost-effective solutions. Our commitment to delivering a better future will allow our investors to participate in funding our provision of water and waste water services on a sustainable basis, helping to achieve global climate change targets and contributing to the United Nations' Sustainable Development Goals.

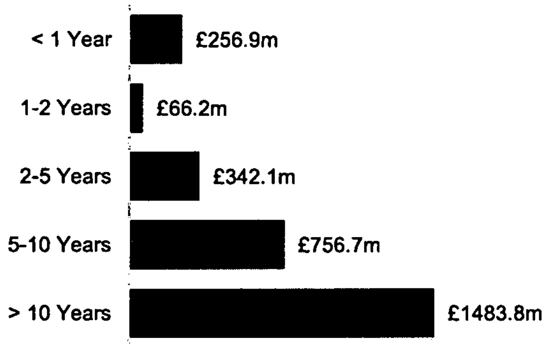
We launched an inaugural £300m sustainability bond in March 2023, re-opening the sterling primary markets following recent financial sector volatility. The strong execution dynamics on show demonstrate the willingness of the UK investor base to look through the current financial environment for names which are more insulated from the financial sector volatility.

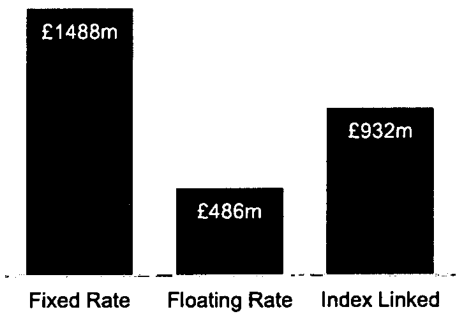
Financing

The company's liquidity position comprises cash and cash equivalents held on the balance sheet along with undrawn bank facilities, giving the company instant access to funding if needed. We invest cash in deposits with highly rated banks which are regularly reviewed.

On 31 March 2023, Wessex Water Services Finance Plc agreed terms for the issue of £300m of bonds under its aforementioned Sustainable Financing Framework with a tenure of 9 and half years and at a coupon of 5.125%. The net proceeds from the issue of these bonds were loaned to Wessex Water to fund its investment programme and repay a £50m index linked bond due in July 2023.

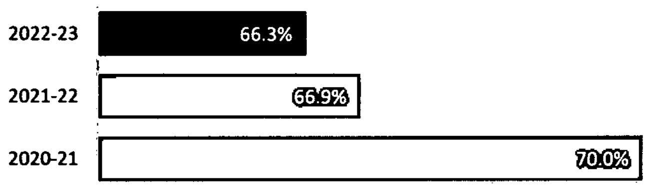
Total borrowings, including amounts owed to subsidiary companies, were £2,905.7m as of 30 June 2023 (2022: £2,472.7m). The maturity and interest rate profile of our borrowings are as follows:





Gearing

Gearing, as measured by net debt to regulatory capital value (RCV), stands at 66.3% which the Board considers an acceptable level. During the year the Board has continued to pay particular attention to the projected level of the Company's gearing ratio and interest covers 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.



Credit ratings

Wessex Water and its financing subsidiary have credit ratings assigned by two ratings agencies. These provide an external view on creditworthiness for our debt investors. The latest published ratings are as follows:

Credit rating agency	Rating	Outlook	Date of Publication
Fitch	BBB+	Stable	November 2022
Moody's	Baa1	Stable	December 2022

Pensions

The latest actuarial valuation of the Company's pension scheme took place on 30 September 2022, showing a deficit of £35.3m. The Company has agreed with the scheme's trustees a payment recovery plan in respect of the deficit comprising employer contributions of 15.5% and special contributions over the next two years to reduce the deficit. The Company paid a special contribution of £18.4m on 30 June 2023 and is committed to the schedule of future contributions through to 1 July 2024.

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 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 Chief Finance Officer is ultimately responsible for our tax strategy and engages with relevant individuals within the Company to ensure the strategy is implemented, monitored, and reported to the Board. 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.

Our total tax contribution

We are committed to paying the right amount of tax at the right time. We pay a range of taxes, including business rates, employers' national insurance and environmental taxes such as the climate change levy as well as the corporation tax showing in our tax charge on the income statement. In his 2021 Budget, the Chancellor introduced the 'super deduction' of 130% of capital allowances. As expected, the benefits of this reduced our current tax payable in the year to nil. A breakdown of our total tax contribution is shown below:

Section 172 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 55 to 74) outlines how the Board operates and describes how the Board has:

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

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

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

- Employees – the Board regards the company employees as critical to delivering the vision, values and outcomes needed to meet our wider stakeholder expectations. The Board has established several 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, a staff seminar, Learn at Lunch sessions and an 'Ask an Exec' on a regular basis to improve learning, appreciation of other departments and to share the messages from the Board. The Board actively supports employees though mental health awareness, disability awareness, and developing and supporting people through their careers. The Board have established a training "Academy" to deliver apprenticeships, to address skills shortages across the industry and in particular supporting people of all ages to develop their careers. Our Academy entry requirements provide a fully accessible route to a career for those from diverse and disadvantaged backgrounds.

- External Stakeholders – our directors have close regard to our business relationships with our wider stakeholders; our social purpose, sustainability, the natural environment, and the impact of our operations on the environment and the communities we serve; as well as the need to act fairly to balance all stakeholder needs. Consideration of these factors and other relevant matters is embedded into all Board decision-making, strategy development and risk assessment throughout the year.

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

Stakeholder group	What matters to our stakeholders?	Metrics	Company engagement	Board level engagement and Impact
Customers We serve 2.9 million customers across the south-west of England. Our aim is to be an exemplar water and sewerage company providing reliable and affordable services for all customers and communities. Our customers include: • Residential • Non-household/business • Developers, • Minority and underrepresented groups • Those in vulnerable circumstances • Retailers and bulk supply customers • Future customers and generations, including children and students	Our customers want safe and reliable water supplies, an effective sewerage system that does not pollute our environment, a great customer experience but delivered with affordable bills and the peace of mind that they are supported in times of need. Our customers' priority is increasing for long-term investment to enhance or protect the environment and biodiversity, with many of our future customers using river and bathing water more frequently.	• Customer Experience Score 82.99 • Developer Experience Score 89.89 • Retailer Experience Score 75.6% • EA Environmental Performance Assessment 2 star Requires Improvement • DWI Compliance Risk Index Score 1.04 • Water Supply Interruption 4 mins 10 secs per property within our region • Internal sewer flooding (per 10k properties) 1.31 • Priority services 6.1% on register • Risk of severe restrictions in a drought 0% • Unplanned outage 0.76% • Pollution incidents (per 10,000kms of sewer) 31.5 • Mains repairs (per 1000km of mains) 163.5 • Sewer collapses (per 1000km of sewer) 5.22 • Trustpilot rating 5 star	• Customer Challenge Group • Qualitative engagement with household customers, stakeholders, businesses including in-depth workshops and inter-generational focus groups to identify the highest priorities • Customer feedback surveys and continuous engagement reviews • Market research • Feedback routes through customer magazine • Website, including LiveChat and e-billing • Developer consultations • Young People's Panel, and working with schools and students • Bill Cap Scheme "WaterSure" for those on low incomes and unavoidable high-water use • Free home check visits and advice on water use. With our online app "GetWaterFit" to monitor water use and promote water efficiency • Working with partners in catchments to protect and enhance raw water quality • Engaging with customers to remove lead pipes and issues that may affect public health • Work with customers to prevent items such as fat, oil and wet wipes being disposed down toilets and sinks. • Personalised support packages tailored to meet individual financial circumstances (the TAP programme)	• Willingness to pay research • Every Customer Matters Strategy • Customer image tracking surveys and customer experience research • Performance metrics • Operational Resilience • Young People's Panel • Catchment Panel • Environment and Public Value Committee and our Social Purpose • Working with stakeholders and customers to develop our 25-year drainage and waste water management plan **Feedback from our customers and their representatives informs our strategy, values, priorities including (but not limited to) our business planning priorities, charges, and pricing strategy.**

Stakeholder group	What matters to our stakeholders?	Metrics	Company engagement	Board level engagement and impact
			• Engaged with over 1,600 customers in developing our strategic direction statement.	
Customer representatives We value the opinions of all our customers and their representatives. We work with over 200 organisations (through our Partner Hub) that help us support individuals and communities across our region. Our customers representatives include: • Organisations representing customer groups such as (but not limited to) • Citizens Advice • Step Change • Consumer Council for Water (CCW) • Bristol Age UK • Debt Advice Agencies • Alzheimer's Society • Mind • Schools and Colleges • Charities and third sector organisations • Farmer and landowner groups	Our customer representatives want to ensure that we value all customers and engage fully with them to understand their requirements, needs and concerns. Our customer representatives want to provide unrestricted challenge to us for the betterment of all customers. One of our long-term outcomes is affordable bills, targeting water poverty and ensuring that our households spend no more than 5% of their disposable income on water.	As Above	• Partner Hub • Customer Challenge Group • Qualitative engagement with household customers, stakeholders, businesses including in-depth workshops and inter-generational focus groups to identify the highest priorities • Customer feedback surveys and continuous engagement reviews • Market research • Website, including LiveChat • Developer consultations • Young People's Panel • Working with schools and students • Tailored Assistance Programme providing tailored packages to help individuals' financial circumstances • Online partner hub and roadshows • CCW public meetings • Working with partners in catchments to protect and enhance raw water quality • Work with CCW and the industry to implement plans for a single national social tariff	• Customer Challenge Group • CCW public meetings Willingness to pay research • Every Customer Matters Strategy • Performance metrics • Operational Resilience • Young People's Panel • Catchment Panel • Environment and Public Value Committee and our Social Purpose • Launch of our "Foundation" dedicated to community projects across our region. We have distributed grants to 188 projects to help homelessness, hunger, and mental health. **Feedback from our customers and their representatives informs our strategy, values, priorities including (but not limited to) our business planning priorities, environmental ethics, charges, and pricing strategy.**

Stakeholder group	What matters to our stakeholders?	Metrics	Company engagement	Board level engagement and Impact
Our people Our people are the embodiment of our culture and allow us to provide excellent service to our customers. Our people are also our customers. We aim to empower our staff with the skills, knowledge and opportunities within a diverse and inclusive culture. Safety of our staff is paramount. Our employee group includes: • Employees • Retired Pension scheme members and their families • Future Employees • Unions • Contractors.	Our people strive for excellence in their work and want to be developed to their full potential, working in a fully inclusive workplace, be given opportunities to shine and be rewarded fairly for the work they do. They want to be valued and their health and wellbeing kept safe from harm.	Amongst all H&S KPIS - Lost time incident per 1000 staff rate from health and safety incidents 8.88 Gender Diversity Male: Female 78:22 Mean gender pay gap 2.6% Delivery of training 1319 face to face training courses and 16921 e-learning courses delivered Training plan delivery 100% Staff survey – good company to work for 95% Staff retention 88.5%	• Establishment of a training "Academy" to deliver apprenticeships. • IOSH training for all senior leaders • Employee survey • 'Ask the CEO' • Employee roadshows and Staff Seminars • Lunch and Learn talks • Mental Health First Aiders • ARC Alliance • Working Families Group • Armed Forces Covenant • Autism at Work Programme • Disability Confident Employer (Level 2) • Bristol Future Talent Partnership • Dedicated Early Careers Team • People's council	• People's council • Employee survey • Ask the 'CEO' • Employee Roadshows and Staff Seminars • Pension Trustee Board • Health, safety, and welfare committee **We listen and act on our employees' opinions to provide our people with satisfying careers.**
Our supply chain Excellent relationships with our suppliers are key to delivering excellent services to our customer and nurturing business and innovation within our communities. We aim to use markets to identify efficiencies to achieve the best possible outcomes for the best possible price. Our supply chain includes:	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.	Number of suppliers 2,798 Average creditor days 21 Total Supplier Payments made during the year £311m Adherence to Utilities Contracts Regulations, with current supplier challenges upheld being 0	• Wessex Water Marketplace • Membership of British Water • Pipeline Industries Guild • EnTrade liaison with the market	• Wessex Water Marketplace • Membership of British Water • Pipeline Industries Guild **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 are supported during the current economic crisis.**

Stakeholder group	What matters to our stakeholders?	Metrics	Company engagement	Board level engagement and impact
• Contractors • Consultants • Suppliers • Other Group Companies				
Our Investors Our investors provide the financial support to enable us to deliver our strategy and live our values. Our investors include: • Banks and financial institutions • Bond holders • Shareholder.	Our investors want to support a company that provides reputational and financial benefits to them. They want long-term performance that is supported by sound strategy, planning, governance, risk management and sustainability.	Regulatory gearing 66.3% Loss before tax £35.4m Investment credit grade BBB+ & Baa1 Sustainalytics ESG Risk Rating 18.8 Low Risk	• Ratings agencies • Annual Report	• Sustainable Financing Policy • Ratings agencies • Annual Report • Dividends **Our investors provide our financial resilience**
Government and regulators Our regulators provide the oversight to allow us to contribute to the UK as a nation, to support our environment, our public health standards, and our economic infrastructure. We aim to be an exemplar to the industry trusted to leave the environment in a better condition for future generations, whilst acutely aware of the financial pressures on our customers. Our key government and regulator groups are: • government departments	Our regulators and government want the best outcomes for our customers, the environment and resilience. They want us and the water industry to be responsible, trustworthy, and transparent in all our activities.	All performance commitments (see our annual review). Between 2015-2020 we have… Treated and supplied 280 million litres of water daily Renewed over 7,300 miles of water mains Spent £80m tackling leakage Treated 480 million litres of sewage a day Spent £732m on protecting rivers, lakes, and estuaries.	• Performance and risk reporting • Strategic Direction Statement • Price review methodology • Charging • Annual Review, Annual Performance Report, and Interim accounts • Health liaison panel • Working with local authorities to understand growth strategies and to co-ordinate investment and deliver partnership projects • Chalk streams support projects, county wildlife Trusts, Natural England and local	• Board meetings and committees • Pre-appointment non-executive director interviews • Business planning and target setting • Outcome Based Environmental Regulation Approach • Health and safety strategy • Environment and Public Value Committee • Working with the Environment Agency to continue review of sustainable levels of abstraction

Stakeholder group	What matters to our stakeholders?	Metrics	Company engagement	Board level engagement and Impact
• MPs • local councillors • Ofwat • Environment Agency • Natural England • DWI • Health & Safety Executive • Pensions regulator • Market Operator Services Limited (MOSL). • Information Commissioner's Office (ICO)		Spent £155m improving water quality Spent over £330m on upgrading storm overflows.	rivers and fishery trusts to develop our water resources management plan • Environment land management auction scheme	• Working with neighbouring water companies to deliver shared solutions • Working with Defra and the Environment Agency over a four-year period with 17 landowners to reduce nitrogen and carbon **Our regulators inform our strategy, our business plans, our processes. They provide valuable input into everything we do.**
Environmental NGOs We take our role as a custodian of our local environment seriously and with that the opinions of our environmental colleagues. Our ambition is to perform a wider role in society as a trusted company that takes care of the natural world and sets the benchmark for environmental performance, addressing climate, carbon neutrality and nature emergencies across the industry to meet the rising expectations of the environment and long-term resilience. Our environmental	Our environmental colleagues want us to value, protect, preserve and enhance our local environment, and contribute to wider environmental improvement.	• EA Environmental Performance Assessment 2 Star Requires improvement • Compliance with abstraction licences • Pollution incidents (per 10,000kms of sewer) 31.5 • Water Recycling Centre compliance • Bathing water compliance • Watercourses in good ecological condition • Sites of Special Scientific Interest in Good or Recovering condition; All actions delivered	• Catchment Panel • Wessex Water Foundation • Liaison groups • Chalk streams support projects, county wildlife Trusts, Natural England and local rivers and fishery trusts to develop our water resources management plan • Funding for Volunteer Water Guardians	• Environment and Public Value Committee • Outcome based environmental regulation approach **We embed the opinions of our environmental colleagues into our direction and priorities.**

Stakeholder group	What matters to our stakeholders?	Metrics	Company engagement	Board level engagement and impact
non-governmental organisations include but are not limited to: • Wildlife interests • Bathing water and river amenity interests • Catchment and Land Management • waste minimisation		• Greenhouse gas emissions - 102 kilotonnes CO2 equivalent (Scope 1 & 2) • Tree planting • Environmental partnerships		

Board principal decisions

The following examples provide insight into some of the 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 75 to 100. An outline of the Board members' skills and experience is outlined on page 65. In any decision we consider the needs and requirements of all our stakeholder groups, cognisant that we may not be able to meet everyone's requirements as positively as we would like and take careful consideration of competing priorities.

Principal decision 1 – Company Strategic Direction and Stakeholder Expectations and Needs

In 2021-22, the Board refreshed its strategic direction setting out the Company's vision and ambitions through to 2050. This long-term strategic direction is centred around eight outcomes that reflect our stakeholders' priorities which in turn determines the investment programme and the business plan for PR24. The Board have included c£550m of investment into storm overflow improvements which is part of a wider c£4.5bn investment programme for the environment. The Board has taken these decisions in light of its environmental commitment but in doing so has considered the impact on the customer bill in detail, also committing to the introduction of additional social tariffs. The Board considered the investment programme to be in the best interests of all stakeholders but has understood and agreed measures to further protect customers in vulnerable circumstances.

Principal decision 2 – Environmental Performance

The Board was extremely disappointed that its leading environmental performance was not maintained and is committed to restoring its industry-leading position. The Board made several Director and management changes, including creating a separate compliance directorate with Board level leadership. A Pollution and Compliance Taskforce was formed to focus on driving down pollutions, including detailed root cause analysis. The taskforce meets weekly and focusses on the implementation of the Company's Pollution Incident Reduction Plan including detailed reporting to the Board. The Board decided that the changes reflected the priority the Company places on the environment and were necessary to deliver its vision, ethics, ambitions, and long-term strategy for the wider benefit of all stakeholders, in particular the environment.

Principal decision 3 – Capital Investment Decision – Shepton Mallet

The Water Framework Directive includes a requirement to reduce the amount of ammonia and phosphates being discharged. The Company considered three options to deliver these tightening targets at its Shepton Mallet Water Recycling Centre. The scheme was particularly complex due to the limitations of the site and surrounding land, the permitted discharge levels, and the increased seasonal trade effluent discharges for around 6-12 weeks of the year. Several options were reviewed including one which fully addressed all seasonal discharges. However, at an estimated cost of c£35m, this option was not considered to be in the best interests of bill-paying customers. The Board considered the best interests of both the environment and customers, having regard to the permitted discharge levels and expectations of the regulator, and approved a scheme phased over three stages at a cost of £15.5m. In addition, the Board approved pro-active engagement with local traders to further improve discharges. The Board agreed that this scheme would meet interests for the longer term environmental and regulatory stakeholders whilst balancing the needs of the customer.

Principal decision 4 – Corporate Financing

The Board developed its Sustainable Financing Framework last year supported by positive feedback and ESG scores. Following the successful launch of the framework the Board sought to issue its first sustainable Sterling bond of £300m, overseen by a sub-committee of the Board. In making the decision the Board considered its financing and resourcing duties to ensure the long-term viability of the Company; its credit arrangements and borrowing facilities; the maturity of current financial arrangements and respective liquidity. The Board considered the issue of the sustainable bond to align with its sustainable financing strategy and its wider ESG principles and aims, as well as in the interests of all stakeholder groups.

The strategic report was approved by the Board of Directors on 18 September 2023 and signed on its behalf by:

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

Governance report

Chairman's introduction to governance

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

We have a very important role in the lives and wellbeing of our customers and the Board recognises that it is a privilege to be entrusted to provide essential public services to millions of customers. In this privileged position we must build and maintain successful relationships with a wide range of stakeholders. The purpose, strategy, values, and culture of the Company are developed and promoted through continuous engagement with these stakeholders, including customers, community, and interest groups, employees, and regulators. Further details on how we have engaged with all our stakeholders over the year can be found on pages 45 to 54. This year, in particular, the Board has reviewed its purpose, vision, and strategic framework through its Environment and Public Value Committee to ensure both customers' views and our wider social purpose are fully considered in Board discussions and decision making.

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

The following pages set out details of our Board of Directors (pages 56 to 59), further information on our governance arrangements and compliance with Ofwat's Objectives (pages 60 to 74) and the reports of the Audit and Risk, Environment and Public Value, Health and Safety, Nomination, and Remuneration Committees (pages 75 to 100). These reports demonstrate that the Company has in place effective arrangements to ensure the highest standards of corporate governance.

Tan Sri (Sir) Francis Yeoh KBE

Chairman

18 September 2023

The Board of Directors

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

Shareholder Non-Executive Chair

Tan Sri Sir Francis Yeoh KBE

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

He has been Managing Director of YTL Power International Berhad 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 International Berhad. 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 and Malaysia's Capital Markets Advisory Council and a Global Council member of the Asia Society. He served as an independent non-executive director of the Hong Kong and Shanghai Banking Corporation Limited for a period of 10 years from July 2012 to June 2022.

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

Executive Directors

Colin Skellett OBE – Chief Executive

Colin Skellett is a scientist and engineer by training and a Fellow of the Royal Society of Chemistry. He has worked largely in the water industry and was appointed Chief Executive of Wessex Water in 1988. Colin is currently Chief Executive of the YTL UK Group that includes Brabazon new town and Arena Complex at Filton, Wessex Water, YTL's UK Hotels, GENeco and a number of retail businesses. He became Chair of Business West in April 2022.

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

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

Andy Pymer – Chief Finance Officer

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

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

John Thompson – Chief Operating Officer

John is the Chief Operating Officer for Wessex Water with overall responsibility for meeting the needs of our customers through sustainable operations and engineering. John joined Wessex Water in 2006 after a varied career in the oil, gas, aviation, defence, and water industry sectors. John has over 20 years' experience in empowering and leading large teams to deliver award winning services with a proven record of creating a positive inclusive team culture, supporting people development, and providing strong commercial growth.

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

Appointed to the Board of Wessex Water Services Limited in June 2020, 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 Trustee of Futura Learning Partnership, a partnership of schools which span the Bristol, Keynsham, Bath, and Clevedon areas that are working together to provide high quality educational experience and life skills for all students in their care.

Ruth Jefferson – Chief Compliance Officer

Ruth is the Chief Compliance Officer and Group General Counsel for Wessex Water. Ruth joined Wessex Water in 2016 after a legal career in London and Bristol specialising in competition law issues across a broad range of sectors and clients. Ruth has wide experience of legal and governance matters and has overall responsibility for compliance and group services.

Ruth was appointed to the Board of Wessex Water Services Limited in September 2022. Ruth is also a Board member of the West of England Local Enterprise Partnership.

Mohammed Saddiq – Executive Director of Operations

Mohammed was appointed to the Board of Wessex Water Services Limited in June 2020 and his term ended in September 2022.

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 nominations, remuneration and audit 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 Council at the University of East London and was a member of the Government's Senior Salaries Review Board.

Dame Fiona Reynolds DBE – Independent Non-Executive Director

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

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

Kate Mingay – Independent Non-Executive Director

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

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

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

Kevin Wall – Independent Non-Executive Director

Kevin has extensive experience in the banking and finance sectors having spent four decades working for Barclays Bank in various senior leadership roles in the UK and overseas. Kevin retired from Barclays Bank in 2020 and his last role was as CEO and Board member of Barclays European subsidiary as well as being a member of the Barclays Bank PLC executive committee. Kevin is also a senior advisor at the stockbrokers Panmure Gordon and the investors board observer at Zero Gravity, an online educational mentoring platform.

Appointed to the Board of Wessex Water Services Limited in January 2021, Kevin is a member of the Audit and Risk, Health and Safety, Environment and Public Value, Remuneration and Nomination committee, as well as chairing the Pension Trustees Board.

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

Tim Gardam – Independent Non-Executive Director

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

Appointed to the Board of Wessex Water Services Limited in January 2020, Tim is a member of the audit and risk and nomination committees. He is also a member of the Environment and Public Value Committee. In 2021, Tim was appointed Chair of the Health and Safety Committee.

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.

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 Deputy Chairman of the John Lewis Partnership, Deputy Chairman of The British Library, and Chairman 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 chairs the Remuneration Committee. He is a trustee of YTL Foundation.

Mark Yeoh – Shareholder Non-Executive Director

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

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

Hann Yeoh – Shareholder Non-Executive Director

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

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

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

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

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

Ofwat Objective 1 - Purpose, values, and culture

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

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

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

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

The purpose, aims, strategy, values, and culture of the Company are developed and promoted through continuous engagement with wider stakeholders, including customers, community and interest groups, employees, and regulators. The Company has engaged with more than 1,600 customers in developing the renewed strategy. The Company has mechanisms through which stakeholder interests can be represented and changing societal pressures can be understood by the Board, including the Customer Challenge Group, the PR24 working group, and the Environment and Public Value Committee, the role, and responsibilities of which are described further in this report.

Additional information about the range of stakeholder engagement that has informed and influenced the aspirations of the Board is contained in the Strategic Report on pages 2 to 54. 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 Company maintains its formal policy on business ethics. Directors and employees are expected to commit to the highest standards of professional and ethical conduct to protect the Company's reputation and standing. Unethical behaviour, bribery and corruption are not tolerated. All Directors and employees are made aware of the Company's policy and that breaching it will result in disciplinary action.

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

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

The Board monitors and assesses the values and culture of the business to satisfy itself that behaviours are aligned with the Company's purpose and values on an ongoing basis. It does so by monitoring the performance of the business against its key targets. It also seeks out the views and experiences of customers, key stakeholders, and employees. The Company has canvassed over 1600 customers for the strategic direction statement alone in addition to qualitative engagement and inter-generational work groups. The Board has refreshed its approach to engaging customer feedback through its Customer Challenge Group. The Board also takes account of independent assessments of the Company's commitment to customer service excellence by achieving both the government's Customer Service Excellence accreditation and the Institute of Customer Service 'Service Mark' accreditation and Trustpilot reviews. Key stakeholders are engaged through a variety of means from funding water guardians, working with organisations such as Citizens Advice or liaising with over 200 partners through our "Partner Hub". Employees' views are canvassed through regular surveys and by giving further opportunities for instant feedback. Where there is evidence that behaviours are misaligned with the Company's purpose and values, the Board acts, through the Executive and Management, to correct this. Further details are included in the Strategic Report on pages 2 to 54.

The Company actively publicises to all its employees a whistleblowing policy for reporting instances of wrongdoing or inappropriate activity across all areas of business, including behaviours, water regulation, health and safety, bribery, corruption, and fraud. The Company has the 'Raising a Concern' policy, including step-by-step guidance on how to raise concerns. All 'Raising a Concern' reports are treated on a strictly confidential basis whether from internal or external sources. Reports on whistleblowing are made to the Audit and Risk Committee and details are set out in the Audit and Risk Committee Report on pages 75 to 78.

Ofwat Objective 2 - Standalone regulated company

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

The Board is fully focused on and has full responsibility for the activities of the Company and is responsible and accountable for setting, implementing, and supporting the Company's purpose, strategy, aims, values, and culture. The Board is satisfied that this objective is met, and the Board takes full responsibility for all aspects of the Company's business for the long term. The Board composition and details of career backgrounds, relevant skills, Committee membership and tenure is set out in the individual biographies on pages 56 to 59.

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

In order to manage risk, the Board and its Committees assess the integrity of information and whether controls and systems of risk management are robust and defensible. The Board requires management to identify, assess and report the impact of risks to enable the Board to effectively monitor and approve any decisions affecting the Company's risk profile. An explanation of principal risks, and our approach to mitigating these risks, is provided on pages 101 to 118.

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

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

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

In line with good governance, the Board delegates certain roles and responsibilities to its Committees. All Board Committees report to the Board and, where required, final decisions are taken by the Board. The Independent Non-Executive Directors, led by the Senior Independent Non-

Executive Director, form, or participate in the various Board Committees. The Committees assist the Board by fulfilling their roles and responsibilities, focusing on specific activities, reporting to the Board on decisions and actions taken and making recommendations to the Board. The Terms of Reference of each of the Board Committees are regularly reviewed and published on the Company's website.

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

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

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

Ofwat Objective 3 - Board leadership and transparency

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

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

Details of the Company's group structure can be found on page 72. Details of the Board Committees, including membership, number of meetings, and attendance are set out in the Committee reports on pages 75 to 100.

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 167. Details of the Company's executive pay policy can be found on page 86.

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 101 to 118.

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

Ofwat Objective 4 - Board structure and effectiveness

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

The Board is satisfied that this objective is met.

The following were Directors during the year under review:

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

* To September 2022

** From September 2022

The Company carefully considers its Board composition and there are currently five 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, there are four Executive Directors. The Executive Directors have very significant experience in the water sector. One experienced former Independent Director is also appointed as a Non-Executive Director: David Barclay was our former Senior Independent Director, and the Board makes full use of his individual professional expertise.

Four further Non-Executive Directors are appointed by the Company's sole shareholder, including the Chair and Kathleen Chew as an alternate director for Hann Yeoh, Hong Yeoh and Mark 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 56 to 59 and are summarised below:

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

* to September 2022

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

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

Chair

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

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

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

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

Senior Independent Director

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

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

Independent Non-Executive Directors

The Company's Independent Non-Executive Directors are appointed from a range of different backgrounds to bring to the Board an appropriate balance of skills, external experience, and knowledge. Details of their skills and experience can be found in their biographies on pages 56 to 59 and in the Board skills matrix on page 65.

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

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

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

In the year, the Board considered Fiona Reynolds' term as an Independent Non-Executive Director. To ensure an appropriate balance of skills, backgrounds, experience, knowledge and continuity on the Board, the Board decided to extend Fiona's appointment for an additional one-year term. The

Board considered that Fiona is a very experienced director, with particular expertise in conservation and environmental matters which are central to the Company's work. As Fiona has been in position for more than six years, the Board specifically considered Fiona's independence and was satisfied that Fiona demonstrated a fully independent approach, offering a constructive and challenging perspective to Board discussions.

Independent Non-Executive Director	Appointed	Current term expires
Jim McKenna	3 June 2019	2 June 2025
Fiona Reynolds	1 August 2012	29 September 2023
Kate Mingay	3 June 2019	2 June 2025
Tim Gardam	27 January 2020	26 January 2026
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.

Board meetings

The Board meets a minimum of six times a year at approximately bi-monthly intervals, which is considered sufficiently regular to enable the Board to discharge its duties effectively. It may meet on such further occasions as required. The Board held six meetings during the year. 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. The Board also considered all key matters related to PR24. As a private company with a single shareholder, the Company does not consider it necessary to hold Annual General Meetings. Attendance by individual Directors at scheduled meetings of the Board and Committees during the financial year under review was as follows:

Director	Board	Audit and Risk Committee	Nomination Committee	Remuneration Committee	Environment and Public Value Committee	Health and Safety Committee
Francis Yeoh	6/6		1/1			
Colin Skellett	6/6					
David Barclay	6/6			2/2		5/5
Andy Pymer	6/6					
John Thompson	6/6					
Mohammed Saddiq*	1/1					
Ruth Jefferson**	4/4					
Jim McKenna	6/6	3/4	1/1	2/2	3/3	5/5
Fiona Reynolds	6/6	4/4			3/3	
Kate Mingay	6/6	4/4	1/1	2/2	3/3	
Tim Gardam	6/6	4/4	1/1	2/2	3/3	5/5
Kevin Wall	6/6	3/4	1/1	2/2	3/3	5/5
Hong Yeoh	6/6		1/1	2/2		
Mark Yeoh	6/6			2/2		
Hann Yeoh	6/6					
Kathleen Chew (alternate)	0/0					

* Executive Director to September 2022

** Executive Director from September 2022

Board Committees and Advisory Panels

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

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

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

Reports from the Chair of each of the Committees, including details of membership and attendance, are set out on pages 75 to 100. 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 Health and Safety Committee is also supported by an Advisory Board.

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.

The Board also formed a PR24 Working Group attended by the Independent Non-Executive Directors, the Non-Executive Director, and Executive Directors. The Working Group met 4 times throughout the year.

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 independent external consultant at least one year in three to review its effectiveness.

For the financial year under review, the Board evaluation was facilitated by Professor Giovanna Michelon (a specialist in corporate governance and social and environmental accounting and reporting). Professor Michelon assessed the Board's effectiveness in collectively working for the long-term success of the Company and fulfilling its key three roles of setting the strategic direction of the Company, monitoring management performance and providing support and advice. The Board evaluation was performed using a questionnaire-based survey, sent to the entire Board, as well as in-depth interviews.

Professor Michelon's report concluded that the Board is a highly effective, well-functioning decision-making body, fully aware of the key internal and external challenges and opportunities, as well as of its own strengths and weaknesses. At the last external evaluation in 2019/20, it was suggested that the Board consider and formalise a succession plan for senior executives and the Chief Executive Officer in particular. Professor Michelon was encouraged to verify that notable steps had been made to formalise an appropriate succession plan including the recent organisational changes. In addition, significant steps had been made to enhance Board discussions over the long-term strategy, but that external pressures had created a series of new challenges that would need to remain a strategic priority and focus for the Board.

Professor Michelon also noted the following:

1. *Purpose and leadership*: Directors were satisfied with the Board's understanding of the Company purpose and vision, and the commitment to embedding the desired culture into the Company. There were proper mechanisms to monitor organisational culture, with the programme of Non-Executive site visits seen as a particularly useful way of gathering wider insights into the strengths and weaknesses of the culture.
2. *Governance characteristics*: Overall, Directors expressed no concerns about the mix of skills and experience on the Board and did not believe that the size of the Board impaired its function. However, future appointments could look to broaden operational experience. Board members were clear about the role they, and each of their colleagues, played which suggested a supportive, respectful, and trustworthy relationship among Board members. The Committees were seen as effective, highly participated, and supportive additional forums for debate and consideration of issues, enhancing the effectiveness of the Board as a whole. The need to allow sufficient time to discuss strategic long-term issues was seen as a priority.
3. *Financial reporting and risk management*: The management of non-financial strategic and operational risks was identified as a high-priority area for the Company, and it was noted that significant progress had been made in establishing the risk management process. Management of risk would need to remain a priority as the scale and outcome of PR24, particularly the deliverability of the final determination, would be a key risk for the business and would require focused effort and strategic attention. The work of the Audit and Risk Committee was regarded as effective and sound.
4. *Strategic guidance and monitoring*: Directors were confident that the Board members understood the core business, the regulatory and stakeholder context as well as the strategic positioning and direction of the Company. The Board was open to change and seeking constant improvement. The Non-Executive Directors' contribution to strategic guidance was seen as valuable and substantial with the balance between support and challenge deemed good and healthy.
5. *Stakeholder engagement*: the processes, and quality of stakeholder engagement were considered satisfactory.

Overall, the evaluation did not raise any significant concerns. The Board was found to be aware of the challenges facing the industry (e.g., impact of climate change on business operations as well as increased public scrutiny) and considered well equipped to deal with these challenges. The strengths and weaknesses of the Board were well known, and Directors were satisfied with the progress that had been, and was being made, to continue ensuring the overall effectiveness of the Board as a cohesive decision-making body.

Directors' remuneration

Details of Directors' remuneration are set out in the Remuneration Committee Report on page 84.

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. Any new interests or conflicts were disclosed and recorded during the year.

Raising a concern

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

Anti-corruption

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

Procurement

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

Group structure

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

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

A diagrammatic representation of the Group's structure appears below showing ownership of the regulated company through to YTL Corporation Berhad and each company's country of incorporation and role in the structure. YTL Corporation Berhad at 30 June 2023 was 49.80% owned by third-party shareholders and 50.20% owned by Yeoh Tiong Lay & Sons Family Holdings Limited.

Yeoh Tiong Lay & Sons Holdings Sdn Bhd	Investment holding and management company	Ultimate holding company Incorporated in Jersey
↓ 50.20%		
YTL Corporation Bhd	Investment holding and management company	Incorporated in Malaysia and quoted on the Main Market of Bursa Malaysia Securities Berhad
↓ 49.08%		
YTL Power International Berhad	Investment holding and provision of administrative and technical support services	Incorporated in Malaysia and quoted on the Main Market of Bursa Malaysia Securities Berhad
↓		
YTL Utilities Ltd	Investment holding company	Incorporated in Cayman Islands to look for global mergers & acquisitions in the utilities sector
↓		
YTL Utilities Holdings Ltd	Investment holding company	Incorporated in Cayman Islands to look for global mergers & acquisitions in the utilities sector
↓		
YTL Utilities (UK) Ltd	Investment holding company	Incorporated in United Kingdom, the acquisition vehicle for the purchase of the Wessex Water group of companies
↓		
Wessex Water Ltd	Investment holding company	Incorporated in United Kingdom, also owns SC Technology AG, Wessex Water Enterprises Ltd, 70% of Water2Business Ltd, and 50% of Bristol Wessex Billing Services Ltd
↓		
Wessex Water Services Ltd	Water supply and waste water services	Incorporated in United Kingdom, granted a Licence as a water and sewerage undertaker under the Water Industry Act 1991
↓		
Wessex Water Services Finance Plc	Raising listed debt finance	Incorporated in United Kingdom, 100% subsidiary of WWSL, used to raise finance on debt markets

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

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

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

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

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

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

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

YTL Corporation Berhad has confirmed that it:

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

Compliance with the Wates Principles

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

Principle One – Purpose and leadership

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

The Company sets out its compliance with Ofwat Objective 1 on pages 60 to 61.

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 64 to 73.

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 62 and 63. Details of the Board Committees are set out in the comments on Ofwat Objective 4 on pages 64 to 73.

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 60 to 61 set out under Ofwat Objective 1 and also in the Strategic Report on pages 2 to 54.

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 84 to 100.

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 60 to 61 and in the s172 statement on pages 45 to 54.

Audit and Risk Committee Report

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

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

Audit and Risk Committee Members' Attendance

Audit and Risk Committee attendance		Length of Committee Service
Kate Mingay (Chair)	4/4	4 years 1 month
Fiona Reynolds	4/4	10 years 11 months
Jim McKenna	3/4	4 years 1 month
Tim Gardam	4/4	3 years 5 months
Kevin Wall	3/4	2 year 5 months

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

Liaison with Other Committees and Working Groups

The Audit and Risk Committee works closely with and receives updates from the Health and Safety Board Committee as required, with an overlap in committee membership. Updates on assurance activities regarding health and safety are updated to both Committees operating with a clear interface, ensuring that both Committees can discharge their duties as outlined in their terms of reference.

With the Company's drive to further embed sustainability into all aspects of its business and the increasing reporting requirements on sustainability and climate change, the committee looks to reflect this within the financial reporting and narrative.

The Audit and Risk Committee has worked closely with the PR24 working group to provide direction and input into the PR24 business planning process. The Audit and Risk Committee continues to support the Board and its PR24 working group through its assurance role.

Role of the Committee

The Audit and Risk Committee's work is typically focused on:

- monitoring the integrity of the financial statements and any formal announcements of the Company's financial performance;

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

Report on this year's activity

The Audit and Risk Committee met four times in the financial year under review, reporting their work to the Board. One meeting was extended to cover the items from a cancelled meeting due to the state funeral of HM the Queen. The Committee has had a full agenda again this financial year. Issues discussed which we would highlight include:

- review of submissions ahead of the PR24 business planning process that including (but not limited to) WINEP submissions for river water quality, environmental investigations, bioresources and storm overflows, DWI submissions covering lead strategy, cyber security, water quality and water safety;
- management of cyber-security risks including detailed penetration testing, ongoing compliance work in relation to the Security of Network and Information Systems (NIS) Regulations 2018 and the company's OT security network;
- oversight of risk reporting, building upon the previous years' detailed review of risk appetite and tolerance for strategic risks and principal risks;
- reviewing assurance plans to cover waste compliance, wastewater compliance, supply compliance and information assurance;
- agreed the risk- based plan for internal audits over the year reviewing outcomes and agreeing recommendations, and in one case escalating actions;
- plans to further develop our reporting under the Taskforce for Climate-related Financial Disclosures (TCFD); and

Our governance arrangements are available on the Company's website and provide full terms of reference for the Audit and Risk Committee. These are in accordance with both Ofwat's Board

Leadership, Transparency and Governance (BLTG) principles and the Wates principles.

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

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

Internal Controls

Topic	Activity
Internal controls	The Audit and Risk Committee, assisted by Internal Audit, monitors the effectiveness of the system of internal controls that have been in place for the year under review and up to the date of approval of the annual report and accounts. The Audit and Risk Committee also reviews management reports received from the external auditor. The Audit and Risk Committee receives reports on any 'Raising a Concern' whistleblowing allegations made to the Company from either internal or external sources, concerning fraud, bribery, or other matters. Reports include the outcomes of resulting investigations and the management action taken.
Oversight of Internal Audit and External Audit	The Audit and Risk Committee oversees the work of the Company's Internal Audit function and External Auditors. The Audit and Risk Committee reviews the performance of the internal and external auditor independently of executive management.
Internal Audit	The annual programme of planned internal audits is agreed by the Audit and Risk Committee prior to the start of each financial year based on significant business risks, key internal processes, and both financial and regulatory compliance requirements. The Group Head of Internal Audit reports on the adequacy and effectiveness of the Company's risk, control, and governance framework. The Internal Audit plan and required resource are reviewed annually by the Audit and Risk Committee. The Group Head of Internal Audit has an unhindered direct report to the Audit and Risk Committee or its Chair at all times.
External auditor	Ernst & Young LLP (EY) 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 Lead Partner was rotated during the year in line with EY's independence requirements. The Audit and Risk Committee monitors the effectiveness of the external auditor throughout their term of appointment. In relation to the current year, Ernst & Young LLP audit fees are £294k for the 2022-23 financial year audit. The Audit and Risk Committee scrutinise the volume and value of non-audit work and as a matter of policy, fees paid to the external auditor for non-audit services will not exceed the limits set out in EU Regulation 537 or the rules set out in the Financial Reporting Council's code of ethics. The proportion of fees for non-audit services is compliant with EU Regulation 537. Ernst & Young LLP also reports to Ofwat in respect of the Company's Annual Performance Report. 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 101 to 118.

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 in two ways. Firstly the inappropriate revenue recognition from manual journals and secondly, 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.
Classification and Measurement of Capital Expenditure Valuation of Intangible Assets Developed Internally	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. The Committee considered the financial impact of internally developed intangible assets, including classification of capital and operating expenditure, eligibility of capital expenditure, overhead absorption and any potential asst impairment in accordance to IAS 36/38.
Useful Economic Asset Lives	The Audit and Risk Committee reviewed and approved the proposed changes to useful economic asset lives and the subsequent effects on the depreciation charge.
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 current cost of living difficulties and economic uncertainties and ensured that the methodology chosen was in accordance with IFRS 9.
Defined Benefit Pension Obligations, Assets, and 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 obligations 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.
Defined Benefit Pension Assets	The Audit and Risk Committee considered the key financial risk of the inappropriate valuation of hard to value pension assets, specifically around private equity fund and pooled investments.
Going concern, long-term viability and breach of financial covenants	The Audit and Risk Committee considered the long-term viability assessment and its appropriateness, assumptions, and its approach to reverse stress testing. The Committee considered the going concern of the company in conjunction with the work completed by the auditor under IAS 570, including the company's compliance with financial covenants.
Accounting for litigation and any legal provisions	The Audit and Risk Committee considered the key financial risk that arose regarding the need for provisions for any legal or litigation action and considered the judgement, recognition processes and estimations for any such provision.
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)	1/1
Hong Yeoh	1/1
Jim McKenna	1/1
Kate Mingay	1/1
Tim Gardam	1/1
Kevin Wall	1/1

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

Role and report on activities

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

The purpose of the Nomination Committee is to ensure that appropriate procedures are in place for the nomination, selection, training, and evaluation of Directors. The role of the Nomination Committee is to evaluate the balance of skills, experience, and knowledge on the Board. The Committee reviews Board structure, size and composition and will make recommendations to the Board on new appointments. The Board will also consider any extensions to the term of appointment for Directors.

The Nomination Committee met once in the year to consider several organisational changes. The changes included bringing together the operations and engineering directorates under John Thompson as Chief Operating Officer and the creation of a new compliance directorate, headed by Ruth Jefferson, the Chief Compliance Officer. The Committee considered the balance of skills and experience on the Board and recommended the organisational changes to the Board including the appointment of Ruth Jefferson as a Director of the Company.

The Board also considered the re-appointment of Fiona Reynolds as an Independent Non-Executive Director and concluded that Fiona demonstrated a fully independent approach, offering a constructive and challenging perspective to Board discussions. The Board therefore decided to extend Fiona's appointment for an additional one-year term.

Health and Safety Committee Report

Health, safety, and wellbeing, and the need to prevent harm to our people continues to be at the heart of everything we do as a Company. The continued development and implementation of health and safety and process safety policy and practice has been the primary object of the Board's attention throughout the year. The Board made the decision in 2021 to establish a committee to focus solely on Health and Safety matters. The Health and Safety Committee, with the support of the expert independent Advisory Board, continues to understand and review the major risks and their control, but also challenges and supports the Company as it drives performance improvement in both occupational health and safety and process safety disciplines.

Committee Members

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

Health and Safety Board Committee attendance – Non-Executive Directors	
Tim Gardam (Chair)	5/5
David Barclay	5/5
Jim McKenna	5/5
Kevin Wall	5/5

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

Committee Meetings

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

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

Focus of Committee

The Committee has spent a significant amount of time considering and recommending actions including the following:

- process safety in relation to high hazard activities both at an organisational and site level including strategic asset maintenance;
- compliance with regulatory requirements including COMAH;
- training and competency requirements, including training through the IChemE for those involved in process safety;
- required resourcing to respond to organisational changes and needs;

- learnings from the continued use of the dedicated health and safety reporting platform which has improved visibility, action tracking and action management. The number of safety observations reported has increased as well as the number of reported incidents. This has helped to identify and inform leading and lagging trends to drive continuous improvement;

- health and safety incidents involving the Company, colleagues, and partners, including near misses; and

- the learnings from Make it Right reviews, which are routinely used to further investigate higher risk safety incidents and near misses. These reviews are supported by senior leadership and take an open, fair, and collaborative approach to identifying system level root cause and implementing corrective and preventative action.

Over the year we have achieved a stable health, safety and wellbeing performance including a decrease in the all-injury accident incident rate. The increase in reporting, including of near misses, evidences a heightened awareness among our people, but has not seen an increase in the number of injuries sustained or the number of RIDDOR reportable injuries. However, we have still seen incidents during the year, and whilst action has been taken to prevent recurrence, all incidents and near miss events are reminders of the need to drive continuous improvement to protect customers, contract partners and our people. With this in mind, there is an increased focus on proactive health and safety campaigns informed by the observations and reported incidents.

Environment and Public Value Committee Report

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

Environment and Public Value Committee attendance	
Fiona Reynolds (chair)	3/3
Kate Mingay	3/3
Tim Gardam	3/3
Jim McKenna	3/3
Kevin Wall	3/3

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

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

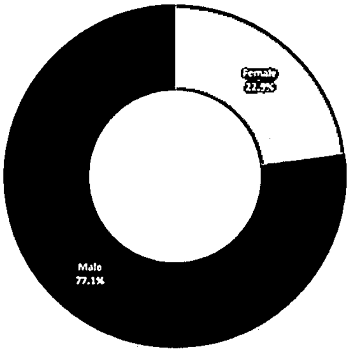
- oversee the development of an integrated social purpose that sets out clear goals for: environmental leadership including exemplary delivery of environmental obligations in the Company's operations and across its catchments; the positive social and economic investment impact the Company will make for the communities it serves;
- establish and lead 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.

In line with its horizon-scanning function, the Committee periodically invites external perspectives to inform the Board's strategic thinking.

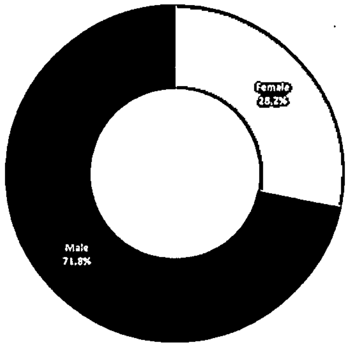
The meetings of the Committee during the reporting year focused on environmental, social and governance (ESG) work from the perspective of investors; the Company's 'Community Connectors' programme; water resource management and behavioural engagement during the 2022 drought; benchmarks for environmental leadership in the water sector; culture, inclusion, and diversity ambitions; and approval of the Company's gender pay gap report (extract shown on page 83).

Gender diversity

Whole Workforce

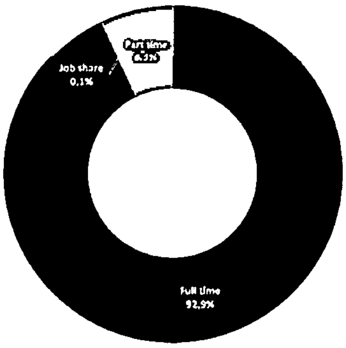


Leadership Grades

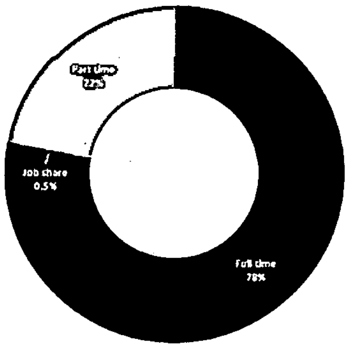


Working pattern diversity

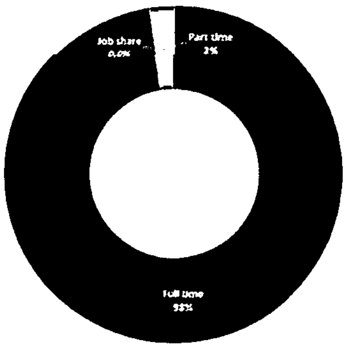
Total Workforce



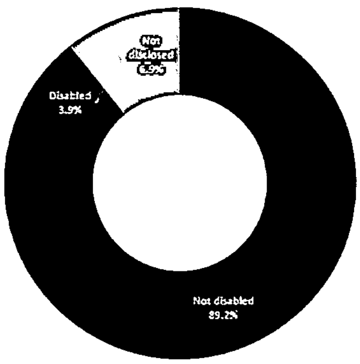
Female



Male



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)	2/2
Mark Yeoh	2/2
David Barclay	2/2
Jim McKenna	2/2
Kate Mingay	2/2
Tim Gardam	2/2
Kevin Wall	2/2

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 most of the independent membership ensuring a formal and transparent procedure for developing policy on executive remuneration.

There were no changes to the membership of the Committee for 2022-23.

Role of the Remuneration Committee

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

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

This report sets out the remuneration policy for the Directors of Wessex Water and discloses the amounts paid to them in the financial year ended 30 June 2023. The policy also applies to the remuneration of the Company's senior managers.

Activities of the Remuneration Committee

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

Strategic Alignment of Remuneration

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

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

The Committee considered performance related executive pay in the context of Ofwat's requirement that performance related pay should demonstrate a substantial link to stretching performance delivery for customers, communities, and the environment. The Company is committed to transparency around the relationship between pay and overall performance.

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

Remuneration of the Senior Management Group

During the year, the Committee took advice from their independent advisers, Korn Ferry Hay Group. Korn Ferry Hay Group provided detailed market analysis and advice to the Committee for the senior management group, including Executive Directors and Non-Executive Directors. Korn Ferry Hay Group's fee for providing such advice was £19,800 for the year ended 30 June 2023. In line with best practice, the Committee assesses from time to time whether the appointment of its current independent remuneration advisers remains appropriate and whether the role should be put out to tender.

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

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

Changes to the Executive Directors

As part of planned organisational changes, there were changes to the Executive Directors during 2022-23. The following appointment and changes were effective in September 2022:

- Ruth Jefferson was appointed as Chief Compliance Officer.
- John Thompson, previously Executive Director Engineering and Sustainable Delivery and already a Director, took up his role as Chief Operating Officer.
- Andy Pymer, previously Executive Director Finance and Regulation and already a Director took up his role as Chief Finance Officer.
- Mohammed Saddiq, formerly Executive Director Operations stood down from the Board.

Remuneration principles and policy

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

Recruitment of Executive Directors

The base salary for any new Executive Director takes into account market data for the relevant role, relativity with the salaries of existing Executive Directors, the individual's previous experience, and current base salary. If 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

During the year early termination payments of £241,566 were agreed in relation to compensation for loss of office.

Remuneration arrangements for Executive Directors 2022-23

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; and
- 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 those provided to all Company employees. Such increases are negotiated by the joint staff council involving management and trade union representatives.	n/a
Taxable Benefits	To attract and retain high calibre Executive Directors and to remain competitive in the market.	Benefits include: • Company car or allowance and private fuel allowance • Private medical insurance and executive health screening •	n/a	n/a
Pension	To attract and retain high calibre Executive Directors and to remain competitive in the market.	The majority of current Executive Directors participate in the Company's defined benefit pension scheme. Other Executive Directors participate in the YTL UK Group section of the Aon MasterTrust. Executive Directors are also insured for a lump sum of up to four times their pensionable salary on death in service.	Up to 15.5% of base salary	n/a

Element of Pay	Purpose and Link to Company Strategy	How Operated in Practice	Maximum Opportunity	Description of performance metrics
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 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.

	Colin Skellett Group Chief Executive	Andy Pymer Chief Finance Officer	John Thompson Chief Operating Officer	Mohammed Saddiq Executive Director of Operations*	Ruth Jefferson Chief Compliance Officer**
Target bonus (% of salary)	50	50	50	50	50
Maximum bonus (% of salary)	100	100	100	100	100
Pension arrangement	Defined benefit Pension in payment	Defined benefit Pension deferred	Defined benefit	Defined benefit	Defined contribution
Benefits	Car allowance £21,999, fuel £4,310, and private medical insurance £1,988 (family)	Car allowance £17,000 and private medical insurance £1,988 (family)	Car allowance £17,000 and private medical insurance £1,988 (family)	Car allowance £17,000 and private medical insurance £1,988 (family)	Car allowance £17,000 and private medical insurance £1,988 (family)

* To September 2022

** From September 2022

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 2022-23

The Committee reviewed base salaries of the Executive Directors twice during the year (1 April and 1 September). The second review followed a Company restructure and a change in the size and scope of the Executive Directors' roles and responsibilities.

	Effective 1 Sep 2022	Effective 1 Apr 2022	Effective 1 Apr 2021
Chief Executive Officer	£290,100	£290,100	£276,000
Chief Finance Officer	£159,500	£151,250	£144,100
Chief Operating Officer	£320,000	£260,000	£235,000
Chief Compliance Officer	£235,000	-	-
Executive Director, Operations	-	£260,000	£247,450

The salaries for the rest of the Company increased by 5.1% effective 1 April 2022, which was in line with the collective agreement for 2022-23 of 2% or CPI (whichever was the greater)

Executive Directors' bonuses – 2022-23

All Executive Director bonuses for 2022-23 are to be funded by the shareholder with no costs borne by the Company's customers. Also, recognising our environmental performance as rated by the Environment Agency remained at two stars, no bonus was paid for this element.

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 the regulatory year 2022-23 there were 20 internal performance indicators upon which executive remuneration was based, as shown below:

Serving people and places	C-Mex / D-MeX / Water quality CRI (compliance risk index) / water supply interruptions / storm overflow and FFT progress against plan / internal sewer flooding incidents
Enhancing the environment	Leakage / pollution incidents (waste water cat 1- 3) / treatment works compliance / greenhouse gas emissions / river with improved water quality / compliance with abstraction licences
Empowering our people	H&S plan and accident statistics progress / employee rating company as a good employer / training plan compliance / diversity plan progress
Financial measures	operational costs / net capex / cash flow 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 award was determined by Company financial performance, against targets set by the Board. This aligns with the shareholder's expectations and ensures that bonuses reflect the financial performance of the Company.

The Executive Directors Bonus structure for 2022-23 is illustrated below:

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

Performance Indicators

- Our environmental performance was poor, missing three of our six targets and with our EPA score remaining as 2-star
- Maintained strong upper quartile positions for both C-MeX customer service score and D-MeX developer service score.
- Despite the warmest year on record, and one of the worst droughts since 1976, our internal teams worked collaboratively to keep the water flowing ensuring no customer restrictions.

- Continued to champion our wider reform agenda, including outcome-based regulation, and submitted an advanced WINEP that makes significant use of nature-based solutions and saves £250m.
- An excellent year for supply interruptions with over a minute headroom against this year's target.
- Winners of the ROSPA Gold Health and Safety for 11 consecutive years.
- Wessex Water Foundation awarded more than £176,000 from our Wessex Water Foundation Fund to help 120 community groups from across the region.
- Water Industry Awards Winner of the Digitalisation Project of the Year, for real time water quality modelling at Warleigh Weir, sharing progress at conferences (WWT etc) and rolling out experience to further areas in our region.
- Established a new Target Operating Model for information security with a new leader appointed and its remit extended to cover Physical Security and Business Resilience.
- Launch of the YTL Wessex Academy and commencement from September 2022 as an Employer Provider of Apprenticeships, delivering the Water Process Technician and Water Process Operative apprenticeships to our own staff.

In the regulatory year under review, 14 of our 20 internal performance indicators linked to executive remuneration were achieved or bettered. There were six areas where the required performance was not achieved:

<table>
<tr><td>Leakage</td><td>Increased leakage breakout as a result of extremes of weather – the hot, dry summer and repeated freeze/thaw events bringing differential ground movement.</td></tr>
<tr><td>Pollutions incidents (wastewater cat 1-3)</td><td>Pollution numbers have increased partly due to incidents being identified through EDM data at WRCs and SPSs, and also the weather has increased the impact of incidents, resulting in more incidents being classified as category 1-3 (less Cat 4 no impact pollutions). The Pollution Incident Reduction Plan is being updated with initiatives to address the increase at WRCs and SPSs.</td></tr>
<tr><td>Compliance with abstraction licences</td><td>Abstraction licence compliance was a shadow EPA metric in 2022-23 – live from 2023-24. There were two licence breaches as a result of over-abstraction.</td></tr>
<tr><td>Operational costs</td><td rowspan="2">Operational costs were over target largely due to the inflationary impacts of energy, fuel and chemical supplies combined with capex to opex recategorizations (corresponding reduction in capex).</td></tr>
<tr><td>Net capex</td></tr>
<tr><td>Cashflow before dividends</td><td>Corresponds with drop in profit after tax due to the reduction in turnover and increase in operating costs.</td></tr>
</table>

The Executive Director bonus payments for 2022-23 were calculated as follows:

Key performance indicator (KPI)	Target for each KPI in 2022-23	Out-turn for each KPI in 2022-23	Target bonus as %age of base salary	Multiple of target bonus payable	Bonus awarded as %age of base salary				Remuneration Committee's rationale for the level of bonus awarded in the 2022-23 reporting year
					CEO	CFO	COO	CCO	
Serving people and places - C-MeX experience score - D-MeX experience score - Water quality compliance (CRI) - Water supply interruptions mins/prop) - Progress with storm overflow plan - Internal sewer flooding (nr props)	 UQ UQ 1.50 05:45 +ve 182	 2nd UQ 1.04 04:10 +ve 168	15%	1.33x	20%	20%	20%	20%	Good level of performance. All targets met or exceeded, including best ever result on supply interruptions, so bonus = 1.33x target bonus
Enhancing the environment - Leakage (ML/d) - Treatment works compliance - Pollution incidents cat 1-3 (nr) - Greenhouse gas emissions (ktCO2e) - Improved river quality (km) - Compliance with abstraction licences	 64 99% 78 107 158 98%	 71.2 99.4% 110 104 158 97.9%	15%	0.0x	0%	0%	0%	0%	Very poor level of performance. Three of six targets missed, plus EPA rating continues as 2-star, plus significant public and media concern over water companies' environmental performance, so no bonus paid for this area
Empowering our people - Assessment of H&S plan progress - Employees rating as a good employer - Training plan compliance - Assessment of diversity plan progress	 Positive 85% 95% Positive	 Positive 95% 100% Positive	10%	1.2x	12%	12%	12%	12%	Good level of performance. All targets met or exceeded, including 95% of colleagues rating the company as a good employer, so bonus = 1.2x target bonus
Personal contribution - Individual assessment by Remuneration committee			10%	Varies	9.4%	15.4%	16.4%	15.4%	Individual assessment by Remuneration Committee
Total bonus as %age of base salary			50%		41.4%	47.4%	48.4%	47.4%	

Pensions

Defined Benefit Scheme

The majority of 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.

Defined Contribution Scheme

Other Executive Directors are enrolled in the YTL UK Group Section of the Aon MasterTrust which provides.

- Employee contributions options, deducted from salary at between 3% and 8% per annum

- Company contributions of between 5% and 12% per annum (dependent on the level of employee contribution) in addition to the amount the individual pays
- A default normal retirement age of 65 years
- The option to select an alternative retirement age

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 a 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 September 2022	1 June 2020	12 months
Ruth Jefferson	1 September 2022	26 September 2022	12 months

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

Non-Executive Directors

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

The breakdown of the Independent Non-Executive Directors' fees from 1 April 2022 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 for inspection during normal office hours at the registered office). 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. All Executive Director bonuses for 2022-23 are to be funded by the shareholder with no costs borne by the Company's customers.

	Salary		Benefits		Bonus		Pension		Total	
	FY2023	FY2022	FY2023	FY2022	FY2023	FY2022	FY2023	FY2022	FY2023	FY2022
	£k	£k	£k	£k	£k	£k	£k	£k	£k	£k
Colin Skellett	290	280	22	21	120	168	-	-	**432**	**469**
Andy Pymer	153	225	10	15	74	153	35	55	**272**	**448**
John Thompson	318	241	22	24	143	165	56	61	**539**	**491**
Ruth Jefferson	199	-	15	-	50	-	21	-	**285**	**-**
Mohammed Saddiq	56	251	1	12	14	165	12	57	**83**	**485**
Huw Davies	-	38	-	-	-	-	-	-	**-**	**38**
Jim McKenna	119	92	-	-	-	-	-	-	**119**	**92**
Kate Mingay	99	92	-	-	-	-	-	-	**99**	**92**
Fiona Reynolds	88	82	-	-	-	-	-	-	**88**	**82**
Tim Gardam	82	77	-	-	-	-	-	-	**82**	**77**
Kevin Wall	82	77	-	-	-	-	-	-	**82**	**77**
	1,486	**1,455**	**70**	**72**	**401**	**651**	**124**	**173**	**2,081**	**2,351**

Notes to table:

1. No emoluments earned by Francis Yeoh, Hann Yeoh, Hong Yeoh, Mark Yeoh, Kathleen Chew or David Barclay
2. Benefits comprise private medical insurance, company car or allowance and fuel benefits
3. Ruth Jefferson was appointed to the Board on 26 September 2022
4. Mohammed Saddiq stepped down from the Board on 16 September 2022
5. The cost of FY2023 bonuses are being funded by the Shareholder
6. Colin Skellett and Andy Pymer received emoluments for services to other Group Companies which are disclosed in the financial statements for those companies.

Chairman

No remuneration was paid to the Chairman during 2022-23 (2021-22: £nil).

Chief Executive

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

	Remuneration FY2023 £000	Remuneration FY2022 £000	% change
WWSL			
Salary	290	280	+3.6%
Bonus*	120	168	-28.6%
Benefits	22	21	+4.8%
Total	**432**	**469**	**-7.9%**
All employees WWSL			
Wages and salaries	115,300	103,800	+11.1%
Social security costs	14,800	13,200	+12.1%
Other pension costs	14,800	16,800	-11.9%
Total	**144,900**	**133,800**	**+8.3%**

*The Chief Executive bonus for FY2023 was funded by the shareholder with no costs borne by the Company's customers.

The pay increase awarded to the employees of the Company on 1 April 2022, for the year 2022-23, was a 5.1% 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 2022-23 and 2021-22.

	FY2023 £m	FY2022 £m	Movement £m	Movement %
Wages and salaries	115.3	103.8	+11.5	+11.1%
Social security costs	14.8	13.2	+1.6	+12.1%
Other pension costs	14.8	16.8	-2.0	-11.9%
Total employment costs	**144.9**	**133.8**	**+11.1**	**+8.3%**

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

Percentage of	FY2023	FY2022	Source
Turnover	26.7%	25.8%	Income statement
Profit before tax *	-409.3%	247.8%	Income statement
Profit after tax *	-563.8%	310.4%	Income statement
Dividends	217.9%	195.6%	Note 10
Capital expenditure	49.9%	56.5%	Cash flow statement

Pay ratios table

Year	Method	25th percentile pay ratio (P25)	50th percentile pay ratio (P50)	75th percentage pay ratio (P75)
FY2023	A	17:1	14:1	11:1
FY2022	A	17:1	14:1	11:1
FY2021	A	17:1	13:1	10:1
FY2020	A	18:1	15:1	12:1

Notes:

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

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

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

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

Executive Directors' Defined Benefit Pension Provision

(Information in the table below is subject to audit)

	Pension service completed in years (1)	Normal retirement date at 65	Accrued pension at 30-06-2022 £pa	Increase in accrued pension during the year £pa	Accrued pension at 30-06-2023 £pa
Colin Skellett (2)	41	13/06/2010	203,417	14,479	217,896
Andy Pymer (3)	23	18/08/2033	73,680	2,532	76,213
John Thompson (4)	18	17/10/2034	35,491	2,446	37,937

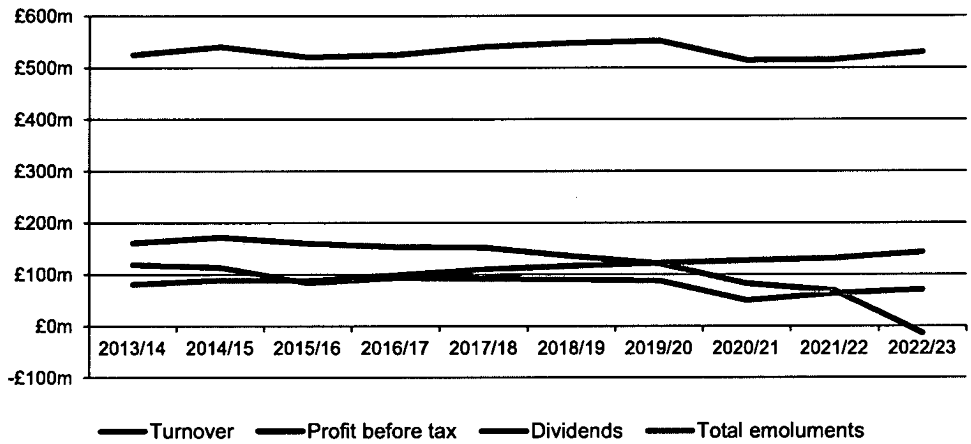
Notes:

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

Ruth Jefferson is a member of the Defined Contribution Scheme.

Remuneration link to financial performance

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



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

Executive Directors' share interests

Shares held

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

Remuneration Arrangements for Executive Directors 2023-24

Base Salary 2023-24

At the meeting in May 2023 the Committee set the base salaries for each Executive Director effective 1 April 2023. The new salaries reflect a change in the size and scope of the Chief Operating Officer and Chief Compliance Officer's roles and responsibilities.

	Effective 1 April 2023	Effective 1 Sep 2022	% change
Chief Executive Officer	£290,100	£290,100	-
Chief Finance Officer	£159,500	£159,500	-
Chief Operating Officer	£350,000	£320,000	+ 9.4%
Chief Compliance Officer	£270,000	£235,000	+ 14.9%

Where a salary increase has been approved it includes a 7.2% inflationary increase which mirrors the increase awarded to employees on 1 April 2023. This was in accordance with a one-year deal agreed with the recognised Trade Unions and also awarded to those employees not covered by trade union agreements.

Bonus scheme 2023-24

For the regulatory year 2023-24 there are 20 internal performance indicators, as shown below:

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

At the end of the 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 award is determined by Company financial performance, against targets set by the Board. This aligns with the shareholder's expectations and means that bonuses will reflect the financial performance of the Company.

The Executive Directors Bonus structure for 2023-24 is illustrated below:

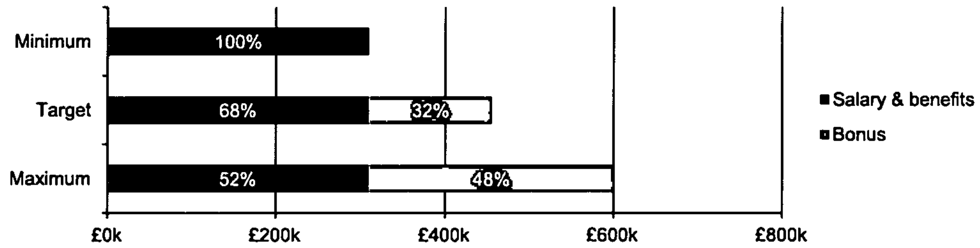
	Weighting	**Target Bonus Opportunity**	**Maximum Bonus Opportunity**
Serving people and places	35%	17.5%	35%
Enhancing the environment	35%	17.5%	35%
Empowering our people	10%	5%	10%
Discretionary award	10%	5%	10%
Personal Objectives	10%	5%	10%
TOTAL		**50%**	**100%**

Illustrations of Remuneration Policy
(using estimated 2023-24 data)

The graphs below show the proportion of remuneration borne by the Company for each of the Executive Directors

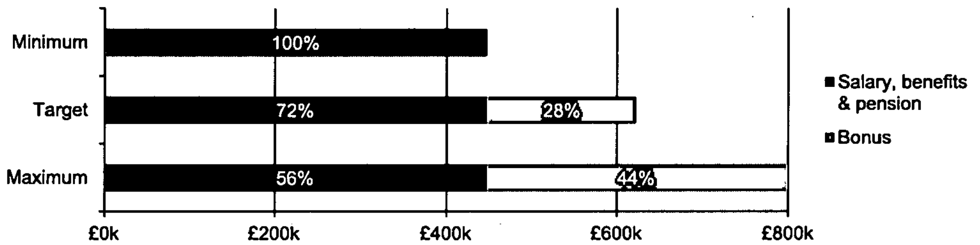
- The base level of remuneration, which is not dependent upon performance and comprises basic salary, benefits in kind and pension
- The expected level of remuneration, reflecting a typical level of achievement against performance targets
- The maximum level of remuneration, if all annual performance targets were fully achieved

Colin Skellett – Chief Executive



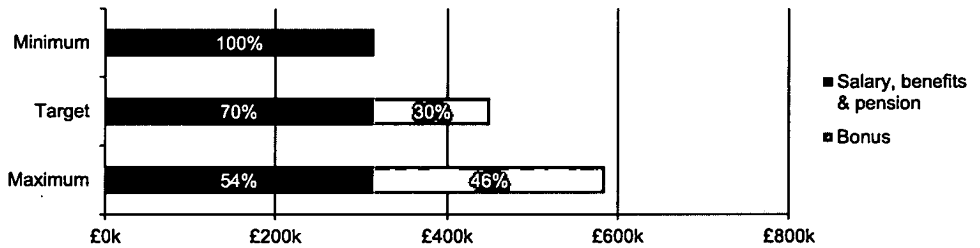
No employer pension contributions.

John Thompson – Chief Operating Officer



Andy Pymer – Chief Finance Officer

Ruth Jefferson – Chief Compliance Officer



Risk management

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

Risk management process

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

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

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

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

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

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

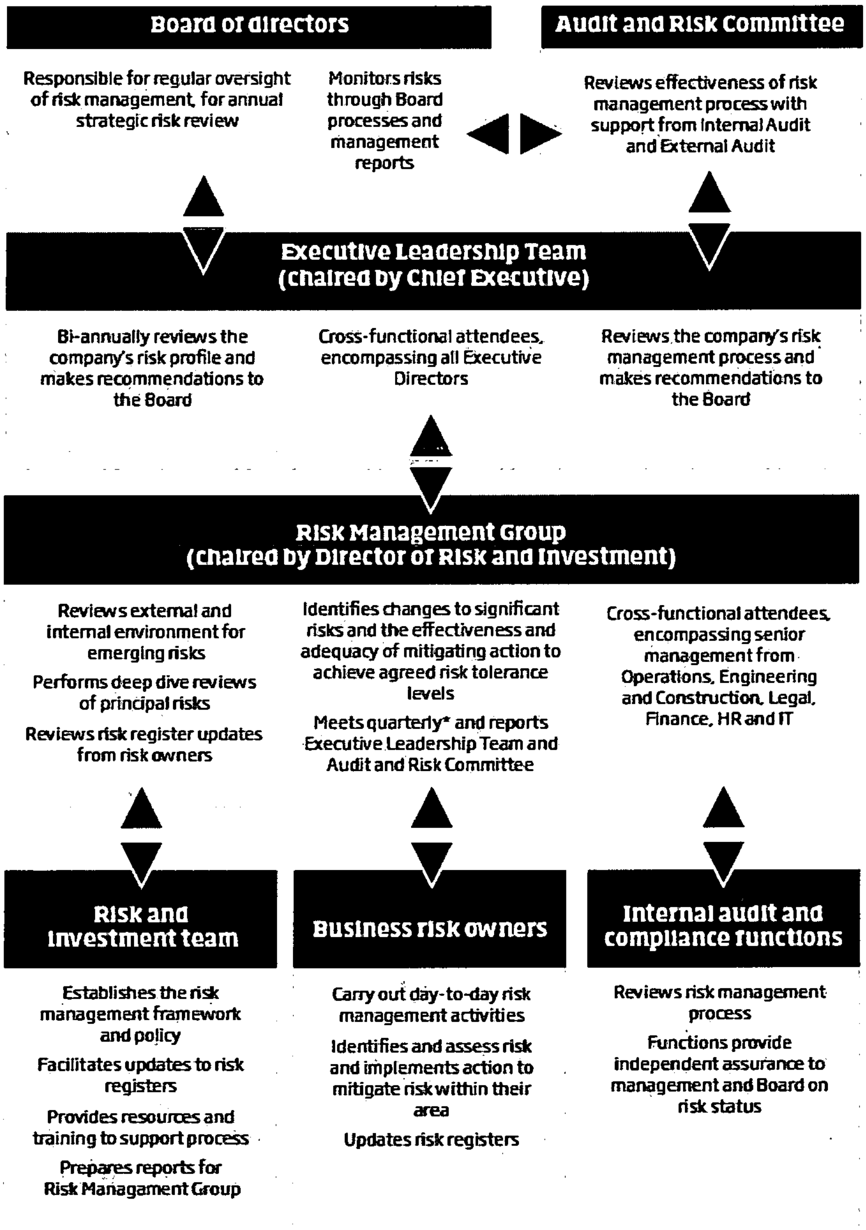
The ELT scrutinises and challenges the risks, ensuring that we have comprehensively classified and assessed our risks and have appropriate mitigation methods. Any significant emergent risks or material changes in existing risks are reported to the ELT and the Board as they arise.

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

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

Risk management governance

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



*Changed to quarterly from December 2022

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 operational and enterprise risk modules are well developed in preparation for rollout in Summer 2023
- our existing risk management scoring for operational risks has been reviewed and data is being updated to reflect this revised approach
- the Board have reviewed the risk appetite framework and agreed updated appetite and tolerance positions aligned to the Company's strategic objectives and principal risks.
- The frequency of Risk Management Group meetings has changed from monthly to quarterly to take account of its strategic perspective

Further improvements are planned as part of the implementation of our risk and investment framework over 2023-2024.

Principal risks

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

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

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

Principal risks - strategic

Principal risk	Description	Risk exposure
Reputation & positioning	National or regional issues that impact the perception of the business and the trust the public have in us	**Increasing**
Political action	Actions taken by government that fundamentally change our operating environment affecting the business and/or cash flows.	**Increasing**
Regulatory action	Actions taken by regulators that fundamentally change our operating environment affecting the business and/or cash flows.	**Increasing**
Environment & public value	The expectation on the business to create value beyond a focus on short term performance	**Increasing**
Climate volatility	The need to adapt to changing climate and weather patterns	**Increasing**

Principal risks – compliance, financial and operational

Principal risk	Description	Risk exposure
Environmental harm	Acute (e.g. major pollutions) or chronic harm to the natural environment as a result of activities conducted by or on behalf of the company	**Increasing**
Resources and skills	Failure to have the right resources with the right skills in the right place will have an impact on our ability to operate effectively and on our strategic objectives	**Increasing**
Supply chain resilience	Resource scarcity or disruptions to supply chains which prevent the procurement of products or services at the expected cost, availability, or quality	**Increasing**
Health and safety	Failure of operational controls or an external hazard that affects the health and safety of employees, contractors, or the public	**Stable**
Technology resilience	Technology fails to be available, secure (e.g. to cyber-attack), reliable or perform as expected resulting in the corruption or loss of data, reputational impact and/or inefficient operations	**Stable**
Supply of unfit or insufficient water	Inability to provide a reliable source of water to customers when they need it in line with quality standards	**Stable**
Financial viability	Inability to raise finance at appropriate levels and/or manage cash/gearing to maintain financial viability and provide a sufficient return on investment	**Stable**
Uninformed action	Inadequate information (e.g. poor asset data) resulting in sub-optimal decision-making, unsatisfactory day to day business operation/ performance and/or an increase in cost and risk	**Stable**
Governance and ethics	Non-compliance with our own values, behaviours, and standards, or with statutory and regulatory obligations, either unintentionally, intentionally or maliciously (e.g. insider threat)	**Stable**

Reputation and positioning

Description of the risk

National or regional issues that affect the perception of the business and the trust the public have in us.

Context

While we are a high performing water company, delivering consistently well against comparative performance targets, we can be judged against things that are outside of these existing regulatory targets. The focus on the industry is also an opportunity to make stakeholders aware of our activities and provides a greater platform to discuss and implement change to benefit our customers and the environment.

Risk Appetite statement

We should maintain good performance and be transparent in our operations. We have a high appetite for change and innovation in areas such as real-time monitoring and reporting .

Mitigation and controls include

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

Political action

Description of the risk

Actions taken by the government that fundamentally change our operating environment affecting the business and/or cash flows.

Context

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

Risk Appetite statement

We want to continue to contribute proactively and factually to the debate about the pace and nature of change in the sector while minimising the impact on our operating environment.

Mitigation and controls include

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

Regulatory action

Description of the risk

Actions taken by regulators that fundamentally change our operating environment 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.

Risk Appetite statement

We want to be at the forefront of regulatory reform, leading the sector towards an outcome-based approach and promoting alignment between regulators.

Mitigation and controls include

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

Environment and public value

Description of the risk

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

Context

Society expects corporations to create value beyond short-term operational performance and financial returns.

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

Risk Appetite statement

We should take opportunities to improve public value through our day-to-day activities and make visible the full value of the activities we undertake.

Mitigation and controls include

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

Climate volatility

Description of the risk

The need to adapt to changing climate and weather patterns.

Context

The natural environment we are operating within is changing and we must adapt to reduce our impact and ensure we can provide resilient services in the face of such changes.

The COP 27 summit reflects the international commitments made to reduce the impact of climate change, reduce carbon emissions, and improve biodiversity.

Risk Appetite statement

Our services to customers and the environment should be resilient in reasonable climate scenarios.

Mitigation and controls include

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

Environmental harm

Description of the risk

Acute (e.g. major pollutions) or chronic harm to the natural environment as a result of activities conducted by or on behalf of the company

Context

Our waste water operations take away and treat 863 million litres of sewage from 2.9 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 not causing environmental harm through the reduction of pollutions.

Risk Appetite statement

We must meet all statutory and regulatory requirements to protect the environment from chronic or acute harm.

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
- 'Stop the block' 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 Stormharvester machine learning/ artificial intelligence network monitoring approach to predict potential problems.
- Storm Overflow Assessment Framework
- Storm Overflow Action Plan
- Trialling of advanced thermal conversion technologies

Resources and skills

Description of the risk

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

Context

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

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

Risk Appetite statement

We will actively seek opportunities to improve our reputation as an 'employer of choice' to attract and retain the best talent, and we will ensure succession and workforce planning for key skills that are difficult to recruit in the market.

Mitigation and controls include

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

Supply chain resilience

Description of the risk

Resource scarcity or disruptions to supply chains which prevent the procurement of products or services at the expected cost, availability, or quality

Context

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

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

Risk Appetite statement

We will reduce the risk of supply chain disruption that jeopardises core company outcomes to as low as reasonably practicable.

Mitigation and controls include

- Maintain strong relationships with the supply chain
- Engage in industry updates to government and escalation of issues.
- Minimise risk of failure through early procurement of key materials and alternative arrangements for emergency call-off
- Detailed and tested contingency arrangements in place
- Regular monitoring of the supply chain, early warning of issues and quick mitigation
- Reviewing existing contingency arrangements and seeking to become more self-sufficient and resilient
- AMP8 transition planning to ensure deliverability of our regulatory commitments and aspirations

Health and safety

Description of the risk

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

Context

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

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

Risk Appetite statement

Health, Safety and Wellbeing is a core company value. All reasonably practicable means will be used to ensure the health, safety and welfare of our employees whilst at work and of those who may be affected by our daily operations and activities.

Mitigation and controls include

- Embedded framework and strategy
- Implemented a cross-business health and safety management process
- Detailed process safety review of sites
- Embedding process safety into our decision-making framework
- Full Health and Safety risk register
- Compliance with regulatory requirements including COMAH
- Embedded behavioural safety programmes
- ISO 45001 certified for our engineering and construction activities
- Easy reporting of incidents, near misses and observation through our health and safety app
- Supporting our employees through resilience building, mental health and financial wellbeing initiatives
- Improved communication with employees on health and safety issues
- Sharing of best practice and advice between Water UK members
- Dedicated Health and Safety Committee and an expert Advisory Board

Technology resilience

Description of the risk

Technology fails to be available, secure (e.g. to cyber-attack), reliable or perform as expected resulting in the corruption or loss of data, reputational impact 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 managing our customer data and interaction to keep our financial and employee information accurate and secure.

Risk Appetite statement

We will reduce the risk of technology disruption that jeopardises core company outcomes to as low as reasonably practicable and be proactive in seeking technology that enhances our productivity.

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
- 24/7 Cyber Security operations centre (CSOC)
- Operational Technology Security Improvement Programme running until 2025

Supply of unfit or insufficient water

Description of the risk

Inability to provide a reliable source of water to customers when they need it in line with quality standards

Context

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

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

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

Risk Appetite statement

We seek to reduce water quality risks to as low as reasonably practicable and maximise opportunities to increase the resilience of our water supply system.

Mitigation and controls include

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

Financial viability

Description of the risk

Inability to raise finance at appropriate levels and/or manage cash/gearing to maintain financial viability and provide a sufficient return on investment

Context

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

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

Risk Appetite statement

We work to ensure the company remains financially resilient now and for the duration of our long-term viability statement.

Mitigation and controls include

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

Uninformed action

Description of the risk

Inadequate information (e.g. poor asset data) resulting in sub-optimal decision-making, unsatisfactory day to day business operation/ performance and/or an increase in cost and risk

Context

The environment in which we're operating in means that each decision needs to be the right one. Failure to make the right decision can have a direct impact on cost, increase the company's risk profile or create an immediate impact to customers or the environment through a pollution or service outage. Making the right decision is reliant on our people and systems having access to adequate information.

Risk Appetite statement

We will reduce the risk of inadequate information that has a material impact on the company's performance, cost and/or risk. We will use assurance activities to verify the quality of data as appropriate.

Mitigation and controls include

- Multiple corporate systems to house robust data that has an assigned data owner and data steward
- Information Management Steering Group
- Information Management Framework
- Established data access layer improving access and transparency
- Data quality review

Governance and ethics

Description of the risk

Non-compliance with our own values, behaviours, and standards, or with statutory and regulatory obligations, either unintentionally, intentionally or maliciously (e.g. insider threat)

Context

We have multiple regulators and are required to comply with thousands of statutory and regulatory requirements. A risk exists that non-compliance with these requirements may occur unintentionally, intentionally, or maliciously which can have a direct impact on services to customers and/or the company's reputation.

Risk Appetite statement

Our organisation will adhere to its core values and fulfil its corporate responsibilities by ensuring it acts responsibly, ethically, and with integrity.

Mitigation and controls include

- Robust governance frameworks
- ISO standards
- Suite of assurance activities from first, second and third line of defence
- Core business policies covering requirements
- Environment and Public Value Committee
- Audit and Risk Committee

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.

As we advance through the planning process for PR24, and in conjunction with our long-term delivery strategies, we have outlined operational plans out to 31 March 2035. Given these plans the Directors have determined this as an appropriate planning horizon for the Company's long term viability statement.

However, there remains significant uncertainty for the period after 2025, increasing further when beyond 2030 is considered. Significant statutory investment programmes are still yet to be confirmed, whilst there is outstanding guidance across several areas of the PR24 process.

This statement is prepared using the early view cost of capital from the December final methodology and the full funding of our current view of the efficient costs of delivering our statutory obligations and maintenance requirements as they currently stand. We recognise economic conditions have changed over the last few months so we will be revisiting all these assumptions through the final stages of preparing our PR24 submission.

For the most immediate term analysis up to September 2024 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 2024 from the customer charges that have already been set;
- that the large capital expenditure programme is of a similar nature to that delivered in previous regulatory control periods, allowing the Directors to be able to predict the cost of construction with some certainty;
- that borrowing facilities in place are long term and maturing after 30 September 2024. The mix of borrowings is spread between fixed, floating and index linked, and that predictions of interest rate increases are manageable;
- the need for additional financing and the increasing cost of debt;
- that there are sufficient finance facilities in place to fund our working capital requirements
- the potential range of impacts that may result from the ongoing period of high inflation; and cost of living crisis for our customers.

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

- the principal risks as shown on page 104;
- the shocks and stresses shown in the Company's resilience action plan;
- the liquidity of the Company over the year; and
- 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 2024.

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 document (see pages 101 to 118).

When considering financial viability over a longer period, Directors considered the financial and operational 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 and regulatory environment were considered, and the impact of any other 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 on an on-going basis and reviewed by the Company's risk management group and Audit and Risk Committee every six months to ensure it is a true reflection of the circumstances of the Company.

The shocks, scenarios, and levels of sensitivity considered within the financial viability assessment are reviewed and agreed by senior management across the finance, risk and investment, and economic regulation teams. Our full approach to risk identification, management and mitigation is described on pages 101-118 of this report. These are then presented to the Company's Audit and Risk Committee for review.

The following table outlines a summary of the individual shocks we have considered and modelled. The levels of financial impact are set having considered historical precedent (both on company performance, that of its peers or analogous risks that have occurred in other sectors), independent expert forecast (for instance forecast ranges published by the Bank of England), and where appropriate guidance within the final PR24 methodology.

Area	Stress test
Inflation	1. Sustained lower (up to 2%) than forecast CPIH, reducing allowed revenues and RCV growth 2. Short-term deflationary scenario with negative CPIH (-1%) over two years, reducing allowed revenues and RCV growth 3. Short-term higher (up to 8%) than forecast CPIH, increasing costs 4. Short-term increase in the wedge (up to 2%) between RPI and CPIH on top of current forecasts, increase accruals on debt without increases in revenues
Revenues	• Sustained lower demand (up to 8%) for both household and commercial customers, reducing revenues collected • Short-term shock to lower demand (up to 10%) reducing revenues recovered • Lower allowed revenues (3% of RoRE ODI penalties) through poor operational performance, • Decreased collections and an increase in customers inability to pay, this reduces cash into the business and increases bad debt charge within modelled operational costs
Capital expenditure	1. Short-term and sustained input price pressures above (up to 1.5%) CPIH, increasing capital costs

	2. Short-term increases (up to £50m) to capital expenditure because of sudden asset failures/environmental incidents/loss of suppliers 3. Sustained increase (up to 10%) in capital maintenance expenditure 4. Significant unfunded obligations increasing (up to £100m) capital expenditure
Operational expenditure	• Short-term and sustained input price pressures above (up to 3%) CPIH, increasing operational expenditure • Short-term increases (up to £10m) to operational expenditure because of sudden asset failures/environmental incidents/loss of suppliers • Sustained increase (up to £7m p/a) in operational expenditure • Significant regulatory fines (up to 6% of turnover)
Financing	1. Credit rating downgrade, resulting in higher (up to 0.5%) costs of raising new debt 2. Sustained increase (up to 2%) in cost of raising new debt above the forecast iBoxx indices 3. Poor market performance of pension assets resulting in an increase (up to £200m) of our pension deficit.

Scenarios were then developed ensuring that the analysis correctly identified linked and compounded risks and were sensitivity tested with reasonable, plausible, and extreme levels of severity.

In total the Company modelled 33 scenarios, including those outlined in the PR24 final methodology, the most severe of which consider multiple concurrent and linked risks as follows.

Scenario	Details and sensitivity testing
Wastewater incident Water supply incident	This might include a major pollution incident or the widespread distribution of unfit water, either driven by catastrophic asset failure, extreme weather events or malicious damage. The base scenarios include the capital costs of rectification and then increases severity by progressively including risks of fines, penalties from regulatory delivery incentives, customer compensation payments and at the most extreme the withholding of customer bill payments.
Simultaneous water and wastewater incidents	As above but assumes incidents occur concurrently.
Macroeconomy	This scenario assumes a sustained economic downturn in the UK that increases company input prices and reduces productivity resulting in sustained overspends of regulatory cost allowances while depressing indices of consumer prices and

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

When considering long term financial viability the Directors primarily considered the ability of the Company to retain credit metrics consistent with an investment grade credit rating, as this would continue to grant efficient access to the debt and equity markets for the Company to finance its functions.

The Directors note that the PR19 final determination has significantly reduced the headroom available, coupled with extreme global pressures on costs results in a challenging short-term position. This is further compounded in the medium term by the significant investment pressures over the next price control period, with expenditure expected to be circa four times that previously seen. Looking forward this creates significant pressure on gearing, that even in the base case threatens the ability to maintain an investment grade credit rating and breach the financial covenants on our debt facilities.

However, this is resolved through equity issuance, with further requirements if the scale of investment continues post 2030. We have a long-term shareholder who considers their stewardship in perpetuity and who stands ready to invest into Wessex Water, for a fair return.

Then in many of these scenarios we see further pressure on key credit rating metrics (gearing and interest covers) that may threaten the company's investment grade credit rating, and cause breaches to the financial covenants on our debt facilities. This is of particular note where there is sustained low inflation and significant totex overspends, and on interest covers with sudden reductions in revenue and significant fines.

However, multiple control measures are in place to mitigate or prevent impacts. These include:

- *Insurance against significant one-off shocks such as flooding*

This will help the Company recover some of the totex incurred in specific shocks where they are driven by insurable external risks.

- *The suite of regulatory reconciliation mechanisms in place to allocate risk between the company and customers*

These mechanisms will help mitigate the impact of reduced demand on revenues through the RFI and help mitigate the impact of additional expenditure through the totex reconciliation models. Further protections to the RCV revenues exist in the cost of debt indexation mechanism and RPI/CPIH wedge reconciliation mechanism.

- *Reducing expenditure with limited short or medium-term benefits*

This alongside restriction of executive pay can help offset other increases in totex. However, given the scale and uncertainty of the upcoming capital programme we will not have the ability to completely offset increases in costs, and these levers will have lower impact than in previous assessments.

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

- *Restricting dividends*

The Company has always committed to ensuring it maintains an investment grade credit rating and operates a flexible dividend policy that will help ensure this. The Directors note that dividends can be restricted before the new cash lock up clause in the licence comes into force if there is foresight of the risks.

- *Further equity injections*

As mentioned above the Company has a single long-term focused shareholder committed to the long-term viability of the business and who stands ready to invest in the Company, for a fair return.

The Directors note that in almost all cases the first four mitigations outlined were sufficient to restrict the breaches to short-term failures relating to specific shocks, where further action would have limited immediate impact. The Directors considered that in these cases the impact would not affect the underlying viability of the Company as credit rating agencies focus more on the overall trends and sustained failures.

The Directors also note the further protections in the regulatory model, which in many of these scenarios, would allow 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.

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 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. Where this was not possible, these were short term and manageable.

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 2035.

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:

- the size of the investment programme post 2025;
- 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; and
- the Company has an active and long-term shareholder, YTL, and is committed to long-term stewardship and investment for a fair return.

Climate-related Financial Disclosures

Introduction

This is our second report aligned to principles set out by the Task Force on Climate Related Financial Disclosures (TCFD). While the following pages summarise our approach, more detail is provided in our climate change adaptation report and our net zero carbon route map.

The disclosures that follow show the performance over the regulatory year ended 31 March 2023.

Compliance Statement

The extent of consistency with the TCFD framework

Our climate-related financial disclosures meet and are consistent with the four TCFD recommendations and the eleven recommended disclosures set out in Figure 4 of Section C of the TCFD's June 2017 report "Recommendations of the Task Force on Climate-related Financial Disclosures". We have also taken on board the findings and recommendations of the Financial Reporting Council's "Thematic Review of TCFD disclosures and climate in the financial statements", published in 2022.

The table below summarises where we detail our approach that aligns to the TCFD framework, and the following pages provide further information.

Governance Disclose the organisation's governance around climate-related risks and opportunities.		Page(s)
a. The Board's oversight of climate-related risks and opportunities	Governance Report	55
	Environment and Public Value Committee	82
	Audit and Risk Committee	75
	Governance Framework Principles	60-74
b. Management's role in assessing and managing risks and opportunities	Summary of our decarbonisation plans	31-32
	Our approach to risk and resilience	101-118
	Our climate Volatility principal risk	110
Strategy Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material		
a. The climate-related risks and opportunities the organisation has identified over the short, medium, and long-term	climate change adaptation report	12-14
		36-40
		48-71
	Strategy section	127-129
b. The impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning	Strategy section	127-129
	climate change adaptation report	46-94
c. The resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario	climate change adaptation report	46-94

Risk Management Disclose how the organisation identifies, assesses, and manages climate-related risks		Page(s)
a. The organisation's processes for identifying and assessing climate-related risks.	Climate Risk Climate risk management section	101-118 129-136
b. The organisation's processes for managing climate-related risks	Climate Risk Climate risk management section	101-118 129-136
c. How processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.	Climate Risk Climate risk management section	101-118 129-136
Metrics & Targets Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.		
a. Metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.	Metrics section net zero carbon route map	136-138 9-13
b. Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.	Metrics section	136-138
c. Targets used by the organisation to manage climate-related risks and opportunities and performance against targets	Metrics section net zero carbon route map Annual performance report	136-138 9-13

* Note for hyperlinks the page numbers relate to those documents.

1. Governance

Our Board is responsible for our risks and through two committees (the Environment and Public Value Committee and the Audit and Risk Committee) manages our principal risk of climate volatility (page 109). The Board's Environment and Public Value committee advises the Board on the development and delivery of the Company's purpose, strategy, and values, which drive change and influence the company's environment and social purpose (page 82). The Audit and Risk Committee provides assurance and challenges the overall risk, control, and governance framework on behalf of the Board including for our principal risk of climate volatility (page 75). Our governance arrangements are outlined in our Governance Report (page 55) and how we meet the Ofwat Better Leadership, Transparency and Governance objectives as well as the Wates Principles (page 60-74). The Board reviews and monitors the Company's progress against numerous environmental performance commitments, including our greenhouse gas emissions.

Responsibility for responding to climate related risk and opportunities is shared across the Directorates and is part of our overall approach to risk and resilience. The Director of Planning, Risk and Investment manages our resilience framework through two groups: the Risk Management Group, who manage the overall risk and resilience process; and the Investment Solutions Group, who review and approve capital-based mitigations to improve our resilience. Climate change and volatility is one of the stresses identified in our resilience action plan.

We have produced three climate change adaptation reports, meeting the Government's adaptation reporting duty. These cover the physical climate risks, identified, and graded, and the management measures being used (outlined in the strategy and risk management sections in more detail). Management review the progress being made toward our net zero carbon route map annually. We report our carbon footprint each year to Ofwat and within this report.

2. Strategy

We are a long-term business and aim to be a genuinely sustainable water Company. As such, we are attuned to changes that will take place over several decades. Our management plans for water resources and, drainage and wastewater have a 25-year timescale, and we reflect UK climate projections running to the end of the 21st century. Meanwhile our emissions reduction targets cover the period to 2040, in context of the UK's 2050 net zero aims and successive national carbon budgets. These long-term plans are translated into short- and medium-term delivery through the five-year investment plan cycles.

In 2019 we announced our aim to achieve net zero operational emissions by 2030 and net zero total emissions by 2040. This applies to Wessex Water Services Limited and the emissions associated with its appointed activities. The 2030 aim was based on the items within scope at that time:

- Scope 1: burning of fossil fuels; process emissions; company vehicles
- Scope 2: purchased electricity (generation)
- Scope 3: purchased electricity (transmission & distribution); business travel; outsourced activities.

Our 2030 aim is not a science-based target, but we consider it to be aligned with the principles of the Paris Agreement and the United Nations Convention on Climate Change 1.5°C pathway.

Policies and Strategies

Our services and operations are affected by weather patterns, so our climate change and resilience action plan are crucial to our business. Climate impacts have a bearing on many of the core services that we provide – it will affect water availability, water quality, and the efficacy of sewerage and surface water management, among other things. Heatwaves and drought have clear impacts on water supply and demand, while prolonged or intense rainfall affects the quality of water sources and the capacity of our wastewater network. Adapting to a changing climate is integral therefore to our long-term strategic direction, five-year business plans, and subject-specific exercises such as water resources planning. Our climate change adaptation report sets out overall strategy and our programme of work in the short and long term, in relation to our main physical climate risks.

Alongside physical risks associated with climate, we will be affected by the necessary transition to a low carbon economy. Transition risks and opportunities are also evident for both functions, especially when we include embodied emissions in construction materials and consumables. Our wastewater emissions are larger and are also likely to be harder to abate, especially in relation to process emissions. Providing water and wastewater services involves significant amounts of energy use and emissions of methane and nitrous oxide as well as carbon dioxide. We are committed to reducing our carbon footprint, reflecting the expectations of our external stakeholders – including investors, NGOs and the public – as well as mitigating the physical risks of climate change. Our net zero carbon route map sets out how we plan to address our operational emissions during the 2020s and signal the need for tackled embodied carbon emissions.

Implications for the Company's strategy and finances

Climate change and decarbonisation considerations are among the many factors that influence our strategic and financial planning. Specifically, physical climate risks inform the functional plans (e.g. our 25-year water resources and drainage and wastewater management plans) that underpin our business plans that set out the investment we will undertake to maintain or enhance the services we provide. These investments are dominated by regulatory requirements. Costed plans for decarbonisation are part of our 2024 business plan submission. There will be market or fiscal drivers behind most investment; but where these are absent (e.g. nitrous oxide emissions) a particular case will need to be made to justify expenditure based on the extent of the environmental impact.

We are increasingly looking at whole life carbon impacts, with an addition focus on the embodied carbon of capital projects and consumables. This is already part of our annual reporting and will feature also in our 2024 business plan and future investment appraisal. It is clear, however, that a large investment programme to improve river quality will have a significant carbon footprint if it is dominated by conventional solutions such as storm tanks.

The most significant climate-related financial impacts are likely to result from disruption caused by extreme weather events. In the short term these can take various forms, for example:

- heatwaves that increase water demand: necessary use of water sources with the highest unit costs of treatment, plus additional pumping costs.

- extreme rainfall: costs associated with respond to localised site flooding, additional water treatment at sources affected by runoff and leaching, and additional pumping in the sewerage network.

We estimate that the 2022 drought and the July heatwave added circa £1-2m to our operating costs during 2022-23. In the longer term we expect the financial impact to grow in real terms, as extreme weather events become more frequent, and pressure grows to maintain resilient services. We expect very large associated capital investment i.e. £500m to reduce storm overflow discharge frequency and volume, and £250m to reduce water abstraction; in both cases the long-term impacts of climate change are not the sole contributor but are nonetheless part of our financial modelling.

We are currently appraising the financial effects of our planned decarbonisation work and will set these out in our 2024 business plan submission. Across the full range of potential measures there will be a significant value to the marginal abatement cost to reduce greenhouse gas emissions. This reflects the maturity of the technologies involved, the makeup of the supply chain, and the changing economics of the default, traditional approach. Overall, our direction of travel is to internalise carbon costs, and we will prioritise options that are impactful, best value on a whole life cost basis, or preferably both.

Dependencies upon unproven technologies

Our transition plans are based on a range of technologies. Many are readily available and operating at scale – especially in relation to energy and transport. However, some options are still in development, or not yet readily available in the UK utilities sector. These include:

- availability of low carbon versions of heavy goods vehicles required to carry/tow loads;
- robust cost-effective and scalable advanced thermal conversion of sewage sludge;
- ammonia recovery as way to reduce treatment energy while producing a hydrogen carrying substance; and
- low carbon concrete and steels, where 'grey' solutions are required.

3. Risk management

Identifying and Assessing Risk

We prioritise investment or other action to address risk of any nature according to the likelihood and consequence of the hazard occurring, further information is provided on pages 101 to 118. For climate-related risks, our thinking is also informed by the UK Climate Projections, the UK Climate Risk Assessment, the findings of the IPCC and the National Adaptation Plan. We also use an inventory of UK water sector-specific climate hazards for our wider climate risk assessments presented in our climate change adaptation report.

The UK Climate Projections (UKCP18) provides the most up-to-date assessment of how the climate of the UK may change over the 21st century. It provides data based on:

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

We use UKCP18 outcomes to inform the 25-year long-term delivery strategies (Water Resources Management Plan and the Drainage and Wastewater Management Plan) as part of the 2024 price review and provide the context for the proposed investment during an initial period of 2025-30. The strategies refer to common reference scenarios for climate change, technology, demand, and abstraction reductions with a benign (RCP2.6) and adverse (RCP 8.5) version of each, analogous to the atmospheric concentration of greenhouse gases that would result from low and high emissions globally.

UKCP18 outputs

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

50th percentile for probability	2030-59	2050-79	2070-99
Summer (Jun-Aug) precipitation	-15% to -19%	-19% to -30%	-21% to -39%
Winter (Dec-Feb) precipitation	+9% to +11%	+11% to +18%	+12% to +26%
Summer average daily temperature	+1.9 to +2.2°C	+2.1 to +3.6°C	+2.3 to +5.4°C

Least likely, more extreme outcomes			
Summer precipitation	-36% to -43%	-43% to -60%	-46% to -71%
Winter precipitation	+24% to +28%	+28% to +39%	+29% to +54%
Summer average daily temperature	+3.1 to +3.6°C	+3.7 to +6.0°C	+4.2 to +8.7°C

It is clear that across all scenarios and timescales, average summers will become drier and warmer, and average winters will be milder and wetter.

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

Overlying these trends, during short term time horizons we expect a lot of variation from one year to the next. Moreover, the resilience of our services is affected more by *extreme* weather events - such as heatwaves, droughts, intense storm events and prolonged rainfall - than by changes to averages. As background warming takes place, weather events previously considered extreme or unusual are likely to occur more frequently. This is the most critical issue for our resilience and adaptability.

Our experience dealing with acute weather-related impacts helps us factor them into our planning activities and company risk assessments. Notable examples include:

- summer 1995 - the driest summer since 1911 and the driest three-month period since 1938. Efforts to reduce leakage were stepped up following this event;
- the prolonged rainfall of summer 2007 that required widespread emergency response and led to a fundamental national review of surface water management;
- the heavy rainfall of 2012, with the wettest summer since 1911, followed a year later by the wettest three-month period since 1911 from December 2013 to February 2014;
- the 2018 'Beast from the East' cold wave and the subsequent thaw which caused widespread outbreaks of leaks and pipe bursts; and
- Heatwaves in 2021 and 2022, the second of which coincided with the driest January to August period since 1976.

Further details can be found in pages 5-7 of our climate change adaptation report.

Climate-related risks will affect the reliability and quality of the services we provide to customers and communities, and place greater stress on water environment. This in turn will likely lead to greater pressure on our activities.

Principal Climate-related Risks

Water resources - quantity

Acute heatwaves lead to peaks in water demand which can challenge the throughput and capacity of water treatment and distribution. Droughts reduce yields from groundwater and reservoirs; while we have not had to impose restrictions since 1976 to maintain public water supplies, droughts lead to pressure to reduce abstraction to protect the freshwater environment and alleviate low river flows.

Detailed climate risk assessments are carried out for our Water Resources Management Plans, for which climate change scenario are an integral part. We estimate the impact of changing rainfall, evaporation and temperature patterns and the impact that these may have on river flows, reservoirs, groundwater recharge and ultimately on deployable output; and impacts on water demand. Our most recent water supply vulnerability assessment included the following conclusions:

- the impact of the median impact climate change scenario on deployable output was low for both the dry year annual average and dry year critical period scenarios;
- the baseline impact of climate change in the 2080's is estimated at -3.69 Ml/d on average (1% of base year deployable output) and +1.07 Ml/d for the peak scenario (0.2% of base year deployable output); and
- by 2045, the increase in overall consumption resulting from climate change amounts to 1.7 Ml/d representing a small proportion of overall distribution input (c. 0.5%).

We are supporting research projects to improve our modelling of the relationship between weather and demand. Such models may be driven with climate forecast changes to weather conditions in the future, leading to revised predictions of climate change impacts on demand.

Water resources - quality

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

Sewerage, sewage treatment and sludge

The highest risks for our wastewater activities relate to inundation of sewers during intense or prolonged rainfall, with adverse impacts on customers and receiving watercourses. Others include odour during warm weather; reduced dilution in receiving waters during drought leading to tighter end-of-pipe standards at water recycling centres; and sedimentation in sewers, also due to drought. Because of these risks, climate change impact assessments are increasingly used in wastewater investment planning, such as the drainage and wastewater management plans. Overall, with a changing climate and an increase in impermeable areas connected to the sewer system, we need to make sure that our pipes have sufficient capacity to cope.

Climate change projections and assessments of risk involve recognised uncertainties, including:

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

Further details can be found in appendix 5 of our climate change adaptation report.

Transition Risks

While the UK transition to a low carbon economy presents several opportunities, there are some evident risks in relation to energy use and our greenhouse gas emissions. Most of these risks are expressing themselves in the short to medium term (i.e. under five years), shaped by current policy and economic factors, although we expect them to persist and intensify in the longer term.

Energy use

Since the late1990s our electricity use increased by 40% due to higher effluent quality standards (which often require energy intensive treatment such as mechanical aeration and ultraviolet disinfection), and the need for a more resilient water supply network. Concerted energy efficiency work has been necessary to prevent even higher energy use. Our electricity consumption is also extremely sensitive to the weather. High rainfall increases the volume of sewage moving through our sewerage network, and heatwaves increase public water demand and the energy required for treating and pumping water. With the backdrop of this and higher energy prices, the economic and financial rationale for self-generation is more compelling. Renewable energy generation from our appointed business in 2022-23 amounted to 20 gigawatt hours of electricity and 140 gigawatt hours of biomethane, providing financial benefits in terms of sold energy and reduced energy purchase, as well as the subsidies that are offered.

Regulatory

Through a performance commitment agreed with Ofwat, we pay customers £19,500 for every kilotonne of carbon dioxide equivalent emissions if we exceed our annual target. Carbon footprint reporting is also required for our Annual Report to Ofwat; for Streamlined Energy and Carbon Reporting and as part of the UK Emissions Trading Scheme. Our annual reporting to Ofwat will extend to embodied carbon emissions from 2022-23 onwards. From 2025 there will be a common greenhouse gas emissions performance commitment for water companies in England and Wales, with an expanded list of items being included (affecting scope 3 in particular) and a fixed emission factor for scope 2.

Market/investor pressures

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

Customers and other stakeholders

The BEIS public attitudes tracker shows that concern about climate change has risen steadily over the last ten years. In the most recent survey (winter 2022-23), 82% of people said they are concerned about climate change, with 44% nationally (and 45% in the southwest) saying they are "very concerned". Alongside, a survey conducted in autumn 2021 by Business in the Community and YouGov (*The Right Climate For Business: leading a just transition*), 72% of respondents said it is important that the businesses they buy from take climate action. We believe that there will be growing expectation that we reduce our carbon footprint and increase our resilience to climate risks, alongside other areas of environmental delivery.

Quantification of emissions

We are confident in the level of emissions related to energy and transport. However, emissions of methane and nitrous oxide (within scope 1) are much less certain, as they are estimated by water companies in the absence of direct measurement methods. Work is underway nationally to better quantify methane and nitrous oxide, and initial findings suggest that historically they have been under-estimated. Looking ahead, it is probable that the emission factor for nitrous oxide emitted from every kilogramme of nitrogen in the sewage that we receive, will be revised upwards. A literature review carried out in 2020 for UK Water Industry Research, and the base assumptions used by the Intergovernmental Panel on Climate Change, suggest that a more accurate estimate of nitrous oxide emissions overall could be four times higher than currently reported. Monitoring work underway by UK water and sewerage companies will provide more accurate estimates of nitrous oxide emissions at water recycling centres; a revised national emissions factors will result in the need to revise our own historical and forecast carbon footprint.

Emissions associated with construction materials and products and services that we consume via our supply chain are uncertain. We are working to gain a better high-level understanding of these scope 3 emissions, acknowledging that the calculations involved often carry many assumptions and estimates. For example, the carbon footprint of one tonne of steel or cement can vary substantially depending on the types of energy used at the point of manufacture, and the distances involved in the supply chain.

Managing physical climate-related risks

Typically, the climate-related risks that we have identified are convergent with our core services and activities and their associated KPIs. Also, climate change acts as a threat multiplier, rather than an entirely free-standing set of risks.

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

	Our Controls (examples)	**Our Actions (examples)**
UKCCRA 2022 – PRIORITY RISK AREAS		
Risks to the viability and diversity of terrestrial and freshwater habitats and species from multiple hazards.	• Drought planning • Long term water resource planning • Dialogue with regulators on abstraction and river water quality	• Abstraction reduction at sensitive sites • Integrated supply grid to allow transfers within the region • Enhanced treatment at Water Recycling Centres

Risks to people and the economy from climate-related failure of the power system	• Following Cabinet Office good practice guidance for integrated emergency management • Emergency Tactical Planning Group • Incident management procedures • Involvement in Local resilience forums • Back-up generators	• Continued review of business continuity arrangements • Emergency planning; emergency simulation exercises
UKCCRA 2022 - MORE ACTION NEEDED		
I1 Risks to infrastructure networks (water, energy, transport, ICT) from cascading failures	• Following Cabinet Office good practice guidance for integrated emergency management • Emergency Tactical Planning Group • Incident management procedures • Involvement in Local resilience forums • Back-up generators	• Continued review of business continuity arrangements • Emergency planning; emergency simulation exercises
I2 Risks to infrastructure services from river, surface water and groundwater flooding H3a Risks to people, communities and buildings from river and surface flooding B1 Risks to business sites from flooding	• Adapting maintenance plans • Water supplies: ability to rezone; blend water sources; move water via our integrated grid • Response and recovery plans • Site flood risk assessments; designation of sites needing defences/alterations • Monitoring of vulnerability of sites and assets	• Water supplies: rezoning; blending; transfers via our integrated grid • Investments in bunding, flap valves, alarms and drainage improvements at high-risk sites • Moving electrical equipment above flood levels
I8 Risks to public water supplies from reduced water availability	• Long term water resource planning • Drought planning • Dialogue with regulators on abstraction • Network monitoring, leakage detection • Intra-regional water movements via the integrated supply grid	• Publication of plans, following detailed analysis of risk and stakeholder engagement • Promotion of water efficiency • Replacement of older water mains • Completion of integrated supply grid
H3b Risks to people, communities and buildings from coastal flooding B2 Risks to business locations and infrastructure from coastal change from erosion, flooding and extreme weather events	• Adapting maintenance plans • Water supplies: ability to rezone; blend water sources; move water via our integrated grid • Response and recovery plans • Site flood risk assessments; designation of sites needing defences/alterations • Monitoring of vulnerability of sites and assets • Assessed as low likelihood for our sites	• Water supplies: rezoning; blending; transfers via our integrated grid • Investments in bunding, flap valves, alarms and drainage improvements at high-risk sites • Moving electrical equipment above flood levels
UKCCRA 2022 - FURTHER INVESTIGATION		
I3 Risks to infrastructure services from coastal flooding and erosion	• See H3b and B2	• See H3b and B2
I4 Risks to bridges and pipelines from flooding and erosion	• Water supply rezoning	• Watching brief
I7 Risks to subterranean and surface infrastructure from subsidence	• Proactive network monitoring inspections • Reactive responses	• Reactive maintenance in the event of sewer collapses
H10a Risks to health from water quality	• Continuous monitoring of water supplied from our sources • Source to tap risk assessments; water safety plans • Investment in infrastructure and systems to limit the number of customers reliant on a single source	• Rezoning in the event of failing samples • Catchment management to protect drinking water sources • Blending water supplies • Additional treatment where necessary to keep risk to a satisfactory level

B3 Risks to businesses from water scarcity	• Long term water resource planning • Drought planning • Networks management to maintain resilience • Dialogue with regulators on abstraction	• Publication of plans, following detailed analysis of risk and stakeholder engagement • Promotion of water efficiency

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

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

Managing our greenhouse gas emissions

We use various methods for managing our greenhouse gas emissions, summarised below but detailed on p7-8 of our net zero carbon route map.

- Avoiding emissions – our preferred option to reduce our emissions by looking at catchment based and natural-based solutions and reducing volumes of water and sewage
- Optimisation – through transport and energy efficiency and through process emission savings
- Renewable energy - by generating energy from waste and using other renewable solutions including partnerships with third parties for energy generation

Looking ahead, decarbonisation of the UK electric grid and of road vehicles by 2030 will reduce our emissions but these would be insufficient for reaching net zero emissions. We will need to pursue a wide range of opportunities for cutting carbon that will require additional effort and investment (especially during 2025-30). These will include some readily available options, using established methods and known technologies, which have a favourable balance of costs and carbon reduction benefits. Beyond these are more innovative options involving emerging science and technology; it is likely that these will need to play a part if we are to achieve a net zero carbon position.

Integration of climate-related risks into the Company's resilience

Our resilience action plan (approved by the Audit and Risk Committee) aligns with Ofwat's concept of 'Resilience in the Round' and considers the resilience of our operational, corporate, and financial systems. Our resilience approach will allow us to focus our effort on the areas where improvement is needed to maintain or strengthen our resilience.

We conduct horizon scanning to identify emerging shocks and stresses; climate change is one of the ten stresses identified in our resilience action plan and is linked to some of the shocks such as power failure, extreme weather, and flooding. We manage risk at strategic, tactical, and operational levels, each of which involves resilience assessments. Climate change scenarios and extreme weather events contribute to these, such as the analyses underlying our Water Resource Management Plan and Drainage and Wastewater Management Plan.

We use a hierarchy of interventions to systematically encourage the development of mitigations which are appraised using a capitals-based service measures framework. We have developed this framework to capture and understand the risk to service and value of investing to our customers, environment, and operations. In this way we aim to ensure that our investment decisions can deliver against our Performance Commitments and resilience metrics.

4. Metrics and targets

Climate related metrics

Our climate related performance commitments and key performance indicators relate to our strategic objectives as set out in our strategic direction, which in turn are related to customers' priorities, and statutory objectives for the environment and social provision as transposed into regulation.

We published our net zero carbon route map in Summer 2021 setting out options for achieving net zero operational emissions, monitored by our operational carbon reporting. Our emission trajectory has been downwards in that last ten years; however, much of this has been due to decarbonisation of UK grid electricity, as well as our own efforts. Consequently, we are looking closely at other solutions and techniques, e.g. nitrous oxide from sewage treatment. Further decarbonisation of our activities will need to align with other environmental priorities to promote sustainable land use, protect biodiversity and the water environment, improve resource efficiency, and reduce air pollution. This in turn will benefit our customers and the communities we serve.

Performance commitments are agreed with our regulators and reported against annually in our annual performance review. The main climate-related metrics include the following:

Water supply	*Wastewater*
• Compliance with abstraction licences • Water supply restrictions • Water supply interruptions • Avoided water use from water efficiency measures • Water quality compliance; Events Risk Index; water quality customer contacts • Leaks repaired within 24 hours	• Properties at risk of sewer flooding • Sewer flood risk score • Internal flooding per 10,000 connected properties • External flooding per 10,000 connected properties • Sewer collapses per 1,000km
Cross cutting • Operational greenhouse gas emissions	

Targeted improvement for most of these is mainly driven by other environmental and social factors e.g. customer experience, river ecology – but our assumption is that success in managing each contributes to our resilience in the face of climate change.

Performance against these and other performance commitments are focused on environmental and social delivery and do contribute to performance related pay and bonus arrangements, monitored by the Remuneration Committee.

Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks

We use a well-established process for greenhouse gas, being the UK water sector's carbon accounting workbook commissioned by UK Water Industry Research (UKWIR). The workbook is updated annually with emission factors issued by the government and periodic updates of sector-specific emission factors from other sources such as research and industry databases. It is aligned with the Greenhouse Gas Protocol and with substantive updates has included more scope 3 items.

Emissions for 2022-23 are shown on page 138, integrated with disclosures that fulfil the requirements of the Streamlined Energy and Carbon Reporting framework. All the emissions shown use location-based reporting and represent an April to March year as this is consistent with the company's regulatory year. The company does not yet purchase certified renewable electricity from grid suppliers, and therefore we are not yet providing market-based data in this report. We will continue to review this option at future buying rounds.

Our emissions during 2022-23 fell by 9,141 tonnes compared with 2021-22. While multiple factors have to be taken into account, certain aspects had a notable influence. In particular:

- natural gas consumption fell by 6 GWh;
- raw sludge volumes fell by 2 kt dry solids; and
- the carbon intensity of grid electricity fell by 20g / kilowatt hour.

A customised methodology was agreed with Ofwat in 2019 for calculating performance in relation to our bespoke performance commitment during 2020-25. This includes a fixed set of items within scope, a predetermined profile for grid electricity emission factors, and the use of the 2019 UKWIR carbon accounting workbook, all of which gives rise to different figures to those reported overleaf.

We are seeing the growth of scope 3 in accounting terms, as items have been added to our regulatory reporting as per the previous table. This acts as an upward pressure on our baseline position. Moreover, it should be noted that the inventory of items reported here is longer than those included in our 2030 target (as detailed in section 2).

Energy consumption (as per SECR requirements)

	Year to March 23		**Year to March 22**		unit
	UK& offshore	Global (excl. UK & offshore)	UK& offshore	Global (excl. UK & offshore)	kWh
Energy consumption used to calculate emissions	342,242,883	-	334,551,494	-	

Greenhouse gas emissions (tonnes CO_2 equivalent)	Year to March 23	Year to March 22
OPERATIONAL EMISSIONS		
Scope one[1]	**57,724**	**61,147**
Burning of fossil fuels (location-based)	13,067	13,937
Process and fugitive emissions	33,607	35,993
Company vehicles	11,050	11,217
Scope two		
Purchased electricity (location-based)	**44,066**	**46,445**
Scope three[2]	**43,151**	**44,711**
Business travel	838	588
Outsourced activities	7,402	5,938
Purchased electricity: extraction, production, transmission & distribution	15,534	17,274
Purchased fuels: extraction, production, transmission and distribution	5,859	5,718
Treatment chemicals	5,115	7,091
Reuse of biosolids on third party land	8,403	8,102
Gross operational emissions	**144,941**	**152,303**
Subtractions: exported renewable electricity	-	-
Net operational emissions	**144,941**	**152,303**
CAPITAL EMISSIONS		
Capital projects (cradle-to-build)	**36,697**	-

[1] Scope 1 process emissions for 2021-22 have been restated, correcting the form of conventional digestion selected in the carbon accounting workbook, which increases the value from 32,247 to 35,993 tonnes CO_2e. The items included in our operational emissions reported below have also been expanded in 2022-23. This is a result of Ofwat increasing the number of scope 3 items to be included in regulatory reporting within the annual performance report, with the following being added: well-to-tank factors for electricity generation, electricity transmission and distribution, and purchased fuels; treatment chemicals; and re-use of biosolids on third party land.

[2] A scope 3 capital carbon figure has been included for whole life carbon estimates for our PR24 business plan submission. As the 2022-23 figure is a first-time disclosure, we are unable to compare with previous years.

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 2023.

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

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

Principal activities

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

Results

The trading results for the year ended 30 June 2023 and the Company's financial position at that period end are shown in the attached financial statements. The Company has generated revenue of £541.8m during the year (2022: £517.8m) resulting in a loss before taxation of £35.4m (2022: Profit of £54.0m). For further detail on the results for the year see page 39.

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

Going concern

An overview of the business activities of Wessex Water Services Limited is given in the Strategic Report on pages 2 to 54. A review of the principal risks that the company faces is given in the risk management section on pages 101 to 118. The debt facilities available, amounts outstanding and the maturity profile of this debt are shown in note 18.

The Company meets its day-to-day working capital requirements and medium and long term funding requirements through the cash and short term deposits described in note 17 and the facilities described in note 18. In addition, the Company has access to £225m of undrawn bank facilities if required until August 2025. Under some of the facilities the Company is required to comply with an interest cover and gearing covenant tested quarterly.

The Directors have considered the financial position of the Company and cash flow forecasts for the period from the date of approval of these Financial Statements through 30 September 2024 (the going concern review period) and have concluded they will be able to meet their liabilities as they fall due and comply with the covenants for the going concern review period. In coming to this conclusion, the directors have evaluated the impact of the 'cost of living' crisis and climate change on revenues and debt collectability, the repayment of the £50m index linked bond which took place in July 2023 from the proceeds of the March 2023 bond issue and reviewed the financing requirements of the company.

The Directors have noted there is further debt falling due for repayment within 12 months, in particular £150m of European Investment Bank loans due in early 2024. Based on consistently strong operating performance, market experience for the company and other water companies and a successful history of issuing bonds and raising debt over the past 20 years, most recently in March 2023, the Directors are satisfied that the issuance of debt included within the forecasts prepared for the going concern period is achievable.

In order to facilitate the future issuance of bonds the Company established a £5bn Euro medium-term note programme on 6 September 2023. The first issuance under the new programme taking place in Autumn 2023.

As part of these statutory financial statements, a long-term viability statement has been prepared which extends to March 2035 and against which 33 scenarios of varying severity have been modelled. In the few most severe cases where multiple shocks were modelled, these downsides have been considered as part of the going concern assessment. The impacts were short lived and did not affect the underlying viability of the company during the going concern period to 30 September 2024.

Accordingly, after considering the forecasts, appropriate sensitivities, available facilities and the ability to raise additional debt, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and to comply with its financial covenants; therefore the Directors continue to adopt the going concern basis in preparing the Financial Statements.

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 Limited 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 based on 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

Our greenhouse gas reporting uses a very well-established process, being the UK water sector's carbon accounting workbook commissioned by UK Water Industry Research (UKWIR). The workbook is updated annually with emission factors issued by the government and has had periodic updates of sector-specific emission factors from other sources such as research and industry databases.

Emissions for 2022-23 are shown on page 138. All the emissions shown use location-based reporting and represent an April to March year to align with our regulatory timeframe.

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.

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 2023.

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 2023, trade creditors represented approximately 21 days trade purchases (2022: 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 £903,304 was donated to UK charities (2022: £652,044) of which £383,165 (2022: £320,000) was donated to local debt advice agencies to help provide debt and financial advice to customers in our area who are struggling to pay their water bills.

Disclosure of information to auditor

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

Auditor

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

By order of the Board

Ruth Jefferson – Group General Counsel
Claverton Down
Bath
BA2 7WW
18 September 2023

Statement of Directors' responsibilities

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

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

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

In preparing these financial statements the Directors are required to:

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

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

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

Directors' responsibility statement

The Directors confirm, to the best of their knowledge:

- that the financial statements, prepared in accordance with UK adopted international accounting standards give a true and fair view of the assets, liabilities, financial position and profit for the Company;
- 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.

Financial statements

Income Statement
For the year ended 30 June 2023

	Note	**2023 £m**	2022 £m
Revenue	*3,4*	**541.8**	517.8
Charge for bad and doubtful debts		**(12.6)**	(15.6)
Other operating costs		**(416.8)**	(363.9)
Total operating costs	*5*	**(429.4)**	(379.5)
Other Income		**5.0**	5.9
Operating profit	*3*	**117.4**	144.2
Financial income	*8*	**5.0**	0.1
Financial expenses	*8*	**(157.8)**	(90.3)
Net financing expense		**(152.8)**	(90.2)
(Loss)/profit before tax		**(35.4)**	54.0
Taxation	*9*	**9.7**	(10.9)
(Loss)/profit for the year		**(25.7)**	43.1

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

Statement of Other Comprehensive Income
For the year ended 30 June 2023

	Note	**2023 £m**	2022 £m
(Loss)/profit for the year		**(25.7)**	43.1
Other comprehensive (loss)/gain			
Items that will not be reclassified to profit or loss:			
Remeasurements of defined benefit liability	*20*	**(61.3)**	96.4
Income tax on items that will not be reclassified to profit or loss	*23*	**15.4**	(24.1)
Other comprehensive (loss)/gain for the year, net of income tax		**(45.9)**	72.3
Total comprehensive (loss)/gain for the year		**(71.6)**	115.4

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

Statement of Financial Position
At 30 June 2023

	Note	2023 £m	2022 £m
Non-current assets			
Property, plant and equipment	*11,12*	**4,181.6**	4,023.6
Intangible assets	*13*	**51.2**	50.1
Investments in subsidiaries	*14*	**-**	-
Retirement benefit surplus	*20*	**11.6**	33.5
		4,244.4	4,107.2
Current assets			
Inventories	*15*	**6.8**	5.2
Trade & other receivables	*16*	**212.9**	194.8
Corporation tax receivable	*16*	**8.3**	10.5
Other financial assets	*17*	**45.0**	-
Cash and cash equivalents	*17*	**126.7**	-
		399.7	210.5
Total assets		**4,644.1**	4,317.7
Current liabilities			
Bank overdraft		**-**	(10.9)
Other interest-bearing loans and borrowings	*18*	**(256.9)**	(16.0)
Trade & other payables	*19*	**(217.7)**	(177.7)
Provisions	*22*	**(1.2)**	(1.2)
		(475.8)	(205.8)
Non-current liabilities			
Other interest-bearing loans and borrowings	*18*	**(2,648.8)**	(2,445.8)
Contract liabilities	*19*	**(5.9)**	(5.4)
Retirement benefit deficit	*20*	**(0.7)**	(0.8)
Deferred grants and contributions	*21*	**(316.3)**	(309.8)
Deferred tax liabilities	*23*	**(587.6)**	(603.0)
		(3,559.3)	(3,364.8)
Total liabilities		**(4,035.1)**	(3,570.6)
Net assets		**609.0**	747.1
Equity			
Share capital	*24*	**-**	-
Retained earnings		**609.0**	747.1
Total equity		**609.0**	747.1

The notes on pages 150 to 194 form an integral part of these financial statements.
These financial statements were approved by the Board of Directors on 18 September 2023 and were signed on its behalf by:

Andy Pymer, Director

Statement of Changes in Equity
For the year ended 30 June 2023

	Note	Share capital £m	Retained earnings £m	Total equity £m
Balance at 1 July 2021		-	701.4	701.4
Effect of change in accounting policy		-	(1.3)	(1.3)
Balance at 1 July 2021 (restated)		-	700.1	700.1
Total comprehensive gain for the year				
Profit for the year		-	43.1	43.1
Other comprehensive gain		-	72.3	72.3
Total comprehensive gain for the year		-	115.4	115.4
Transactions with owners, recorded directly in equity				
Dividends	*10*	-	(68.4)	(68.4)
Total contributions by and distributions to owners		-	(68.4)	(68.4)
Balance at 30 June 2022		-	747.1	747.1
Balance at 1 July 2022		-	**747.1**	**747.1**
Total comprehensive loss for the year				
Loss for the year		-	**(25.7)**	**(25.7)**
Other comprehensive loss		-	**(45.9)**	**(45.9)**
Total comprehensive loss for the year		-	**(71.6)**	**(71.6)**
Transactions with owners, recorded directly in equity				
Dividends	*10*	-	**(66.5)**	**(66.5)**
Total contributions by and distributions to owners		-	**(66.5)**	**(66.5)**
Balance at 30 June 2023		-	**609.0**	**609.0**

Included in retained earnings are £478.6m of non-distributable reserves (2022: £522.3m) created on first time adoption of IFRS when restating infrastructure assets to fair value.

Statement of Cash Flows
For the year ended 30 June 2023

	Note	2023 £m	2022 £m
Cash flows from operating activities			
Loss for the year		**(25.7)**	43.1
Adjustments for:			
Depreciation and amortisation	*5*	**136.2**	134.8
Gain on disposal of property, plant and equipment		**(1.7)**	(2.7)
Financial income	*8*	**(5.0)**	(0.1)
Financial expense	*8*	**157.8**	90.3
Taxation	*9*	**(9.7)**	10.9
		251.9	276.3
(Increase) in trade and other receivables		**(16.6)**	(1.4)
(Increase) in inventories		**(1.6)**	(1.1)
Increase/(decrease) in trade and other payables		**34.3**	(0.8)
(Decrease) in provisions and employee benefits		**(37.5)**	(12.4)
		(21.4)	(15.7)
Tax received/(paid)		**11.9**	-
Net cash from operating activities		**242.4**	260.6
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**2.5**	3.4
Interest received		**3.5**	0.2
Acquisition of property, plant and equipment		**(279.8)**	(210.5)
Acquisition of intangible assets	*13*	**(10.3)**	(11.7)
Purchase of financial instruments		**(45.0)**	-
Proceeds from infrastructure charges and capital contributions	*21*	**5.0**	5.4
Net cash from investing activities		**(324.1)**	(213.2)
Cash flows from financing activities			
Proceeds from new borrowings		**522.0**	145.0
Interest paid		**(74.6)**	(72.8)
Repayment of borrowings		**(161.0)**	(391.0)
Payment of lease liabilities		**(0.6)**	(0.2)
Dividends paid		**(66.5)**	(67.6)
Net cash from financing activities		**219.3**	(386.6)
Increase/(decrease) in cash and cash equivalents		**137.6**	(339.2)
Cash and cash equivalents at 1 July		**(10.9)**	328.3
Cash and cash equivalents at 30 June	*17*	**126.7**	(10.9)

Notes to the financial statements

1. Accounting policies

1.1 Basis of preparation

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

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

An overview of the business activities of Wessex Water Services Limited is given in the Strategic Report on pages 2 to 54. A review of the principal risks that the company faces is given in the risk management section on pages 101 to 118. The debt facilities available, amounts outstanding and the maturity profile of this debt are shown in note 18.

The Company meets its day-to-day working capital requirements and medium and long term funding requirements through the cash and short term deposits described in note 17 and the facilities described in note 18. In addition, the Company has access to £225m of undrawn bank facilities if required until August 2025. Under some of the facilities the Company is required to comply with an interest cover and gearing covenant tested quarterly.

The Directors have considered the financial position of the Company and cash flow forecasts for the period from the date of approval of these Financial Statements through 30 September 2024 (the going concern review period) and have concluded they will be able to meet their liabilities as they fall due and comply with the covenants for the going concern review period. In coming to this conclusion, the directors have evaluated the impact of the 'cost of living' crisis and climate change on revenues and debt collectability, the repayment of the £50m index linked bond which took place in July 2023 from the proceeds of the March 2023 bond issue and reviewed the financing requirements of the company.

The Directors have noted there is further debt falling due for repayment within 12 months, in particular £150m of European Investment Bank loans due in early 2024. Based on consistently strong operating performance, market experience for the company and other water companies and a successful history of issuing bonds and raising debt over the past 20 years, most recently in March 2023, the Directors are satisfied that the issuance of debt included within the forecasts prepared for the going concern period is achievable.

1. Accounting policies *(continued)*

1.3 Going concern *(continued)*

In order to facilitate the future issuance of bonds the Company established a £5bn Euro medium-term note programme on 6 September 2023. The first issuance under the new programme will take place in Autumn 2023.

As part of these statutory financial statements, a long-term viability statement has been prepared which extends to March 2035 and against which 33 scenarios of varying severity have been modelled. In the few most severe cases where multiple shocks were modelled, these downsides have been considered as part of the going concern assessment. The impacts were short lived and did not affect the underlying viability of the company during the going concern period to 30 September 2024.

Accordingly, after considering the forecasts, appropriate sensitivities, available facilities and the ability to raise additional debt, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and to comply with its financial covenants; therefore the Directors continue to adopt the going concern basis in preparing the Financial Statements.

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.

1. Accounting policies *(continued)*

1.5 Financial instruments (continued)

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.

Derecognition

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

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

Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement – loans and borrowings

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

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

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

1. Accounting policies *(continued)*

1.5 Financial instruments (continued)

Derecognition

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

1.6 Property, plant and equipment

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

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

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

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

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

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

- land and buildings — 10 to 80 years
- infrastructure assets — 60 to 200 years
- plant, equipment and motor vehicles — 2 to 30 years
- office and IT equipment — 3 to 10 years

Infrastructure assets comprise these eight components:

Impounding reservoirs 150 years, raw water mains 100 years, treated water mains 100 years, communication pipes 60 years, sewers 200 years, sewage pumping stations 60 years, combined sewer overflows 80 years and sea outfalls 60 years.

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

1.7 Intangible assets

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

Amortisation

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

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

1. Accounting policies *(continued)*

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.

1.9 Impairment excluding inventories and deferred tax assets

Financial assets (including receivables)

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

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

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

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

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

Non-financial assets

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

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

1. Accounting policies *(continued)*

1.10 Employee benefits

Defined benefit plans

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

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

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

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

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

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

Defined contribution plans

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

Short-term benefits

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

1. Accounting policies *(continued)*

1.11 Provisions

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

1.12 Deferred grants and contributions

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

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

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

1.13 Revenue

Supply of water and sewerage services

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

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

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

Variable consideration

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

1. Accounting policies *(continued)*

1.13 Revenue *(continued)*

Other revenue - Developer Services

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

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

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

(iii) Adoptions of water and waste water mains.

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

Period over which performance obligations are satisfied

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

Financing component

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

Other Revenue - general

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

1.14 Expenses

Operating lease payments

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

IFRS16 lease payments

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

1. Accounting policies *(continued)*

1.14 Expenses (continued)

Financing income and expenses

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

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

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

1.15 Taxation

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

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

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

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

1.16 Dividends

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

1.17 Contract balances

Contract assets

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

Contract liabilities

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

1. Accounting policies *(continued)*

1.18 Leases

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

Company as a lessee

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

i) Right-of-use assets

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

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

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

ii) Lease liabilities

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

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

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

1. Accounting policies *(continued)*

1.18 Leases (continued)

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

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

Company as a lessor

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

1.19 Software-as-a-Service (SaaS)

SaaS arrangements are service contracts providing the Company with the right to access the cloud provider's application software over the contract period. Costs incurred to configure or customise, and the ongoing fees to obtain access to the cloud provider's application software, are recognised as operating expenses when the services are received.

Some of the costs incurred relate to the development of software code that enhances or modifies, or creates additional capability to, existing on-premise systems and meets the definition of, and the recognition criteria for, an intangible asset. These costs are recognised as intangible software assets and amortised over the useful life of the software on a straight- line basis. The useful lives of these assets are reviewed at least at the end of each financial year, and any change accounted for prospectively as a change in accounting estimate.

1.20 Adopted IFRS not yet applied

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

2. Changes in accounting estimates

During the year the estimated useful economic lives of certain items of plant and equipment and infrastructure assets were revised, with effect from 1 April 2023. This followed a detailed review of the asset lives coinciding with the preparation of the regulatory business plan which occurs every five years. The detailed work involved in preparing the plan enabled us to gain a greater understanding of our assets and their expected lives, and to ensure they are maintained in a sustainable manner. It also ensures that any extension to those lives is reflected in reduced customer bills over the foreseeable future.

Sewer infrastructure – economic life increased from 125 years to 200 years
Water recycling plant and equipment – economic life increased from 20 years to 25 years

The revised lives were based on operational experience, revisions to design horizons and industry comparisons. The net effect of the changes in the current financial year was a reduction in the depreciation charge of £5.9m.

Assuming the assets are held until the end of their estimated useful lives, depreciation in the short term in relation to these assets will be decreased by approx. £23m per annum.

3. Business Unit performance

Business units 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.

	2023 £m	2022 £m
Turnover		
Regulated	**531.9**	509.9
Unregulated	**9.9**	7.9
	541.8	517.8
Operating profit		
Regulated	**117.4**	144.2
Unregulated	**-**	-
	117.4	144.2
Net assets		
Regulated	**609.0**	747.1
Unregulated	**-**	-
	609.0	747.1

For management purposes, the Company is organised into units based on the business environment it operates in and has two business units, 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. Business unit performance is evaluated based on a combination of turnover, operating profit and net asset value and is measured consistently with the financial statements.

4. Revenue from contracts with customers

Current year	**House-hold £m**	**Non-house-hold £m**	**Total £m**
Wholesale revenue – water supply			
Unmeasured	**46.4**	**1.5**	**47.9**
Measured	**82.3**	**46.1**	**128.4**
	128.7	**47.6**	**176.3**
Wholesale revenue – waste water			
Unmeasured	**95.4**	**2.1**	**97.5**
Measured	**161.6**	**53.3**	**214.9**
	257.0	**55.4**	**312.4**
Retail revenue			
Unmeasured	**8.9**	**-**	**8.9**
Measured	**25.5**	**-**	**25.5**
	34.4	**-**	**34.4**
Other revenue			
Regulated			**8.8**
Unregulated			**9.9**
Total revenue			**541.8**

Prior year	House-hold £m	Non-house-hold £m	Total £m
Wholesale revenue – water supply			
Unmeasured	45.9	1.5	47.4
Measured	76.7	43.3	120.0
	122.6	44.8	167.4
Wholesale revenue – waste water			
Unmeasured	93.8	2.1	95.9
Measured	152.8	49.4	202.2
	246.6	51.5	298.1
Retail revenue			
Unmeasured	8.7	-	8.7
Measured	24.7	-	24.7
	33.4	-	33.4
Other revenue			
Regulated			11.0
Unregulated			7.9
Total revenue			517.8

4. Revenue from contracts with customers (continued)

In accordance with IFRS 15, revenue has been disaggregated based on what is recognised in relation to the core services of supplying clean water and the removing and treating of waste water. Each of these services is deemed to give rise to a distinct performance obligation under the contract with customers, though following the same pattern of transfer to the customer who simultaneously receives and consumes both of these services over time.

Residential retail charges relate solely to the margin applied to the wholesale amounts charged to residential customers. The wholesale charges and retail margin are combined in arriving at the total revenues relating to water and waste water services provided to household customers.

Other revenue comprises a number of smaller non-core income streams including those relating to activities, typically performed opposite property developers, which impact the Company's capital network assets including activities that facilitate the creation of an authorised connection through which properties can obtain water and waste water services.

Contract balances

Contract assets of £5.9m (2022: £4.2m) 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 £71.9m (2022: £65.3m), see note 19.

5. Operating costs and auditor's remuneration

	Note	**2023 £m**	2022 £m
Employee costs	*6*	**144.9**	133.8
Power		**53.3**	33.5
Raw Materials and consumables		**20.1**	14.6
Business rates		**24.3**	25.0
Charge for bad and doubtful debts	*25*	**12.6**	15.6
Service charges		**6.6**	6.5
Depreciation of PPE	*11*	**127.6**	126.7
Depreciation on ROU assets	*12*	**0.4**	0.2
Amortisation of intangible assets	*13*	**9.2**	9.5
Property, plant & equipment written off – disposals		**2.3**	1.6
Short-term lease rentals	*12*	**9.9**	6.8
Hire of plant and machinery		**0.6**	0.4
Infrastructure maintenance		**21.3**	20.8
Ofwat licence fee		**1.1**	1.2
Cost of finished goods and w.i.p.		**4.2**	5.8
Charges from other group companies		**16.1**	13.6
Other operating costs		**93.0**	73.0
		547.5	488.6
Amortisation of deferred income	*21*		
Own work capitalised		**(118.1)**	(109.1)
		429.4	379.5

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

Other Income			
Loss/(gain) on disposal of property, plant and equipment		**(1.7)**	(2.7)
Amortisation of deferred income	*21*	**(3.3)**	(3.2)
		(5.0)	(5.9)

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

	2023	2022
	£000	£000
Fees payable to the Company's auditor for:		
Audit of these financial statements	**294**	50
Other assurance services	**226**	298
	520	348

Fees payable for the audit of the Company's annual accounts include £5,000 (2022: £5,000) for out-of-pocket expenses incurred for the delivery of the audit.

Other assurance services include £160,060 in relation to non-audit services performed in connection with the Company's regulatory reporting requirements for Ofwat and £65,880 in relation to the bond issuance.

6. Staff numbers and costs

	Number of employees	
	2023	2022
Average number of employees	**2,691**	2,542

The aggregate payroll costs of these employees was:

	2023	2022
	£m	£m
Wages and salaries	**115.3**	103.8
Social security costs	**14.8**	13.2
Pension costs - defined contribution	**9.1**	6.6
Pension costs - defined benefit	**5.7**	10.2
	144.9	133.8

7. Directors' remuneration

	2023	2022
	£000	£000
Total Directors' remuneration including benefits in kind	**2,081**	2,351
Remuneration of highest paid Director	**538**	491

Details of Directors' remuneration can be found in the Governance Report. Directors' remuneration is in respect of five Executive Directors, five Non-Executive Directors and six YTL appointed Directors (2022: four Executive Directors, six Non-Executive Directors and six YTL appointed Directors).

8. Finance income and expense

Recognised in the Income Statement

	2023	2022
	£m	£m
Finance income		
Interest receivable on short-term bank deposits	**3.0**	0.1
Net interest on net defined benefit pension plan surplus	**2.0**	-
Total finance income	**5.0**	0.1
Finance expense		
To subsidiary company	**(142.0)**	(86.7)
Net interest on net defined benefit pension plan liability	**-**	(1.1)
On bank loans and leases	**(24.3)**	(8.5)
Interest capitalised	**8.5**	6.0
	(155.8)	(90.3)
Net interest payable	**(152.8)**	(90.2)

In accordance with IAS 23 borrowing costs of £8.5m (2022: £6.0m) associated with the funding of eligible capital projects have been capitalised at an average interest rate of 5.9% (2022: 3.8%).

9. Taxation

Recognised in the income statement

	2023 £m	2022 £m
Current tax credit		
Current year	(0.9)	(0.6)
Adjustments for prior years	(8.8)	(2.9)
Current tax credit	(9.7)	(3.5)
Deferred tax (credit)/expense		
Origination and reversal of temporary differences	(10.5)	12.1
Change in tax rate	-	-
Adjustments for prior years	10.5	2.3
Deferred tax (credit)/expense	-	14.4
Total tax (credit)/expense	(9.7)	10.9

Taxation recognised in other comprehensive income

	2023 £m	2022 £m
Revaluation of property, plant and equipment		
Remeasurements of defined benefit surplus	15.4	(24.1)
Tax (credit)/expense	15.4	(24.1)

Reconciliation of effective tax rate

	2023 £m	2022 £m
(Loss)/profit for the year	(25.7)	43.1
Total tax (credit)/expense	(9.7)	10.9
(Loss)/profit excluding taxation:	(35.4)	54.0
Tax using the UK corporation tax rate of 20.5% (2022: 19%)	(7.3)	10.3
Rate difference on current year earnings	(1.9)	2.9
Impact of Capital allowance super deduction	(3.3)	(1.8)
Non-deductible expenses	1.2	0.5
Other	(0.1)	(0.4)
(Over)/under provided in prior years	1.7	(0.6)
Total tax (credit)/expense	(9.7)	10.9

The statutory rate of Corporation tax increased from 19% to 25% effective 1 April 2023, resulting in a statutory rate of 20.5% for the current year (2022: 19%). The Group has benefited from the Super deduction regime until 31 March 2023 and the Full Expensing regime due to be in place until 31 March 2026. As a result of these regimes, the Group has generated current year tax losses for this year and expect to do so for the next few years. The losses in the current year have been recognised in full on the basis it is probable that these assets will be recovered in the future.

Finance (No 2) Bill 2023, that includes BEPS Pillar Two legislation, was substantively enacted on 20 June 2023 for IFRS purposes. The group has applied the exemption from recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes as required by the amendments to IAS 12 - International Tax Reform—Pillar Two Model Rules – issued in May 2023.

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 intends to maintain an investment grade credit rating at all times.

	2023	2022
	£m	£m
Interim dividends for the current year	**51.7**	53.6
Final dividend for the current year	**14.8**	14.8
	66.5	68.4

11. Property, plant and equipment

	Land & buildings £m	Infra-structure assets £m	Plant & equipment £m	Motor vehicles £m	Office & IT equipment £m	Assets under construction £m	Total £m
Cost							
Balance at 1 July 2021	996.9	2,326.2	1,853.0	44.0	40.6	226.8	5,487.5
Transfer between categories	-	-	(4.7)	(0.1)	-	4.8	-
Additions in year	-	7.5	0.2	-	-	218.7	226.4
Transfers on commissioning	22.0	65.5	95.3	5.5	5.2	(193.5)	-
Disposals	(1.2)	(3.7)	(2.1)	(4.0)	(8.9)	-	(19.9)
Cost of ROU assets	0.1	-	-	0.3	-	-	0.4
ROU assets terminated	-	-	-	-	-	-	-
Balance at 30 June 2022	1,017.8	2,395.5	1,941.7	45.7	36.9	256.8	5,694.4
Balance at 1 July 2022	1,017.8	2,395.5	1,941.7	45.7	36.9	256.8	5,694.4
Additions in year				-	-	288.3	288.3
Transfers on commissioning	51.6	112.9	143.5	5.8	4.0	(317.8)	-
Disposals	(3.7)	(0.2)	(38.6)	(5.0)	-	-	(47.5)
ROU assets added	-	-	0.2	0.6	-	-	0.8
ROU assets terminated	-	-	-	-	-	-	-
Balance at 30 June 2023	1,065.7	2,508.2	2,046.8	47.1	40.9	227.3	5,936.0
Depreciation and impairment							
Balance at 1 July 2021	(338.0)	(147.7)	(1,024.0)	(24.9)	(26.9)	-	(1,561.5)
Transfer between categories	-	-	0.1	(0.1)	-	-	-
Depreciation charge for the year	(16.2)	(22.4)	(78.1)	(5.3)	(4.7)	-	(126.7)
Depreciation on disposals	0.5	0.1	4.9	3.2	8.9	-	17.6
Depreciation on ROU assets	(0.1)	-	-	(0.1)	-	-	(0.2)
Depreciation on ROU assets terminated	-	-	-	-	-	-	-
Balance at 30 June 2022	(353.8)	(170.0)	(1,097.1)	(27.2)	(22.7)	-	(1,670.8)
Balance at 1 July 2022	(353.8)	(170.0)	(1,097.1)	(27.2)	(22.7)	-	(1,670.8)
							-
Depreciation charge for the year	(16.9)	(22.1)	(78.4)	(5.3)	(4.9)	-	(127.6)
Depreciation on disposals	2.3	-	37.9	4.2	-	-	44.4
Depreciation on ROU assets	(0.1)	-	(0.1)	(0.2)	-	-	(0.4)
Depreciation on ROU assets terminated	-	-	-	-	-	-	-
Balance at 30 June 2023	(368.5)	(192.1)	(1,137.7)	(28.5)	(27.6)	-	(1,754.4)
Net Book Value							
At 1 July 2021	658.9	2,178.5	829.0	19.1	13.7	226.8	3,926.0
At 30 June 2022	664.0	2,225.5	844.6	18.5	14.2	256.8	4,023.6
At 30 June 2023	**697.2**	**2,316.1**	**909.1**	**18.6**	**13.3**	**227.3**	**4,181.6**

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

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

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

There is no impairment loss recognised in these financial statements (2022: £nil).

Cumulative borrowing costs capitalised and included above were £33.0m (2022: £24.5m).

Included in freehold land and buildings above is an amount of £15.7m (2022: £15.6m) in respect of land which is not depreciated.

12. Leases

Company as a lessee

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

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

	Land & buildings £m	Plant & equipment £m	Motor vehicles £m	Total £m
As at 1 July 2022	1.8	-	0.5	2.3
Additions	-	0.2	0.6	0.8
Depreciation charge for the year	(0.1)	(0.1)	(0.2)	(0.4)
As at 30 June 2023	**1.7**	**0.1**	**0.9**	**2.7**

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:

			2023
			£m
As at 1 July 2022			2.3
Additions			0.8
Accretion of interest			-
Payments			(0.6)
As at 30 June 2023			**2.5**
Current	Note	18	0.4
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:

	2023	2022
	£m	£m
Depreciation expense of right-of use assets	**0.4**	0.2
Interest expense on lease liabilities	**-**	-
Expenses relating to short-term leases	**9.9**	6.8
	10.3	7.0

The Company had total cash outflows for leases of £0.6m in 2023 (2022: £0.2m). The Company also had non-cash additions to right-of-use assets and lease liabilities of £0.8m in 2023 (2022: £0.4m).

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 £0.6m (2022: £0.7m).

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

	2023	2022
	£m	£m
Within one year	**0.4**	0.4
After one year but not more than five years	**1.2**	1.5
More than five years	**1.2**	1.4
	2.8	3.3

13. Intangible assets

	Software development £m	Assets in development £m	Total £m
Cost			
Balance at 1 July 2021	78.0	-	78.0
Transfer between categories	(9.9)	9.9	-
Transfer on Commissioning	6.3	(6.3)	-
Additions	-	11.7	11.7
Disposals	(0.2)	-	(0.2)
Balance at 30 June 2022	74.2	15.3	89.5
Balance at 1 July 2022	74.2	15.3	89.5
Transfer on Commissioning	2.9	(2.9)	-
Additions	-	10.3	10.3
Disposals	(3.4)	-	(3.4)
Balance at 30 June 2023	73.7	22.7	96.4
Amortisation and impairment			
Balance at 1 July 2021	(29.9)	-	(29.9)
Amortisation charge for the year	(9.5)	-	(9.5)
Disposals	-	-	-
Balance at 30 June 2022	(39.4)	-	(39.4)
Balance at 1 July 2022	(39.4)	-	(39.4)
Amortisation charge for the year	(9.2)	-	(9.2)
Disposals	3.4	-	3.4
Balance at 30 June 2023	(45.2)	-	(45.2)
Net Book Value			
At 1 July 2021	48.1	-	48.1
At 30 June 2022	34.8	15.3	50.1
At 30 June 2023	**28.5**	**22.7**	**51.2**

14. Investments in subsidiaries

The Company has an investment of £13,001 (2022: £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

	2023 £m	2022 £m
Raw materials and consumables	**6.8**	5.2
	6.8	5.2

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

16. Trade and other receivables

	2023 £m	2022 £m
Amounts receivable from customers	**123.5**	119.8
Owed by immediate holding company	**17.7**	17.5
Owed by fellow subsidiary companies	**23.5**	22.4
Owed by other group companies	**0.1**	0.2
Owed by associate companies	**1.1**	1.4
Prepayments	**20.1**	18.4
Corporation tax	**8.3**	10.5
Contract cost assets	**5.9**	4.2
VAT debtors	**8.1**	5.3
Other debtors	**12.9**	5.6
	221.2	205.3

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

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

Contract cost assets

	2023 £m	2022 £m
Balance at 1 July	**4.2**	3.3
Incurred during the year	**4.2**	6.7
Recognised as costs during the year	**(2.5)**	(5.8)
Balance at 30 June	**5.9**	4.2

17. Cash and cash equivalents

	2023 £m	2022 £m
Short-term bank deposits	**85.0**	-
Cash at bank and in hand	**41.7**	-
	126.7	-

Other Financial Assets

Term deposits with UK banks from 3 to 6 months	**45.0**	-

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).

	2023 £m	2022 £m
Current liabilities		
Bank Overdraft	-	10.9
Bank loans	**165.9**	15.9
Current portion of finance lease liabilities	**0.4**	0.1
Loans owed to subsidiary company	**90.6**	-
	256.9	26.9
Non-current liabilities		
Bank loans	**417.2**	504.0
Finance lease liabilities	**2.1**	2.2
Loans owed to subsidiary company	**2,229.5**	1,939.6
	2,648.8	2,445.8

Finance lease liabilities

Finance lease liabilities are payable as follows:

	Minimum lease payment 2023 £m	Interest 2023 £m	Principal 2023 £m	Minimum lease payment 2022 £m	Interest 2022 £m	Principal 2022 £m
Less than one year	**0.5**	**(0.1)**	**0.4**	0.1	-	0.1
Between one and five years	**1.2**	**(0.3)**	**0.9**	0.9	(0.1)	0.8
More than five years	**1.5**	**(0.3)**	**1.2**	1.8	(0.4)	1.4
	3.2	**(0.7)**	**2.5**	2.8	(0.5)	2.3

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

Terms and debt repayment schedule:

	Currency	Nominal interest rate	Year of maturity	Issue Value 2023 £m	Carrying amount 2023 £m	Issue Value 2022 £m	Carrying amount 2022 £m
Bank loans - EIB	Sterling	2.68%	2024-25	**200.0**	**200.0**	200.0	200.0
Bank loans - KfW	Sterling	3.55%	2026	**235.0**	**233.4**	176.0	174.9
Bank loans - Natwest	Sterling	4.16%	2032	**150.0**	**149.7**	-	-
Revolving credit facilities	Sterling	2.34%	2025	**-**	**-**	145.0	145.0
Loans owed to subsidiary company							
Bond	Sterling	5.38%	2028	**200.0**	**199.5**	200.0	199.1
Bond	Sterling	5.75%	2033	**350.0**	**346.7**	350.0	346.9
Bond	Sterling	1.50%	2029	**250.0**	**248.3**	250.0	248.0
Bond	Sterling	1.25%	2036	**300.0**	**295.6**	300.0	295.2
Bond	Sterling	5.13%	2032	**300.0**	**298.0**	-	-
Index Linked Bond	Sterling	3.52%	2023	**50.0**	**90.5**	50.0	87.0
Index Linked Bond	Sterling	2.19%	2039	**50.0**	**85.9**	50.0	75.7
Index Linked Bond	Sterling	1.75%	2046	**75.0**	**128.9**	75.0	117.1
Index Linked Bond	Sterling	1.75%	2051	**75.0**	**128.9**	75.0	117.1
Index Linked Bond	Sterling	1.37%	2057	**75.0**	**128.9**	75.0	117.0
Index Linked Bond	Sterling	1.37%	2057	**75.0**	**128.9**	75.0	117.0
Index Linked Bond	Sterling	1.49%	2058	**50.0**	**80.0**	50.0	73.2
Index Linked Bond	Sterling	1.50%	2058	**50.0**	**80.0**	50.0	73.2
Index Linked Bond	Sterling	1.50%	2058	**50.0**	**80.0**	50.0	73.1
				2,535.0	**2,903.2**	2,171.0	2,459.5

Note: Bank overdrafts and leases are excluded from this schedule.

All bonds are listed on the London Stock Exchange under Wessex Water Services Finance Plc, a 100% subsidiary (Note 14). Interest is payable based on the nominal interest rate as disclosed. Index-linked bonds increase in value annually in line with the Retail Prices Index.

The principal borrowing facilities are subject to covenants that are measured quarterly, being an interest cover (excluding indexation) of no less than 2.75x and net debt to regulatory capital value of no more than 75%, based on measures as defined in the facilities agreements.

Maturity

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

	2023 £m	2022 £m
Less than 1 year	**256.5**	15.9
More than 1 year and less than 2 years	**65.8**	102.9
More than 2 year and less than 5 years	**341.3**	488.1
More than 5 years	**2,239.6**	1,852.6
	2,903.2	2,459.5

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

Changes in liabilities arising from financing activities

	1st July 2022 £m	Cash flows £m	New leases £m	Other £m	30th June 2023 £m
Current interest bearing loans and borrowings (excluding items listed below)	15.9	(161.0)	-	401.5	256.5
Current obligations under finance leases and hire purchase contracts	0.1	(0.6)	-	0.9	0.4
Non-current interest bearing loans and borrowings (excluding items listed below)	2,443.6	522.0	-	(318.9)	2,646.7
Non-current obligations under finance leases and hire purchase contracts	2.2	-	0.8	(0.9)	2.1
Total liabilities from financing activities	**2,461.8**	**360.4**	**0.8**	**82.6**	**2,905.7**

	1st July 2021 £m	Cash flows £m	New leases £m	Other £m	30th June 2022 £m
Current interest bearing loans and borrowings (excluding items listed below)	391.0	(391.0)	-	15.9	15.9
Current obligations under finance leases and hire purchase contracts	-	(0.2)	0.3	-	0.1
Non-current interest bearing loans and borrowings (excluding items listed below)	2,284.0	72.2	-	87.4	2,443.6
Non-current obligations under finance leases and hire purchase contracts	2.1	-	0.1	-	2.2
Total liabilities from financing activities	2,677.1	(319.0)	0.4	103.3	2,461.8

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

	2023 £m	2022 £m
Current		
Amounts payable to suppliers	**31.9**	16.3
Owed to subsidiary company	**31.8**	27.2
Owed to other group companies	**-**	1.3
Dividend	**14.8**	14.8
Other creditors	**7.1**	6.4
Taxation and social security	**3.6**	3.2
Accrued expenses	**62.5**	48.6
Contract Liabilities	**66.0**	59.9
	217.7	177.7
Non-current		
Contract Liabilities	**5.9**	5.4
	223.6	183.1

Analysis of Contract Liabilities

	2023 £m	2022 £m
At 1 July	**65.3**	58.2
Deferred during the year	**70.3**	59.9
Recognised as revenue during the year	**(63.7)**	(52.8)
At 30 June	**71.9**	65.3

The contract liabilities within current payables all relate to performance obligations due to be settled within the following 12 months. Non-current contract liabilities relate to performance obligations due to be settled over a 15-year period from June 2016.

20. Retirement benefits

Pension plans

	2023 £m	2022 £m
Fair value of scheme assets	**568.0**	632.9
Present value of defined benefit obligations	**(556.4)**	(599.4)
Net asset for defined benefit obligations	**11.6**	33.5
Unfunded and compensatory added years pension	**(0.7)**	(0.8)
Total employee benefits	**10.9**	32.7

20. Retirement benefits *(continued)*

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

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

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

Profile of the scheme

The defined benefit obligation includes benefits for current employees, former employees and current pensioners. Broadly, about 25% of the liabilities are attributable to current employees, 14% to deferred pensioners and 61% 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 14-15 years reflecting the appropriate split of the defined benefit obligation between current employees (duration of c19-20 years), deferred members (duration of c18-19 years) and current pensioners (duration of c11-12 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 2022 and showed a deficit of £35.3 million. The company is due to pay deficit contributions of up to £20.2m by 1 July 2024, with the amount falling due dependent upon the Scheme's funding position ahead of the payment date which, along with investment returns from return-seeking assets, are expected to make good this shortfall by 1 July 2024.

The Company also pays contributions of 15.5% of pensionable salaries in respect of current accrual and non-investment related expenses. A contribution of £18.4m was paid on 30 June 2023.

Risks associated with the scheme

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

20. Retirement benefits *(continued)*

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

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

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

Reporting at 30 June 2023

The results of the latest funding valuation at 30 September 2022 have been adjusted to the balance sheet date taking account of experience over the period since 30 September 2022, 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:

	30.06.23	30.06.22
Rate of increase in salaries – long term	**1.90%**	1.90%
Rate of increase in pensions		
- WWPS and 1/80ths members	**3.00%**	2.90%
- MIS members	**2.70%**	2.50%
- Reduced level members	**2.10%**	2.10%
- Post 88 GMP	**2.10%**	2.10%
Discount rate	**5.20%**	3.80%
Inflation assumption – RPI	**3.20%**	3.00%
Inflation assumption – CPI	**2.70%**	2.50%

Mortality assumptions:

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

	2023 Male years	**2023 Female Years**	2022 Male years	2022 Female Years
Life expectancy - current age 60	**25.6**	**28.3**	25.9	28.5
Life expectancy - current age 40	**46.8**	**49.4**	47.2	49.7

20. Retirement benefits *(continued)*

The mortality table adopted is based upon 111% 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 2021 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 £7.2m from £556.4m to £563.6m, reducing the scheme surplus to £4.4m.

An increase in the inflation assumption of 0.1% would increase the scheme liabilities by £7.1m from £566.4m to £563.5m, reducing the scheme surplus to £4.5m.

An increase in life expectancy of 1 year would increase the scheme liabilities by £15.8m from £556.4m to £572.2m, increasing the scheme deficit to £4.2m.

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:

	2023	2022
	£m	£m
Equities	**158.2**	200.9
Property	**33.1**	46.7
Government bonds	**46.0**	167.9
Corporate bonds	**305.2**	186.3
Other	**25.5**	31.1
	568.0	632.9

20. Retirement benefits *(continued)*

The amounts recognised in the income statement and other comprehensive income:

	2023 £m	2022 £m
Operating cost – service cost		
Current service cost	**5.9**	9.3
Administration expenses	**0.9**	0.9
Past service cost (including curtailments)	**(1.2)**	-
Financing cost		
Interest on net benefit liability	**(2.0)**	1.1
Pension expense recognised in Income Statement	**3.6**	11.3
Re-measurements in OCI		
Return on plan assets (in excess of) that recognised in net interest	**103.6**	121.7
Actuarial (gains) due to changes in financial assumptions	**(95.3)**	(230.1)
Actuarial losses due to changes in demographic assumptions	**12.3**	-
Actuarial losses due to liability experience	**40.7**	12.0
Losses/(gains) recognised in OCI	**61.3**	(96.4)
Losses/(gains) recognised in Income Statement and OCI	**64.9**	(85.1)

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

	2023 £m	2022 £m
Opening defined benefit obligation	**599.4**	819.7
Current service cost	**5.9**	9.3
Interest expense on defined benefit obligation	**22.6**	15.7
Actuarial (gains) due to changes in financial assumptions	**(95.3)**	(230.1)
Actuarial losses due to changes in demographic assumptions	**12.3**	-
Actuarial losses due to liability experience	**40.7**	12.0
Net benefits paid out	**(28.0)**	(27.2)
Past service cost (including curtailments)	**(1.2)**	-
Closing defined benefit obligation	**556.4**	599.4

20. Retirement benefits *(continued)*

Changes to the fair value of scheme assets during the year

	2023 £m	2022 £m
Opening fair value of scheme assets	**632.9**	744.5
Interest income on scheme assets	**24.6**	14.6
Re-measurement gains on scheme assets	**(103.6)**	(121.7)
Contributions by employer	**43.0**	23.6
Net benefits paid out	**(28.0)**	(27.2)
Administration costs incurred	**(0.9)**	(0.9)
Closing fair value of scheme assets	**568.0**	632.9

Additional analysis:	2023 £m	2022 £m
Actual return on scheme assets		
Interest income on scheme assets	**24.6**	14.6
Re-measurement gains on scheme assets	**(103.6)**	(121.7)
Actual return on scheme assets	**(79.0)**	(107.1)
Analysis of amounts recognised in Other Comprehensive Income		
Total re-measurement gains / (losses)	**(61.3)**	96.4
Total gain / (loss)	**(61.3)**	96.4

21. Deferred grants and contributions

	Requisitions £m	Other contributions £m	Adopted sewers £m	Infrastructure charges £m	Total £m
Balance at 1 July 2021	35.1	31.8	102.3	130.7	299.9
Reclassifications	-	-	-	-	-
Received during the year	1.9	1.1	7.7	2.4	13.1
Amortised in year	(0.3)	(0.5)	(1.1)	(1.3)	(3.2)
Balance at 30 June 2022	36.7	32.4	108.9	131.8	309.8
Balance at 1 July 2022	36.7	32.4	108.9	131.8	309.8
Reclassifications	-	-	-	-	-
Received during the year	1.9	1.5	4.4	2.0	9.8
Amortised in year	(0.3)	(0.6)	(1.0)	(1.4)	(3.3)
Balance at 30 June 2023	**38.3**	**33.3**	**112.3**	**132.4**	**316.3**

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

22. Provisions

	Claim costs	Restructuring costs £m	Total £m
Balance at 1 July 2022	1.1	0.1	1.2
Provisions made during the year	-	1.1	1.1
Provisions used during the year	-	(1.1)	(1.1)
Balance at 30 June 2023	**1.1**	**0.1**	**1.2**
Non-current	-	-	-
Current	1.1	0.1	1.2
	1.1	**0.1**	**1.2**

In the ordinary course of business, the Company is sometimes subject to claims and potential litigation, whether from regulatory bodies, individuals or particular groups, related to one off matters. The Directors consider that, where it is possible to be estimated reliably, a reasonable and appropriate position has been taken in reflecting such items in these Financial Statements in the note above. The provisions disclosed will be utilised with 12 months of 30 June 2023.

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	
	2023	2022	**2023**	2022	**2023**	2022
	£m	£m	**£m**	£m	**£m**	£m
Property, plant and equipment	**644.8**	640.0	**(46.7)**	(45.1)	**598.1**	594.9
Employee benefits	**2.9**	8.4	**-**	-	**2.9**	8.4
Losses	**-**	-	**(13.1)**	-	**(13.1)**	-
Provisions	**-**	-	**(0.3)**	(0.3)	**(0.3)**	(0.3)
Tax (assets) / liabilities	**647.7**	648.4	**(60.1)**	(45.4)	**587.6**	603.0
Net of tax liabilities/(assets)	**(60.1)**	(45.4)	**60.1**	45.4	**-**	-
Net tax liabilities	**587.6**	603.0	**-**	-	**587.6**	603.0

Deferred tax assets have been recognised in respect of all temporary differences giving rise to deferred tax assets because it is probable that these assets will be recovered.

Movement in deferred tax during the year

	1 July 2022	**Recognised in income**	**Recognised in equity**	**30 June 2023**
	£m	**£m**	**£m**	**£m**
Property, plant and equipment	**594.9**	**3.2**	**-**	**598.1**
Employee benefits	**8.4**	**9.9**	**(15.4)**	**2.9**
Losses	**-**	**(13.1)**	**-**	**(13.1)**
Provisions	**(0.3)**	**-**	**-**	**(0.3)**
	603.0	**0.0**	**(15.4)**	**587.6**

Movement in deferred tax during the prior year

	1 July 2021	Recognised in income	Recognised in equity	30 June 2022
	£m	£m	£m	£m
Property, plant and equipment	581.7	13.2	-	594.9
Employee benefits	(17.2)	1.5	24.1	8.4
Provisions	-	(0.3)	-	(0.3)
	564.5	14.4	24.1	603.0

24. Capital and reserves

	2023 £	2022 £
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 £1,388.1m and a fair value of £1,197.4m. The fair values of long-term index-linked inter-company borrowings are classified as level 1 in the IFRS 13 fair value hierarchy and have a carrying value of £932.0m and a fair value of £1,074.8m. Bank loans are classified as level 2 and have a carrying value of £583.1m and fair value of £583.1m. All other loans and leases are classified as level 2 and have a carrying value and fair value of £2.5m.

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 2023 £m	Fair value 2023 £m	Level 1 2023 £m	Level 2 2023 £m	Carrying amount 2022 £m	Fair value 2022 £m	Level 1 2022 £m	Level 2 2022 £m
Financial liabilities								
Interest-bearing loans and borrowings:								
Fixed rate borrowings	**1,488.1**	**1,297.4**	**1,197.4**	**100.0**	1,189.2	1,098.4	998.4	100.0
Floating rate borrowings	**485.6**	**485.6**	**-**	**485.6**	433.1	433.1	-	433.1
Indexed-linked borrowings	**932.0**	**1,074.8**	**1,074.8**	**-**	850.4	1,081.0	1,081.0	-
Total financial liabilities	**2,905.7**	**2,857.8**	**2,272.2**	**585.6**	2,472.7	2,612.5	2,079.4	533.1

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 minimal 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)*

	2023	2022
	£m	£m
Other financial assets	**45.0**	-
Cash and cash equivalents	**126.7**	-
	171.7	-

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

	2023	2022
	£m	£m
South West England	**123.5**	119.8
	123.5	119.8

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 £13.8m from Water 2 Business Ltd, a fellow subsidiary in the water industry.

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

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

	2023	2022
	£m	£m
Billed receivables	**88.9**	92.1
Unbilled receivables	**73.1**	69.2
Expected credit losses	**(38.5)**	(41.5)
	123.5	119.8

The ageing of receivable is as follows:

	Gross	ECL rate	ECL
	2023	**2023**	**2023**
	£m	**%**	**£m**
Less than 1 year	**115.2**	**8.9%**	**(10.2)**
1 to 2 years	**15.8**	**51.3%**	**(8.1)**
2 to 3 years	**13.5**	**56.3%**	**(7.6)**
3 to 4 years	**11.8**	**58.5%**	**(6.9)**
More than 4 years	**5.7**	**100.0%**	**(5.7)**
	162.0	**23.8%**	**(38.5)**

25. Financial instruments *(continued)*

(b) Credit risk (continued)

	Gross 2022 £m	ECL rate 2022 %	ECL 2022 £m
Less than 1 year	111.9	9.5%	(10.6)
1 to 2 years	16.2	50.0%	(8.1)
2 to 3 years	13.6	55.9%	(7.6)
3 to 4 years	12.0	63.3%	(7.6)
More than 4 years	7.6	100.0%	(7.6)
	161.3	25.6%	(41.5)

	Measured Billing			**Unmeasured Billing**		
Payment Method	**Direct Debit %**	**Normal %**	**Other %**	**Direct Debit %**	**Normal %**	**Other %**
Less than 1 year	11.8%	12.6%	22.3%	34.3%	16.8%	17.2%
1 to 2 years	40.4%	32.4%	30.4%	43.8%	32.0%	26.5%
2 to 3 years	41.4%	44.5%	39.3%	41.1%	40.3%	37.0%
3 to 4 years	35.5%	57.8%	57.1%	13.8%	53.4%	59.7%
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:

	2023 £m	2022 £m
Balance at 1 July	**(41.5)**	(36.4)
Written off	**15.5**	10.1
Adjustment for non-paying customers	**0.8**	0.8
Non-payers subsequently becoming payers	**(0.7)**	(0.4)
Charge to profit and loss	**(12.6)**	(15.6)
Balance at 30 June	**(38.5)**	(41.5)

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 (2022: 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 2023 £m	**Contractual cash flows 2023 £m**	**Year 1 2023 £m**	**Years 2 to 5 2023 £m**	**Over 5 years 2023 £m**
Non derivative financial instruments					
Lease liabilities	**2.5**	**3.2**	**0.4**	**1.0**	**1.8**
Secured bank loans	**583.1**	**708.2**	**198.7**	**277.4**	**232.0**
Inter-company loans	**2,320.1**	**4,681.9**	**162.7**	**492.8**	**4,026.5**
Total financial instruments	**2,905.7**	**5,393.4**	**361.8**	**771.2**	**4,260.3**

	Carrying amount 2022 £m	Contractual cash flows 2022 £m	Year 1 2022 £m	Years 2 to 5 2022 £m	Over 5 years 2022 £m
Non derivative financial instruments					
Lease liabilities	2.3	2.8	0.1	0.9	1.8
Secured bank loans	530.8	559.6	37.3	522.3	-
Inter-company loans	1,939.6	3,798.3	55.3	308.8	3,434.2
Total financial instruments	2,472.7	4,360.7	92.7	832.0	3,436.0

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:

	2023	2022
	£m	£m
Fixed rate instruments	**1,488.1**	1,189.2
Floating rate instruments	**485.6**	433.1
Index linked instruments	**932.0**	850.4
	2,905.7	2,472.7

The Company policy is to keep a significant proportion of total financial instruments in each of the three categories.

Sensitivity

The floating rate instruments are sensitive to interest rate movements. If there was a 1% increase in interest rates on those floating rate instruments at the balance sheet date, there would be an additional interest charge to the income statement of £4.9m.

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 £9.3m.

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.

	2023	2022
	£m	£m
Cash at bank	**(41.7)**	-
Short-term deposits (less than 3 months)	**(85.0)**	-
Medium-term deposits (3-6 months)	**(45.0)**	-
Bank overdraft	**-**	10.9
Bank loans	**583.1**	519.9
Finance leases	**2.5**	2.3
Bonds	**2,320.1**	1,939.6
Total Net Debt	**2,734.0**	2,472.7
RCV at 30 June	**4,125.0**	3,696.7
Gearing	**66.3%**	66.9%

The RCV at March for each regulated water and sewerage company is published by Ofwat here:

https://www.ofwat.gov.uk/wp-content/uploads/2023/05/RCV-PR19_2023_Overall-.xlsx

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 2023 and 2022.

27. Commitments

Capital expenditure contracted but not provided at 30 June 2023 was £150.1m (2022: £129.1m).

The Company has guaranteed Bonds of £2,320.1m (2022: £1,939.6m) issued by its wholly owned subsidiary company Wessex Water Services Finance Plc.

The Company has provided performance guarantees on its own behalf of £0.5m (2022: £0.2m).

28. Contingent liabilities

Claims under the Environmental Information Regulations 2001 (EIR)

Alongside the rest of the sector, five claims have been issued against the Company. The claims allege that in breach of the UK Environmental Information Regulation obligations, the Company failed to provide environmental information free of charge. Consequently, the personal search companies were required to purchase CON29DW searches in order to access information. The claimants are seeking restitution of the sums paid, however, these sums are not considered reliable. The first phase trial has been scheduled for November 2023 with the disclosure exercise and exchange of witness evidence now completed. The Company is defending the 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

Investigations into the incident at Avonmouth in December 2020 are ongoing. We continue to co-operate with the investigating authorities. No proceedings have been issued and, as such, it is not possible to assess any financial penalties or related costs could be incurred.

Flow to full treatment investigation

In November 2021, Ofwat and the Environment Agency announced separate industry-wide investigations into Flow to Full Treatment at waste water recycling centres. Ofwat has since opened enforcement cases into five companies, including the Company. Ofwat published an update on its investigation in August 2023: Investigation into sewage treatment works - Ofwat. The EA continue to issue written requests for information and have conducted four visits of Water Recycling Centres with more visits expected over the coming months. The Company continues to work with both organisations as they continue to gather further information to inform the investigations and next steps.

29. Significant transactions with related parties

There were no transactions with key management personnel.

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

There have been no transactions with pre-penultimate, penultimate and ultimate holding companies described in note 30.

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

	2023 £m	2022 £m
Sales of goods and services:		
Fellow subsidiaries	**91.5**	81.8
Other group companies	**0.4**	0.4
Immediate holding company	**3.3**	4.0
Associate companies	**1.4**	1.1
Purchase of goods and services:		
Fellow subsidiaries	**5.5**	4.3
Other group companies	**0.8**	1.2
Immediate holding company	**0.6**	0.7
Associate companies	**14.1**	11.8
Interest expense:		
Subsidiary	**142.0**	86.7
Year-end balances owing by:		
Fellow subsidiaries	**23.5**	22.4
Other group companies	**0.1**	0.2
Immediate holding company	**17.7**	17.5
Associate companies	**1.1**	1.4
Year-end balances owing to:		
Subsidiary	**2,351.9**	1,966.8
Other group companies	**-**	1.3
Immediate holding company	**14.8**	14.8

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 concluded that no material provision is required.

The Company has guaranteed Bonds of £2,320.1m (2022: £1,939.6m) 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 2023 and paid in July 2023. On 31 July 2023, the company repaid £90.5m in relation to the 3.52% £50m index linked bond.

32. Accounting estimates and judgements

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

a) Defined benefit pension scheme deficit

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

b) Expected credit loss 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 2023 this has included additional considerations of the possible impact of the ongoing 'cost of living crisis' on the expected collection rates of outstanding receivables at the balance sheet date. These assumptions are discussed in note 25. A 1% reduction in collection rates would increase the expected credit loss allowance by £5.3m.

c) Revenue recognition

The unbilled income accrual from metered water services requires an estimation of the amount of commissioning unbilled charges at the period end. This is calculated using system generated information based on average customer volume usage. A 2% movement in average consumption equates to a £1m movement in the unbilled income accrual.

32. Accounting estimates and judgements *(continued)*

d) Asset lives

Assets recorded in the Company's fixed asset register are depreciated systematically using asset lives assigned to the classification of the asset into a number of standard asset types. These asset lives are subject to review based on historical performance, new technologies or new areas of capital investment. A reduction in the asset life for property, plant and equipment of 1 year would impact the depreciation charge by £10m.

Significant judgements

e) 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.

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

Opinion

We have audited the financial statements of Wessex Water Services Limited for the year ended 30 June 2023 which comprise the Income Statement, the Statement of Other Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows, and the related notes1 to 32, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards.

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 30 June 2023 and of its loss for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to other entities of public interest, 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 completing the following procedures:

- Gained an understanding of the process undertaken by management to perform the going concern assessment, including discussion with management to ensure all key factors were taken into account.
- Obtained management's forecast cash flows and covenant calculations covering the period from the date of signing to 30 September 2024 and agreed these to the Board and regulatory approved budgets and forecasts.
- 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.
- Tested the mathematical accuracy of the cash flow forecasts, as well as the calculation of the forecast covenants.
- 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.

- Considered the Company's ability to obtain additional liquidity, with the support of our debt advisory specialists and agreed available facilities to underlying agreements and the extent of drawings thereunder to external confirmations.
- Performed forecast covenant testing and considered any potential indicators of breach in the assessment period.
- Considered two of the most severe downside scenarios modelled by management in respect of the assumptions used in the going concern assessment and performed sensitivity analysis on management's forecast cashflows to understand how more severe conditions would have to be to breach liquidity and/or covenants.
- 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.
- 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.
- Assessed the appropriateness of disclosures within the Annual Report and Accounts.

Our key observations:

- In March 2023, the Company secured a £300 million bond.
- In September 2023 the Group established a £5,000,000,000 Euro Medium Term Note programme.
- The Company also has a £225 million revolving bank facility available to draw upon during the going concern period, none of which has been drawn down at 30 June 2023.
- The Company has £265 million of debt maturity payments to make in the going concern assessment period.
- The Directors are satisfied that the issuance of debt included within the forecasts prepared for the going concern period is achievable.

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 to 30 September 2024.

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

Other information

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

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 143, 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:
    - UK adopted international accounting standards
    - Financial Reporting Council (FRC)
    - Tax Legislation (Governed by HM Revenue and Customs)
    - General Data Protection Regulation
    - The UK Bribery Act
    - Anti-Money Laundering Legislation
    - Health & Safety Legislation
    - Ofwat Regulations
    - The Water Act (2003; 2014)
    - Environment Act (1995; 2021)
- We understood how Wessex Water Services Limited is complying with those frameworks by enquiring with management to understand how the company maintain and communicate its policies and procedures in relation to these areas. We evaluated the entity level control environment through discussion with management and in-house legal counsel and inspecting and observing the control environment.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by meeting with management and internal audit to understand where they considered there was susceptibility to fraud. We also considered performance targets and the potential incentives or opportunities to manage earnings. We considered the programmes and controls that the Company has established to address the risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those programs and controls. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free from material fraud.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved making enquiries of key management and in-house legal counsel, reviewing key policies, inspecting legal registers and correspondence of non-compliance from the relevant authorities and reports from any external legal teams, and reading board meeting minutes. We performed journal entry testing to ensure that there are no unusual legal or penalty expenses incurred during the year that haven't been disclosed and to ensure that the management is in compliance with the applicable framework. For any non-compliance noted, we assessed the accounting implications and read the financial statements to evaluate the appropriateness of the disclosures.

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.

Ernst & Young LLP

Simon O'Neill (Senior statutory auditor)
Ernst & Young LLP
Bristol
19 September 2023