

WESSEX WATER LIMITED

Annual Report and Financial Statements 30 June 2024

Registered in England & Wales No. 02366633



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STRATEGIC REPORT

Principal Activities

The principal activity of the Group is the supply of clean water and treatment and disposal of waste water.

The principal activity of the Company is that of a holding company.

The principal subsidiary of the Company is Wessex Water Services Ltd (WWSL), a regulated company licenced for the supply of clean water and treatment and disposal of waste water. WWSL operates in a region of 10,000 square kilometres in the south west of England. In 2017 there was a change in the regulated activity of WWSL with the retail element of non-household companies being open to competition. To enter into this competitive market Wessex Water Limited (WWL) created with Bristol Water Holdings Ltd a new company, Water 2 Business Ltd.

WWL owns 100% of the share capital of Wessex Water Enterprises Ltd, which undertakes sustainable waste activities in the WWSL region using the GENeco brand.

WWL also owns SC Technology GmbH, another 100% subsidiary company which is registered in Switzerland, installs and operates sludge drying equipment with the principal contracts being in the Netherlands.

WWL has an additional subsidiary, Turnbull Infrastructure & Utilities Ltd which undertakes end-to-end services for civil, mechanical and electrical engineering projects.

All subsidiary companies are listed in note 14.

Financial performance

Loss after tax reduced by £4.4m from a loss of £4.8m to a loss of £0.4m, due to the factors shown below.

Revenue increased by £75.0m or 9.5% to £863.9m. This mainly resulted from growth in the regulated revenue of Water 2 Business driven by national contracts won outside of the Wessex region together with the impact of increased tariff prices in WWSL.

Total operating costs increased by £48.7m from £655.3m to £704.0m. In WWSL, new obligations, supporting improvements to leakage and pollutions performance and other inflationary pressures combined with the additional wholesale costs associated with the new Water 2 Business contracts to increase the overall cost base.

Net financing expenses, including other finance charges, increased by £22.0m from £150.6m to £172.6m. There was a significant increase in the level of interest from index-linked debt reflecting high inflation. The overall cost of debt increased to 6.8% from 5.9% in 2023.

There was a £0.3m reduction in taxation, from a credit last year of £8.1m to a credit of £7.8m this year.

Net Debt (consisting of cash deposits, bank overdrafts and other interest-bearing loans and borrowings) increased from £2,787.6m to £3,149.7m, an increase of £362.1m and included:

- cash inflows from operating activities of £312.9m
- less interest payments of £105.0m
- less net investing activities of £362.2m
- less dividend payments of £77.5m
- less working capital outflows of £130.3m

Dividends declared in the year amounted to £78.0m compared to £80.0m last year.

STRATEGIC REPORT (continued)

Under IAS 19 the pension scheme surplus of £11.6m at the start of the year has reduced to a surplus of £5.9m at 30 June 2024, the increase in asset values of £6.6m outweighed by the £12.3m increase in obligations.

As noted above, the principal subsidiary of the company is WWSL. The key performance indicators for WWSL are measured for the regulatory year to 31 March and are included in the Regulatory Accounts of WWSL that are available from Wessex Water Operations Centre, Claverton Down, Bath BA2 7WW.

Group operating profit as a percentage of revenue was 19.0% (2023: 17.5%), the increase being due to the profit improvements in WWSL resulting from increasing tariff prices. Interest cover remained constant at 0.9 times (2023: 0.9 times).

The following sections A to E provide an overview of the key subsidiaries within the group.

A. WESSEX WATER SERVICES LTD

About us

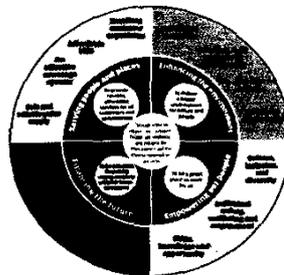
We are a regional water and sewerage business serving 2.9 million customers across the south west of England. We are recognised by our regulators as one of the leading water and sewerage companies in England and Wales.

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 through 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*

STRATEGIC REPORT (continued)

The performance indicators that follow show the performance over the regulatory year ended 31 March 2024.

Serving people and places

To provide reliable, affordable services for all customers and communities

OUTCOMES	Target 2050	Actual 23/24	Previous year	Progress
Safe and reliable water supply				
Water supply interruptions (mm:ss)	0:00	00:05:35	00:04:10	↓
Compliance risk index score	0.00	0.93	1.04	↑
An effective sewerage system				
Internal sewer flooding	-	1,36	1,51	↓
Affordable bills				
Percentage of customers spending more than 5% of their disposable income on their water bill*	0%	6.3%	5.5%	↑
Excellent customer experience				
Position in the UK Customer Satisfaction Index	Top 10	236th	93rd	↓
C-Mex	upper quartile	second overall	third overall	↑

Overview

Though there remain some critical areas to work on, it is rewarding to see the hard work reflected in this year's data.

In common with 2022, our customers continued to feel the impact of high living costs on their household budgets in 2023 and affordability remained a priority for us. But weatherwise, it was a very different year. Issues arising from the drought and heatwaves of 2022 were replaced by challenges from exceptional levels of rainfall. The 12 months between March 2023 and February 2024 were the wettest on record (since 1871) in our region, with an average accumulation of 1310mm, equating to 155% of the long-term average rainfall. High rainfall levels persisted throughout this period, with nine of these 12 months individually above the long-term average, some by around 250%. Meanwhile, mild temperatures made the year the second warmest on record. The reality of climate change is with us, as are the growing challenges that come with it.

Against this backdrop, in three of the four areas that fall within the 'Serving people and places' area, we continued to provide leading levels of service: safe and reliable water supply, affordable bills and great customer experience. Some highlights included:

- our Compliance Risk Index score looks set to be industry-leading and our Event Risk Index score will be a significant improvement on last year; these are the two key measures of drinking water quality
- on affordability, we remain committed to our pledge to end water poverty by 2030 despite the increasingly difficult economic context. This year we have focused on boosting access to the wide range of financial support we provide under our tailored assistance programme (tap) to ensure even more customers get the help they need. We have also continued to provide support and grants through our charitable Wessex Water Foundation
- our ongoing focus on delivering great customer service resulted in us remaining one of the leading performers in the range of relevant customer service metrics, including being in the top two companies on Ofwat's measure of customer experience, C-MeX.

However, our wastewater network struggled under the persistent heavy rain and the number of sewer floods that happened both inside and outside of people's properties regrettably increased. With more extreme weather likely to be a feature of the future, we are now using AI technology to detect defects, such as collapses and obstructions caused by wet wipes, along our many miles of sewer network. This will help us to speed up our response times – see case study, AI insight helping to protect rivers, seas and homes on page 16.

STRATEGIC REPORT (continued)

A single, but significant, trunk mains burst in Chippenham in February 2024 also hit our supply interruptions performance this year. However, amongst water companies, we expect to remain in the leading pack.

Our journey

Our long-term ambitions for serving people and places are set out in our Strategic Direction Statement. 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.

Enhancing the environment

To deliver a better environment for nature and people

OUTCOMES	Target 2050	Actual 23/24	Previous year	Progress
Sustainable abstraction				
Compliance with abstraction licences	100%	98%	98%	
Excellent river and coastal water quality				
Number of pollution incidents	0	126	110	↓
Total tonnes of phosphorus removed from rivers and coastal waters per day	*	5.02	3.76	↑
Total tonnes of nitrogen removed from rivers and coastal waters per day	*	12.91	9.92	↑
Net zero carbon				
Total ktCO ₂ e per year (operational)	0	105	104	↓
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

Overview

We are playing a key role in shaping thinking on how to ensure that investment targeted at improving the environment in the widest sense represents optimal value for money in future. We have formed a coalition with environmental groups and stakeholders that interact with or otherwise have an interest in the water environment, to champion catchment level solutions to deliver better outcomes for nature. This promises to be an important and exciting strand of work.

In terms of our performance, in contrast to 2022, we performed highly on environmental and leakage reduction in 2023. We anticipate a four-star Environmental Performance Assessment rating from the Environment Agency, having responded with urgency to every potential pollution incident to do our utmost to prevent it becoming serious, and on leakage, we reduced our annual average level by 1.4Ml/d.

We head into summer 2024 with our reservoirs and aquifers in very healthy condition and do not anticipate any supply challenges in the year ahead. However, our storm overflow discharge performance deteriorated significantly and we registered a rise in minor pollutions. All our storm overflows are now monitored and the data will inform how we work to eliminate spills. Our immediate priority is to tackle the most frequent spillers, as in the case of one near Bath RFC's ground.

Looking to the longer term, we published a revised Water Resources Management Plan to 2050, featuring ambitious plans to abstract less by cutting demand. We further reduced our annual gross greenhouse gas emissions and stand by our commitment to be carbon neutral in our operations by 2030. We exceeded our target to boost biodiversity on Sites of Special Scientific Interest (SSSI).

STRATEGIC REPORT (continued)

Our journey

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.

Empowering our people

We could achieve nothing without our people and we do everything in our power to ensure everyone feels valued, welcomed, respected and rewarded. Along with our most important imperative, to ensure our people are safe at work, we are also committed to and are focused on ensuring a Wessex Water culture that supports the diversity and inclusion of all who work at the company.

Along with the wider industry, we have a long way to go to be able to say our team truly reflects the communities we serve, but we are making progress. To supplement our existing programmes on gender, race, sexuality and disability, in 2023 we started measuring how well we are championing social mobility and took steps to support and welcome neurodiversity in the business.

Our executive sponsorship programme for diversity and inclusion has been well received and we are taking simple, practical measures to advance the agenda where we can. One good example is that we changed how we advertise our jobs, to boost accessibility and inclusivity.

More broadly, we significantly expanded our careers team in 2023 and offered more places on more schemes to more people than in 2022. This spanned early careers and career progression. We are acutely aware of the negative public narrative about the wider water sector and recognise the risk this poses for recruitment. We are working to reach out wherever possible to build our workforce as we head towards the next regulatory period.

Three years after the tragic incident at Avonmouth, we continue to develop our process safety capability across all our sites and ensure it is intrinsic to everything we do. We are reassured by evidence that indicates we are building an increasingly mature culture of engagement on safety issues. We recorded a 44% increase in safety observations compared to 2022 and employee engagement increased by 19%. This is producing tangible benefits for us as well as our teams; we had 65% fewer days related to lost time incidents in the year. We also invested in training and systems to support process safety.

Our journey

Empowering our people to bring their whole selves to work and excel is an ongoing priority. We achieve this by:

- keeping everyone informed of our achievements and top priorities through newsletter communications
- delivering a quarterly leadership forum to cascade messages from the top and work together on our challenges and priorities
- ensuring everyone receives regular 'check-ins', where we discuss wellbeing, communicate objectives and provide guidance and support for all
- developing everyone through a range of mandatory and optional training solutions; providing coaching and mentoring; and offering a vast range of apprenticeship opportunities and professional development.

STRATEGIC REPORT (continued)

Financial performance

Overview

Although inflation has fallen throughout the year, we continued to feel its impact through higher energy and payroll costs and raised interest rates. This affected our financial performance in the year. However, our liquidity remains healthy and combined with YTL Group's continued investment, our financial foundations remain strong, allowing us to invest for the future. In fact, we boosted our capital investment by over 40% in 2023-24.

Seeking alternative approaches to traditional capital investment will be more important than ever as we transition into the next price review period. We are proposing to double our current level of investment and will have new obligations to deliver, including ambitious phosphorus reduction targets. The step change in investment brings with it delivery challenges. We are now planning the scale-up of our delivery capability. These changes take place against a backdrop of growing risk and in part contribute to it. We remain vigilant and responsive to identifying, communicating and managing material business risks.

The Wessex Water Marketplace – a platform through which we share our challenges and data with the open market and invite others to compete to help us deliver solutions – celebrated its fifth anniversary in the year. We have seen some real benefits from the approach, including this year implementing an AI-enabled CCTV solution that means we can survey twice as much sewer length in any given time. The Marketplace and our other ongoing activities such as our expanding use of nutrient markets, demonstrates our commitment to competition, facilitating new ideas and working collaboratively on innovative solutions.

In this way, we seek to drive down costs, protect our assets, reduce our carbon footprint and ensure business resilience. We were awarded strong scores on our environmental, social and governance practices from two external assessors this year: Sustainalytics and Sustainable Fitch.

We also published our first Sustainable Finance Allocation and Impact Report, which provides information for investors on the allocation of our inaugural £300m sustainability bond which was issued in March 2023.

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 it one of the longest single owners of a UK water and sewerage company. We have a simple financial structure and do not engage in any aggressive or artificial tax planning.

YTL stands 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
- maintaining a solid investment grade credit rating and being well-regarded by financial stakeholders
- delivering for wider society and the environment through sustainable financing, measured using ESG metrics

Resilient financial stewardship

Overall performance

We recorded a loss in the year, driven by high operating and interest costs, partly offset by higher prices allowed by Ofwat from April 2023.

The higher operating costs related principally to exposure to energy market prices, new obligations and other inflationary pressures, including a new pay deal for our colleagues. The increase in interest costs related to the indexation features of our bond portfolio in particular.

We successfully placed £200m of private placement bonds in November 2023.

STRATEGIC REPORT (continued)

Financial Highlights

	2023-24	2022-23	2021-22	2020-21	2019-20
Revenue (£m)	598.8	541.8	517.8	516.9	540.8
(Loss)/Profit Before Tax (£m)	(25.1)	(35.4)	54.0	75.2	109.7
Investment (£m)	450.0	319.9	258.9	287.3	278.0
Reserves (£m)	521.6	609.0	747.1	700.1	768.4
Total Assets (£m)	4,780.8	4,644.1	4,317.7	4,506.6	4,170.2
Net Debt (£m)	3,089.0	2,734.0	2,472.7	2,348.8	2,244.2
Regulatory Gearing	71.3%	66.3%	66.9%	70.0%	67.1%

- operating profit increased by £34.3m from £117.4m to £151.7m
- revenues increased by £57.0m or 10.5%
- Operating cost increases of £22.2m or 5.2% related principally to exposure to energy market prices, new obligations, supporting improvements to leakage and pollutions performance and other inflationary pressures
- the cost of debt increased from 5.9% to 6.8%. We maintained a balanced mix of financial instruments and maturities
- Net financing costs increased by £24.0m (15.7%) to £176.8m primarily reflecting the impact of inflation on index linked borrowings
- Investment expenditure on tangible and intangible assets (including infrastructure maintenance expensed through the income statement) delivered during the year was £450.0m, an increase of £130.1m (40.7%) over £319.9m last year and in line with expectations
- loss before tax reduced by £10.3m from £35.4m last year to a loss of £25.1m. This was despite the underlying increase in interest costs
- interest cover, as measured by net interest payable excluding indexation to earnings before interest, tax and depreciation reduced from 3.6x to 3.1x

Sustainable Finance Framework

Our Sustainable Finance Framework, which supports our financing ambitions to deliver tangible environmental and social benefits, was originally published in September 2022 and has recently been refreshed to incorporate latest practice. The framework aligns our purpose – to support our customers’ health and wellbeing, and enhance the environment and the diverse communities we serve – and our business plan commitments to our financing ambitions through the use of 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. Wessex Water’s ability to create value for all stakeholders in a sustainable manner is core to our beliefs.

We need certainty to remain attractive for private investment and to plan for the future. We will continue to ensure customers’ bills are affordable whilst 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 wastewater services on a sustainable basis, helping to contribute to global climate change targets and the United Nations’ Sustainable Development Goals.

We will make sure that where we can, we implement nature-based solutions and explore new ways to drive down costs, protect our assets, reduce our carbon footprint and ensure business resilience.

We will continue to be one of the top performing water companies to secure future investment at an efficient cost.

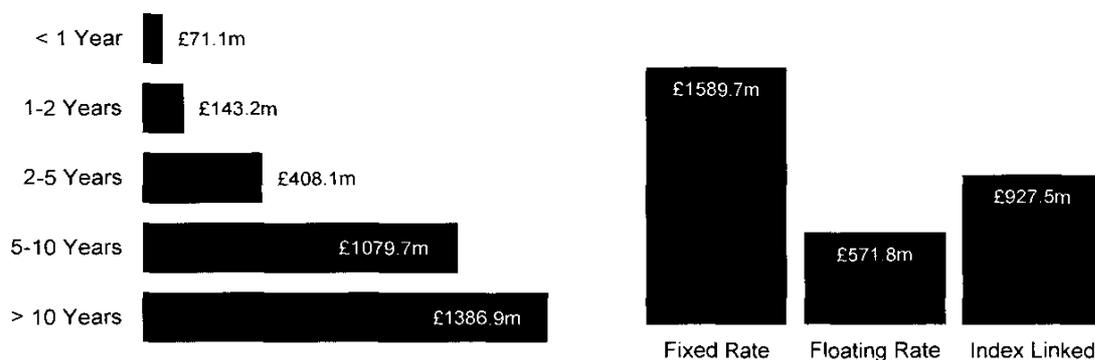
STRATEGIC REPORT (continued)

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.

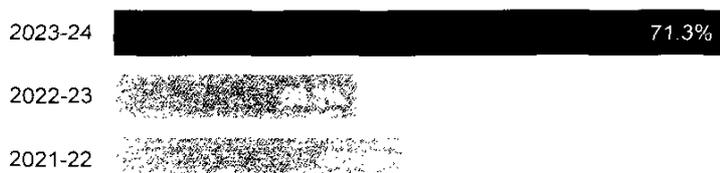
On 15 November 2023, Wessex Water Services Finance Plc agreed terms for the issue of 4 private placement bonds with a combined value of £200m, maturities of 10-20 years and a coupon of 6.50%. The net proceeds from the issue of these bonds were loaned to Wessex Water to fund its investment programme and repay £100m of European Investment Bank term loans due in January & March 2024.

Net debt, including amounts owed to subsidiary companies, were £3,089.0m as of 30 June 2024 (2023: £2,734.0m). 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 71.3% 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.



Dividends

For the 2024 financial year the Board considered a number of factors prior to approval of dividends including performance for customers and the environment, financing out-performance, and the ability to maintain financial resilience in line with the review of long-term viability.

Performance highlights for 2024 included the company looking set to return to four-star for the EA's Environmental Performance Assessment (EPA), being the highest ranked water and sewerage company for Ofwat's customer measure of experience (C-Mex) and potential best in industry performance under the DWI's Compliance Risk Index (CRI) measure. The company also increased asset investment in the year by over 40% to its highest level since privatisation.

During the year we declared dividends of £66.5m representing a yield of 5.0% on the company's regulatory equity.

STRATEGIC REPORT (continued)

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 2023
Moody's	Baa1	Stable	January 2024

Pensions

The latest actuarial valuation of the Company's pension scheme took place on 30 September 2022, showing a funding 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 following two years to reduce the deficit. The Company paid a special contribution of £18.4m on 30 June 2023 which, along with investment returns from return-seeking assets, has made good the shortfall. The next funding valuation is due no later than 30 September 2025, at which progress towards full-funding will be reviewed.

Environmental, Social and Governance score

In June 2022, Sustainalytics provided our first ESG rating: a low-risk score of 18.5. In October 2023, following Sustainalytics' annual review, our score improved to 17.0 low-risk. This was a result of demonstrating improvements in policy and publicly available information.

To further validate our ESG position, in February 2024 Sustainable Fitch assigned us an ESG Entity Rating of '2' (good ESG profile) and an entity score of 73 (higher is better). Fitch's summary stated: "The rating reflects Wessex Water's overall strong ESG profile and the broadly positive environmental and social impact of its business activities, of providing water and wastewater services."

We are keen to test our credentials with third-party ESG ratings as the process provided good learning points regarding policies, reporting and transparency of information that we provide externally.

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

STRATEGIC REPORT (continued)

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. Following the Chancellor's confirmation that full expensing has become permanent, our current tax liability remains nil.

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 Group'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 review 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 WWSL's internal control systems and process for managing risk.

Operational staff and senior management review and assess asset and operational risk monthly. Risks are scored based on likelihood 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 reflects 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.

As well as monthly updates on emergent risks, every six months the Risk Management Group submits a summary of the corporate risk register and a report on the principal risks to WWSL's Executive Leadership Team (ELT), comprising the Executive Directors.

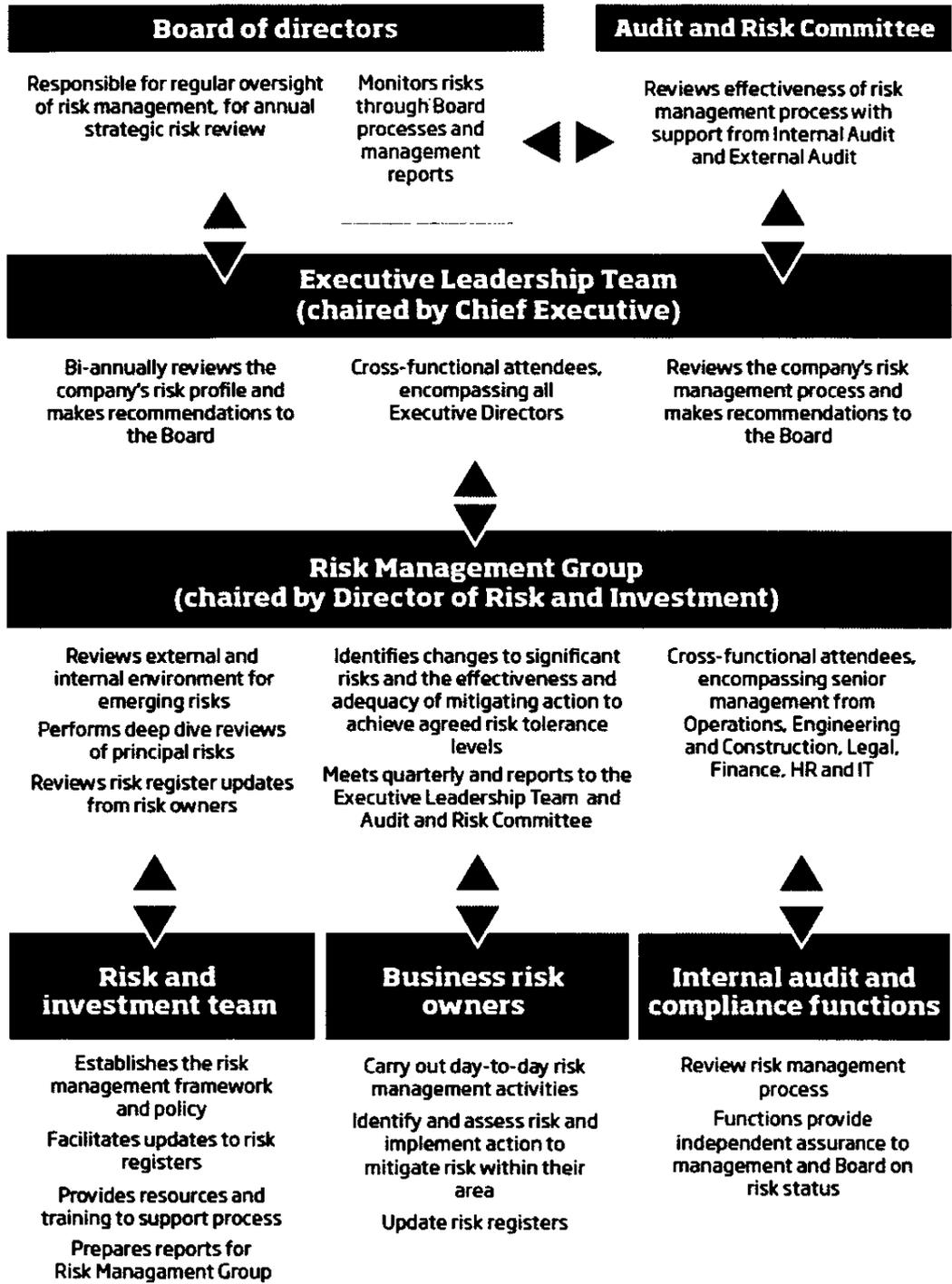
The ELT scrutinises and challenges the risks, ensuring that we have comprehensively classified and assessed our risks and have appropriate mitigation methods. Any significant emergent risks or material changes in existing risks are reported to the ELT and the Board as they arise.

The CEO submits a bi-annual risk review paper to the Board. This paper details the risk 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.

STRATEGIC REPORT (continued)

Risk management governance

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



STRATEGIC REPORT (continued)

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

- we have successfully deployed the operational module of our governance, risk and compliance system, with work underway to rollout the enterprise risk module in 2024-25.
- 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 Group's strategic objectives and principal risks.

Further improvements are planned as part of the implementation of our risk and investment framework over the coming year.

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 Group is taking appropriate action to mitigate the severity and likelihood of those risks to an acceptable level.

In terms of risk trends, resilience in the supply chain and cyber security remains a concern due to heightened global geopolitical tensions. Challenges in recruitment of resources remains an issue, although the situation has improved with an increase in quality candidates applying for roles evident over the last 12 months.

We can demonstrate through our environmental investigations, biodiversity and Conservation, Access and Recreation (CAR) work that the environment within our area is improving as a result of extensive nutrient removal programmes, catchment permitting, catchment nutrient balancing and biodiversity improvements. Despite these initiatives positively reducing harm to the environment, increased environmental monitoring, regulatory scrutiny and foreseeable changes to the definition of performance metrics are likely to negatively impact how regulators assess our environmental performance.

We continue to seek opportunities to maximise benefit to customers, having recently published our cross-sector proposal advocating for 'Sustainable Solutions for Water and Nature' (SSWAN).

The Principal risk "Technology resilience" has been widened to cover all security events that could affect our operations with the revised Principal risk of 'Secure sites, systems and operations'.

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

STRATEGIC REPORT (continued)

Principal risks – compliance, financial and operational

Principal risk	Description	Risk exposure	Risk Level
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	High
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	High
Secure sites, systems, and operations	An internal or external threat actor initiates a security incident that renders the business unable to deliver the supply of safe drinking water and the management of waste; results in breaches of data protection or other laws; or impacts critical activities such as regulatory and financial reporting.	Increasing	High
Health and safety	Failure of operational controls or an external hazard that affects the health and safety of employees, contractors, or the public	Unchanged	High
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	Unchanged	High
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	Moderate
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)	Unchanged	Moderate
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	Unchanged	Moderate
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	Increasing	Moderate

STRATEGIC REPORT (continued)

B. WESSEX WATER ENTERPRISES LTD

The Group generated revenues of £29.3m (2023: £44.5m) from a number of activities in the Wessex Water Services Ltd region. The principal subsidiary is GENeco Ltd and the activities were the treatment of organic waste, power generation, food waste treatment, solicitors' searches and sale of industrial cooling water.

In 2017 the company commissioned a gas to grid plant at Avonmouth, Bristol sewage treatment works, allowing gas generated on site to be sent direct to the grid, a more efficient process than using the gas to generate electricity and then sending the electricity to the grid.

The company also has food waste contracts that are operated by 100% subsidiary GENeco (South West) Ltd.

C. SC TECHNOLOGY GMBH

Trading under the name Swiss Combi the revenues of the company for the year was £6.1m (2023: £6.0m). The principal subsidiary in Holland operates two sludge drying plants and has long term contracts with two major customers.

D. TURNBULL INFRASTRUCTURE & UTILITIES LTD

Incorporated in October 1998, Turnbull Infrastructure & Utilities Ltd (formerly Wessex Engineering & Construction Services Ltd) has bid for large scale projects within the utilities and infrastructure industries. Contracts undertaken during the year comprise primarily of activities at the Hinkley Point C construction site on behalf of Wessex Water Ltd. Revenue for the year was £29.5m, of which £29.1m was internal within the Group and therefore eliminated on consolidation (2023: £30.5m).

E. WATER 2 BUSINESS LTD

The Company is owned 70% by WWL and 30% by Bristol Water Holdings Limited. The principal activities of the Company are retail services relating to the provision of water, sewerage and trade effluent services to non-household customers, together with advice on water efficiency services (i.e. leakage detection and repair, water audits and benchmarking).

The Company has a large customer base across England and Scotland, serving the full suite of business customers, from large industrial and commercial customers to small and medium sized enterprises across both the public and private sectors.

The Company has continued to focus on the combination of selective expansion where it considers an acceptable return is achievable, and retention of existing customers through provision of high-quality customer service. The Company reviews the credit risk associated with potential new customers in order to minimise bad debt and prioritises return on capital over revenue growth. During the year under review, further customer gains were achieved in the English and Scottish markets. Revenue for the year now stands at £292.9m (2023: £245.7m).

STRATEGIC REPORT (continued)

Non-Financial and Sustainability Information Statement

Introduction

This report is aligned to the principles set out by the Task Force on Climate Related Financial Disclosures (TCFD). The disclosures that follow show the performance over the regulatory year ended 31 March 2024 to align with the reporting of the primary subsidiary.

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.

1. Governance

Our Board is responsible for our risks and through two committees of the primary subsidiary (the Environment and Public Value Committee and the Audit and Risk Committee) who manage our principal risk of climate volatility. The 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 group's environment and social purpose. 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. Our governance arrangements are outlined in WWSL's Governance Report and how we meet the Ofwat Better Leadership, Transparency and Governance objectives as well as the Wates Principles. The Board reviews and monitors the group'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 WWSL 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. WWSL report's its carbon footprint each year to Ofwat and within its report.

2. Strategy

We are a long-term business and aim to be a genuinely sustainable Group. 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.

STRATEGIC REPORT (continued)

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.

We are a long-term business and aim to be a genuinely sustainable Group. 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. These long-term plans are translated into short- and medium-term delivery through the five-year investment plan cycles. We have identified impacts over the short (0-10 years), medium (10-30 years), and long term (30-100 years) horizons.

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.

STRATEGIC REPORT (continued)

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 responding to localised site flooding, additional water treatment at sources affected by runoff and leaching, and additional pumping in the sewerage network.

We estimate the extreme rainfall in 2023-24 added circa £3-4m to our operating costs during the year. 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 investment i.e. £400m during 2025-30 to reduce storm overflow discharge frequency and volume, and a range of supply and demand-side measures that will allow us to reduce abstraction by 20% by 2050, with most of the reductions happening by 2035. In both cases the long-term impacts of climate change are not the sole contributor, but are nonetheless part of our modelling.

We are currently appraising the financial effects of our planned decarbonisation work and will set these out in WWSL's 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. 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.

STRATEGIC REPORT (continued)

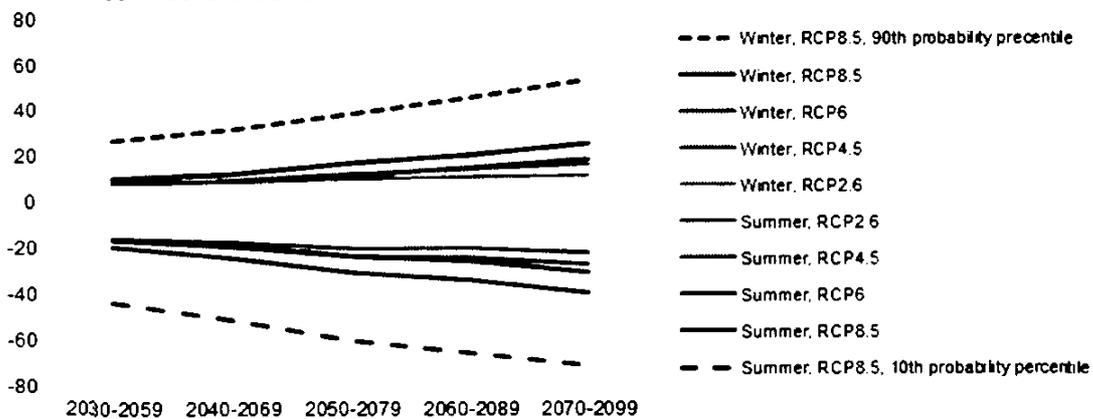
We use UKCP18 outcomes to inform the 25-year long-term delivery strategies (Water Resources Management Plan and the Drainage and Wastewater Management Plan) as part of WWSL’s 2024 price review and provide the context for the proposed investment during an initial period of 2025-30. The strategies refer 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;

STRATEGIC REPORT (continued)

- 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 WWSL's [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 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 scenarios 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.

STRATEGIC REPORT (continued)

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 WWSL's [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 late 1990s 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 extended 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 provide disclosures via the Carbon Disclosure Project, and information to our parent company, YTL Power, to meet the listing requirements of Bursa Malaysia.

Customers and other stakeholders

The DESNZ public attitudes tracker shows that concern about climate change has risen steadily over the last ten years. In the most recent survey (winter 2023-24), 81% of people said they are concerned about climate change, with 43% saying they are "very concerned". Its summer survey showed that 21% of respondents expect the UK's transition to a low carbon economy will have a positive impact in 1-2 years, and 52% think it will have a positive impact in 10 years or more. 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.

STRATEGIC REPORT (continued)

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.	<ul style="list-style-type: none"> • Drought planning • Long term water resource planning • Dialogue with regulators on abstraction and river water quality 	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • Continued review of business continuity arrangements • Emergency planning; emergency simulation exercises

STRATEGIC REPORT (continued)

UKCCRA 2022 - MORE ACTION NEEDED		
I1 Risks to infrastructure networks (water, energy, transport, ICT) from cascading failures	<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • 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

STRATEGIC REPORT (continued)

UKCCRA 2022 - FURTHER INVESTIGATION		
I3 Risks to infrastructure services from coastal flooding and erosion	<ul style="list-style-type: none"> • See H3b and B2 	<ul style="list-style-type: none"> • See H3b and B2
I4 Risks to bridges and pipelines from flooding and erosion	<ul style="list-style-type: none"> • Water supply rezoning 	<ul style="list-style-type: none"> • Watching brief
I7 Risks to subterranean and surface infrastructure from subsidence	<ul style="list-style-type: none"> • Proactive network monitoring inspections • Reactive responses 	<ul style="list-style-type: none"> • Reactive maintenance in the event of sewer collapses
H10a Risks to health from water quality	<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • Long term water resource planning • Drought planning • Networks management to maintain resilience • Dialogue with regulators on abstraction 	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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' 	<ul style="list-style-type: none"> • No action linked to <u>reduced</u> frequency

STRATEGIC REPORT (continued)

Managing our greenhouse gas emissions

We use various methods for managing our greenhouse gas emissions, summarised below but detailed on p7-8 of WWSL's [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.

STRATEGIC REPORT (continued)

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

<p>Water supply</p> <ul style="list-style-type: none"> • 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 	<p>Wastewater</p> <ul style="list-style-type: none"> • 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
<p>Cross cutting</p> <ul style="list-style-type: none"> • 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.

Greenhouse gas (GHG) emissions

We use a well-established process for reporting greenhouse gas emissions, 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.

Data challenges

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 is providing more accurate estimates of nitrous oxide emissions at water recycling centres; future revisions to emissions factors for different types of treatment process 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.

STRATEGIC REPORT (continued)

Reporting: our performance commitment

A customised methodology was agreed with Ofwat in 2019 for calculating WWSL's performance in relation to our bespoke performance commitment during 2020-25. This includes a fixed set of items within scopes 1-3, a predetermined profile for grid electricity emission factors, and the use of the 2019 edition of UKWIR carbon accounting workbook throughout the period. The financial year 2024-25 will be the final year that we report using this method.

Reporting: other disclosures

Emissions for 2023-24 are shown on page 28, conforming with Ofwat's Annual Performance Report framework that applies to all the companies that they regulate. This account also integrates disclosures that fulfil the requirements of the Streamlined Energy and Carbon Reporting framework. This produces a different figure to that of our bespoke performance commitment, as a greater number of scope 3 categories are included.

All the emissions shown use location-based reporting and represent an April to March year as this is consistent with WWSL's regulatory performance reporting.

The Group 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 2023-24 increased by 13,212 tonnes compared with 2022-23. While multiple factors have to be taken into account, certain aspects had a notable influence. In particular:

- Electricity consumption increased due to the unusually wet conditions which increases power use in our wastewater activities. Although the carbon intensity of grid electricity fell, the net effect was that our grid electricity emission increased by 2.6kt CO₂e.
- natural gas consumption increased by 1 GWh;
- raw sludge volumes increased by 7 kt dry solids;
- diesel use increased by 0.7 million litres, mainly at wastewater and sludge sites;
- transport emissions increased by 533 tCO₂e.

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 also be noted that the inventory of items reported here is longer than those included in our 2030 target (as detailed in section 2).

Assurance

Assurance of WWSL's reported data is provided by our technical auditor, Mott MacDonald, as part of the assurance process for our annual performance review and regulated performance commitments.

STRATEGIC REPORT (continued)

Energy consumption (as per SECR requirements)

	Year To March 24		Year To March 23		unit
	UK& offshore	Global (excl. UK & offshore)	UK& offshore	Global (excl. UK & offshore)	
Energy consumption used to calculate emissions	464,095,210	32,681,970	436,437,106	18,397,677	kWh

Greenhouse gas emissions (tonnes CO₂ equivalent)

OPERATIONAL EMISSIONS

	Year to March 24	Year to March 23
Scope one¹	61,798	58,866
Burning of fossil fuels (location-based)	15,233	13,070
Process and fugitive emissions	34,755	33,607
Company vehicles	11,810	12,189
Scope two		
Purchased electricity (location-based)	50,696	44,345
Scope three²	47,079	43,151
Business travel	1,067	838
Outsourced activities	8,561	7,402
Purchased electricity: extraction, production, transmission & distribution	12,094	15,534
Purchased fuels: extraction, production, transmission and distribution	5,621	5,859
Treatment chemicals ³	10,578	5,115
Reuse of biosolids on third party land	9,158	8,403
Gross operational emissions	159,573	146,361
Subtractions: exported renewable electricity	-	-
Net operational emissions	159,573	146,361

¹The items included in our operational emissions reported below were expanded in 2022-23. This is a result of Ofwat increasing the number of scope 1 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.

²A scope 3 capital carbon figure was included for whole life carbon estimates for our PR24 business plan submission.

³The 2022-23 figure for treatment chemicals and capital projects have been corrected. The former correction has resulted in a correction of the 2022-23 gross and net operational emissions figures also.

STRATEGIC REPORT (continued)

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

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

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

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

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

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

STRATEGIC REPORT (continued)

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

Stakeholder group	What matters to our stakeholders?	Who?	Group engagement	Board level engagement and impact
<p>Customers Our aim is to be a world-leading water and sewerage company and we can only do this through providing customers with excellent service and value for money.</p>	<p>Our customers want an excellent service from us delivered efficiently at excellent value. They want bills to be affordable, and have the peace of mind that they are supported in times of need. They want excellent drinking water quality and waste removed without pollution. They want us to provide our services into the long-term, ensuring we have resilience through sustainable and responsible investment.</p>	<p>Residential Non-residential Those more vulnerable or facing difficult circumstances Minority/Under-represented groups Developers Retailers and bulk supply customers Future customers and generations, including children and students</p>	<p>Customer Challenge Group Customer feedback surveys Customer contacts Market research Feedback routes through customer magazine Website, including livechat Developer consultations Young People's Panel Working with schools and students Money Matters Projects NHS Key Worker Subsidy</p>	<p>Every Customer Matters Strategy Performance metrics Operational Resilience Young People's Panel Catchment Panel Environment and Public Value Committee and our Social Purpose Feedback from our customers and their representatives informs our strategy, values, priorities including (but not limited to) our business planning priorities, charges, and pricing strategy.</p>
<p>Customer representatives We value the opinions of all our customers and their representatives.</p>	<p>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.</p>	<p>Organisations representing customers in general such as Citizens Advice, Consumer Council for Water (CCW) or particular representatives such as Bristol Age UK.</p>	<p>Customer Challenge Group Tailored Assistance Programme Online partner hub and roadshows CCW public meetings</p>	<p>Customer Challenge Group CCW public meetings Feedback from our customers and their representatives informs our strategy, values, priorities including (but not limited to) our business planning priorities, charges, and pricing strategy.</p>
<p>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.</p>	<p>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.</p>	<p>Current employees and their families Retired employees and their families, Pension scheme members and trustee board Future employees Unions</p>	<p>People's council Employee survey 'Ask the CEO' Employee roadshows Lunch and Learn talks Apprenticeship Provision</p>	<p>People's council Ask the 'CEO' Pension Trustee Board Employee committee Health, safety and welfare committee We listen and act on our employees' opinions to provide our people with satisfying careers.</p>
<p>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.</p>	<p>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.</p>	<p>External suppliers Other group companies</p>	<p>Wessex Water marketplace Membership of British Water Pipeline Industries Guild CBI</p>	<p>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 they are during times of hardship.</p>
<p>Our investors Our investors provide the financial support to enable us to deliver our strategy and live our values.</p>	<p>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.</p>	<p>Banks and financial institutions Bond holders Shareholder</p>	<p>Ratings agencies Annual Report</p>	<p>Ratings agencies Annual Report Dividends Our investors provide our financial resilience</p>

STRATEGIC REPORT (continued)

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

The following case studies for WWSL provide some examples of how stakeholder interests have been taken into account in Board discussions and principal decisions taken during the reporting year. Principal decisions are central to the formation and delivery of our strategy and are those critical to our long-term performance and success. In any decision we consider the needs and requirements of all of our stakeholder groups, cognisant that we may not be able to meet everyone's requirements as positively as we would like and take careful consideration of competing priorities.

Principal decision 1 – Environmental Strategy, Catchment Quality and Regulation

The Board had extensive debates during the year on the strategy to achieve its environmental ambition and outcomes by 2050 and the regulatory framework to enable achievement of that ambition. The Board considered the company's current performance and position, potential solutions for the more challenging issues and current work already being undertaken to meet long-term ambitions. The Board invited a panel of external stakeholder experts to inform and challenge the Board's strategy to improve river quality, upstream sustainable catchment management solutions and nature-based solutions. These discussions informed the Board's environmental delivery framework, its business plan submission and further informed its Sustainable Solutions for Water and Nature (SSWAN) initiative to lobby for outcome-based regulation focussed on whole catchment health. The Board considered that the longer-term interests of all stakeholders would be met from this approach, and considered potential shorter-term consequences of challenging the regulatory regime.

Principal decision 2 – Business Plan Approval

After significant consideration, challenge and discussion the Board approved the submission of the five-year business plan to Ofwat. In approving the submission, the Board considered the challenges of the regulatory approach against the ambition of the business strategy and the company's alternative business plan. The Board reviewed the content of the business plan, evaluating the ability to finance the plan, the scale of investment, impact on overall bill profiles, risks and uncertainties, performance level commitments, and the deliverability of the programme. The Board considered the impacts on:

STRATEGIC REPORT (continued)

- Customers, in terms of bills and water poverty but at the same time recognising the unsustainably low level of water bills in the UK.
- Environmental stakeholder and community groups whose expectations are for us to do more to protect the environment.
- Regulators, to meet the specific requirements of the price review business planning process challenged by delivering longer-term improvements and outcomes.
- Employees, to ensure that there was sufficient capacity to deliver the programme of work.

The Board approved the plan, believing it was in the best interest of all stakeholders. However it decided to continue to work with the regulator on an alternative planning approach to improve the scope to deliver environmental gain and customer benefits more effectively, over a sustainable long-term approach.

Principal decision 3 – Culture, Inclusion, Diversity (CID) and the Gender Pay Gap

The Board reviewed its suite of CID and gender equality initiatives and challenged the progress made to date. Key metrics in focus areas of gender, disability, ethnicity, and LGBTQ+ are routinely measured across the company, supported by a new focus on social mobility, which looks at employees living in DWP-defined disadvantaged postcodes. These measures support delivery to our customers and enhance the diverse communities we serve. The Board considered comparative performance across the wider utility industry and community-based data from local authorities.

The Board also reviewed its gender pay gap, which shows the difference between average hourly pay for men and women. The Board discussed the trend, showing an improved equality position (based on mean averages) for women from 2021-22 (2.6%) to 2023-24 (1.6%), noting the higher proportion of male employees (77%) in the workplace. The Board was encouraged by the work being undertaken to engage with young people, the YTL Academy and educational establishments to encourage more women into the utility industry, particularly within the Wessex region.

The Board debated the progress made and the specifics of further improvements required based on the performance to date and comparators. A comprehensive programme of twenty activities across each of the CID key areas of focus was agreed along with initiatives to encourage more women into the utility industry that address both shorter-term solutions and longer-term. The Board requested a continued focus on CID and gender pay as a high priority as it is in the best interests of its employees, the communities we serve and quality of service, the utility industry as a whole and the long-term sustainability of the company.

Principal decision 4 – Dividends

The Board undertakes quarterly reviews of company performance in consideration of its dividend payment to the shareholder. In particular, the Board reviews the operational, financial and credit performance of the company and wider economy in assessing any dividend due, taking regard of the expectations of customers, regulators and other environmental stakeholder groups. The Board debated the current operational performance particularly for customer service, drinking water quality, the environmental performance rating (EPA score), sewer flooding and leakage. The Board also considered the proposed investment requirements required both for the short and long term and the forecast performance for the year end, in particular the investment to recover to reduce pollutions and flooding. In reviewing the financial performance, the Board referenced the detailed management accounts and discussed the reduction in revenue from reduced household consumption, which was anticipated to stabilise. The Board considered the Company's ability to maintain a solid investment grade credit rating together with its gearing, interest cover ratio, forecasts for inflation and other economic pressures that may arise against that forecast and budget. In considering the potential dividend the Board also considered any tax liabilities, pension deficits and the liquidity position.

The Board decided the dividend payment was consistent with the company performance, particularly for service delivery, its customers, and environmental stewardship, taking into account the current and future risk and investment requirements, reflecting the long-term commitment from the shareholder.

STRATEGIC REPORT (continued)

Principal decision 5 – Capital Investment Decision (Holdenhurst)

Holdenhurst Water Recycling Centre is an activated sludge works with UV treatment operating near the River Stour and serves a population equivalent of c176,000. It falls within the Bournemouth, Christchurch and Poole Council area and serves the town of Bournemouth. The Water Recycling Centre is identified as part of the WINEP (Water Industry National Environment Programme) as requiring process improvements to meet future regulatory obligations over phosphorus, aluminium, storm storage and Event Duration Monitoring (EDM) on overflows to and from storm tanks.

The Board considered the options noting the ability to maintain site operations within permits and services to the customer during the improvements. The specific solutions presented were considered with discussion of the risks on site, the cost commitment, the embedded and operational carbon impacts, the increased chemical dosing and volume of sludge treatment needed, the design life and the potential for future expansion, the permitted development with potential impacts on green belt land, and compliance with future permitting requirements. The Board considered the scheme's cost of £24.6m against other competing demands and the opportunities to prioritise the improvements to the environment for river water quality and carbon. The Board discussed the opportunities for using power generated from other bioresources activities to be used on the site to reduce the overall energy cost and the carbon impact. The Board considered the scheme to be in the best interests of the environment to provide sustainable and resilient services, and its regulators.

The strategic report was approved by the Board of Directors on 20 September 2024 and signed on its behalf by:



Colin Skellett
Director

DIRECTORS' REPORT

The Directors present their Directors' Report and the financial statements for the year to 30 June 2024.

DIRECTORS

The Directors of the Company during the year and subsequently were:

Colin Skellett
Mark Watts
David Barclay
Francis Sock Ping Yeoh *
Seok Kah Dato Yeoh *
Seok Hong Yeoh *
Seok Kian Yeoh *

*Share interests of these Directors are disclosed in the accounts of YTL Power International Berhad and YTL Corporation Berhad.

Directors' Interests

During the year no Director was materially interested in any contract with the Company or with any of its subsidiaries.

Directors' Emoluments

	Salary £000	Bonus £000	Benefits £000	Total 2024 £000	Total 2023 £000
Colin Skellett	290	-	23	313	432
Mark Watts	-	-	-	-	-
David Barclay	122	-	-	122	121
Total	412	-	23	435	553

In addition, Colin Skellett and Mark Watts received emoluments of £379k and £299k respectively for their services to the other group companies.

Directors' Share Interests

Shares held

The ordinary shares of YTL Power International Berhad of Malaysian Ringgit (MYR) 0.50 held were:

	At 30 June 2023	Movements	At 30 June 2024
Mark Watts	395,790	(65,484)	330,306

There were no other interests in shares of group companies that are disclosable in these accounts.

Share warrants

YTL Power International Berhad issued share warrants at a price of MYR 0.10 that entitled the owner of the warrant to convert the warrant into ordinary shares of YTL Power International Berhad over a period of 10 years. No warrants were held by directors during the period.

Dividends

The dividend policy is to declare dividends consistent with the Company's performance and prudent management of the economic risk of the business. The dividend is shown in note 10.

DIRECTORS' REPORT *(continued)*

Going concern

An overview of the business activities of the group is given in the Strategic Report on pages 2 to 34. A review of the principal risks that the group faces is given in the risk management section on pages 11 to 14. The debt facilities available at the year end date, amounts outstanding and the maturity profile of this debt are shown in note 20.

The Group 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 19 and the facilities described in note 20. Prior to the year end date the Group secured a £300m loan facility for 12 months with an option for the Group to extend the loan for a further 6 months and the undrawn WWSL revolving credit facilities referenced in note 20 were increased to from £225m to £300m with a maturity date of June 2027, both reflecting the Group's ability to secure finance. Under some of the facilities the Group is required to comply with an interest cover and gearing covenant tested quarterly and the covenants remain the same in the new facilities.

The Directors have considered the financial position of the Group and cash flow forecasts for the period from the date of approval of these Financial Statements through 31 December 2025 (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 on revenues and debt collectability, the repayment of loans maturing in the going concern review period and the required future financing requirements of the Group and for WWSL Ofwat's announcement of the PR24 draft determination and the company's subsequent re-submission in August 2024, which is available on the Company's website at <https://corporate.wessexwater.co.uk/our-future/business-plan-2025-2030/updates-to-our-business-plan-2025-30>.

The Directors have noted there is further debt falling due for repayment within the going concern period, in particular £50m of European Investment Bank loan due in May 2025 and the new loan facility referred to above that, if extended, will mature at the end of December 2025. The Directors have considered the consistently strong operating performance, market experience for the Group and other water companies, the current leverage and credit rating of the bonds and a successful history of issuing bonds and raising debt over the past 20 years, most recently the bond issued in November 2023 and the new loan facilities obtained as noted above. Based on this consideration, as well as the time period available to raise the required funding, the Directors are satisfied that the issuance of debt included within the forecasts for the going concern period to repay the new facility and finance the capital programme over the period is achievable.

In order to facilitate the future issuance of bonds the Group established a £5bn Euro medium-term note programme on 6 September 2023. The first issuance under the new programme having taken place in November 2023. The programme has since been renewed on 6 September 2024.

On the assumption that the required funding noted above will be successfully raised by the Group for the reasons noted above, the Directors have considered a severe but plausible downside scenario, to assess the impact on covenant compliance through the going concern review period. This includes considering the impact of adverse macroeconomic factors including sustained lower inflation combined with lower consumption and operational events such as asset and customer service failures leading to regulatory enforcement. In addition, we have considered regulatory impacts such as the ongoing Ofwat price and tariff review, i.e. PR24, covering the period from April 2025 to March 2030. In situations requiring mitigations to be deployed, the Group could reduce discretionary expenditure, defer capital expenditure and/or cancel non-essential capital expenditure, reduce the amount of dividend payable and raise additional finance. 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 and to comply with its financial covenants for the going concern review period through to 31 December 2025; therefore, the Directors continue to adopt the going concern basis in preparing the Financial Statements.

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.

DIRECTORS' REPORT *(continued)*

Emissions for 2023-24 are shown on page 27. All the emissions shown use location-based reporting and represent an April to March year to align with the regulatory timeframe published by the main subsidiary.

Sustainability

The Group has a sustainability vision that guides its progress towards being a sustainable water group. The sustainability vision is reviewed bi-annually.

Ethical policy

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

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

Our People

It takes great people and great teamwork to provide our services. That's why we encourage and reward our employees for their contribution to achieving our aims. We seek their ideas and put them into practice, celebrate success and encourage them to go the extra mile. This year we launched our People Programme, a dedicated programme of initiatives to address current and future strategic people priorities in areas including resourcing, talent management, reward and recognition, future working, diversity and employee wellbeing.

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

Employment

The Group is an equal opportunities employer. No person or group of persons applying for a job with the group is treated less favourably than any other person or groups of persons because of their gender, race, class, colour, nationality, ethnic origin, marital status, sexual orientation, age, trade union membership or activity, religious belief or physical or mental disability. Selection procedures and criteria ensure that individuals are selected and promoted on the basis of their relevant merits and abilities. These procedures are monitored and regularly reviewed. Where necessary, the Group provides staff with special training facilities to enable them to compete or qualify for positions, or to progress, within the Group.

Modern Slavery Act

The Group is committed to meeting the aims of the Modern Slavery Act 2015. We strongly oppose slavery and human trafficking in our supply chains and in any part of our business. To be trusted to do the right thing is one of our core values. We would never knowingly engage with suppliers or contractors involved in slavery or human trafficking. In accordance with the requirements of the Act we have published on our website a Slavery and human trafficking statement 2018.

Environment Policy

The Group protects, conserves and improves the environment and operates in a socially responsible manner. Working practices are continually revised as improved techniques and technologies become available. The environment policy is reviewed annually.

Research and Development

The Group 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 Group exceeds the book value of these assets at 30 June 2024.

DIRECTORS' REPORT *(continued)*

Charitable and political donations

During the year £726,584 was donated to UK charities (2023: £903,904). There were no political donations in either year.

Supplier Payment Policy

The policy in respect of its suppliers is to agree the payment terms for transactions in advance and to make payments in accordance with those terms. At 30 June 2024 trade creditors represented approximately 22 days trade purchases (2023: 21 days). The Group does not follow any specific external code or standard on payment policy.

Corporate Governance

Wessex Water Services Limited is required, under Condition i17/i24 of its Instrument of Appointment as a water and sewerage undertaker, to take account of the principles of good governance in the UK Corporate Governance Code as approved for the purposes of the Listings Rules of the Financial Services Authority. Details of compliance are shown in the Regulatory Accounts and Annual Report and accounts of WWSL whose registered address is Wessex Water Operations Centre, Claverton Down, Bath, BA2 7WW.

Disclosure of Information to the 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 Group'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 Group's auditor is aware of that information.

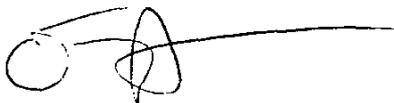
Other Information

An indication of likely future developments in the business and particulars of significant events which have occurred since the end of the financial year have been included in the Strategic Report on pages 2 to 31. Information on the use of financial instruments by the Company are shown in note 26 to the financial statements.

Re-appointment of Auditor

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

By order of the Board,



Colin Skellett
Director
20 September 2024

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

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the group and parent company 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 group and the company and of the profit or loss of the group and the company 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 group and company financial position and financial performance;
- in respect of the group financial statements, state whether international accounting standards in conformity with the requirements of the Companies Act 2006 have been followed, subject to any material departures disclosed and explained in the financial statements;
- in respect of the parent company financial statements, state whether international accounting standards in conformity with the requirements of the Companies Act 2006, have been followed, subject to any material departures disclosed and explained in the financial statements and
- prepare the financial statements on the going concern basis unless it is appropriate to presume that the company and/ or the group will not continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's and group's transactions and disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the company and the group financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the group and parent company and group 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, directors' report, directors' remuneration report and corporate governance statement 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 consolidated 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 of the parent company and undertakings included in the consolidation taken as a whole;
- 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 group and undertakings included in the consolidation taken as a whole, 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 group's position, performance, business model and strategy.

Consolidated Income Statement
For the year ended 30 June 2024

	Note	2024 £m	2023 £m
Revenue	3,4	863.9	788.9
Charge for bad and doubtful debts		(23.3)	(15.8)
Other operating costs		(680.7)	(639.5)
Total operating costs	5	(704.0)	(655.3)
Other income	5	4.5	3.8
Net valuation gains	15	-	0.3
Operating profit	3	164.4	137.7
Finance income	8	13.2	9.4
Finance costs	8	(185.8)	(160.0)
Net financing expense		(172.6)	(150.6)
Loss before tax		(8.2)	(12.9)
Taxation	9	7.8	8.1
Loss for the year		(0.4)	(4.8)
Attributable to:			
Equity holders of the parent		(1.1)	(5.5)
Non-controlling interest		0.7	0.7
Loss attributable		(0.4)	(4.8)

Consolidated Statement of Comprehensive Income
For the year ended 30 June 2024

	Note	2024 £m	2023 £m
Loss for the year		(0.4)	(4.8)
Other comprehensive loss			
<i>Items that will not be reclassified to profit or loss:</i>			
Remeasurements of defined benefit liability	21	(6.4)	(61.3)
Income tax on items that will not be reclassified to profit or loss	9	1.6	15.3
		(4.8)	(46.0)
<i>Items that are or may be reclassified subsequently to profit or loss:</i>			
Foreign currency translation differences – foreign operations		(0.3)	(0.4)
		(0.3)	(0.4)
Other comprehensive loss for the year, net of income tax		(5.1)	(46.4)
Total comprehensive loss for the year		(5.5)	(51.2)
Total comprehensive loss attributable to:			
Equity holders of the parent		(6.2)	(51.9)
Non-controlling interest		0.7	0.7
Total comprehensive loss for the year		(5.5)	(51.2)

Consolidated Statement of Financial Position
At 30 June 2024

	Note	Group 2024 £m	Group 2023 £m
Non-current assets			
Property, plant and equipment	12	4,515.1	4,206.8
Intangible assets	13	48.5	55.2
Investments in subsidiaries	14	-	-
Non-current financial assets	15	98.2	100.1
Retirement benefit surplus	21	5.9	11.6
		4,667.7	4,373.7
Current assets			
Inventories	16	8.4	8.6
Trade and other receivables	17	297.0	257.2
Corporation tax receivable		-	7.6
Other financial assets	18	1.0	45.0
Cash and cash equivalents	18	5.6	134.6
		312.0	453.0
Total assets		4,979.7	4,826.7
Current liabilities			
Bank overdraft	18	(10.4)	(1.1)
Other interest-bearing loans and borrowings	19	(119.3)	(260.3)
Trade and other payables	20	(309.9)	(259.4)
Provisions	23	(1.7)	(1.8)
		(441.3)	(522.6)
Non-current liabilities			
Other interest-bearing loans and borrowings	19	(3,025.6)	(2,705.8)
Contract liabilities	20	(5.7)	(5.9)
Retirement benefit deficit	21	(0.7)	(0.7)
Deferred income	22	(324.0)	(316.3)
Deferred tax liabilities	24	(581.3)	(590.8)
		(3,937.3)	(3,619.5)
Total liabilities		(4,378.6)	(4,142.1)
Net assets	3	601.1	684.6
Equity			
Share capital	25	131.8	131.8
Retained earnings		468.0	552.2
Non-controlling interest	25	1.3	0.6
Total equity		601.1	684.6

These financial statements were approved by the Board of Directors on 20 September 2024 and were signed on its behalf by:


Colin Skeffett, Director

Statement of Financial Position
At 30 June 2024

	<i>Note</i>	Company 2024 £m	Company 2023 £m
Non-current assets			
Property, plant and equipment		0.1	0.1
Intangible assets		0.2	0.3
Investments in subsidiaries	14	81.4	81.4
Non-current financial assets	15	128.5	130.2
		<u>210.2</u>	<u>212.0</u>
Current assets			
Trade and other receivables	17	29.1	28.3
Other financial assets	18	1.0	-
Cash and cash equivalents	18	0.2	-
		<u>30.3</u>	<u>28.3</u>
Total assets		<u>240.5</u>	<u>240.3</u>
Current liabilities			
Bank overdraft	18	-	(0.9)
Other interest-bearing loans and borrowings	19	(43.6)	(11.0)
Corporation tax payable		-	(0.5)
Trade and other payables	20	(39.4)	(39.6)
		<u>(83.0)</u>	<u>(52.0)</u>
Non current liabilities			
Other interest-bearing loans and borrowings	19	(7.2)	(39.9)
Deferred tax liabilities		0.1	0.1
		<u>(7.1)</u>	<u>(39.8)</u>
Total liabilities		<u>(90.1)</u>	<u>(91.8)</u>
Net assets		<u>150.4</u>	<u>148.5</u>
Equity			
Share capital	25	131.8	131.8
Retained earnings		18.6	16.7
Total equity		<u>150.4</u>	<u>148.5</u>

During the year Wessex Water Ltd (the Company) made a profit after tax of £79.9m (2023: £78.0m).

These financial statements were approved by the Board of Directors on 20 September 2024 and were signed on its behalf by:



Colin Skellett, Director

Consolidated Statement of Changes in Equity
For the year ended 30 June 2024

Group

	Note	Share capital £m	Retained earnings £m	Non-controlling interests £m	Total equity £m
Balance at 1 July 2022		131.8	684.1	(0.1)	815.8
Total comprehensive loss for the year					
Loss for the year		-	(5.5)	0.7	(4.8)
Other comprehensive loss		-	(46.4)	-	(46.4)
Total comprehensive loss for the year		-	(51.9)	0.7	(51.2)
Transactions with owners, recorded directly in equity					
Dividends	10	-	(80.0)	-	(80.0)
Total contributions by and distributions to owners		-	(80.0)	-	(80.0)
Balance at 30 June 2023		131.8	552.2	0.6	684.6
Balance at 1 July 2023		131.8	552.2	0.6	684.6
Total comprehensive loss for the year					
Loss for the year		-	(1.1)	0.7	(0.4)
Other comprehensive loss		-	(5.1)	-	(5.1)
Total comprehensive loss for the year		-	(6.2)	0.7	(5.5)
Transactions with owners, recorded directly in equity					
Dividends	10	-	(78.0)	-	(78.0)
Total contributions by and distributions to owners		-	(78.0)	-	(78.0)
Balance at 30 June 2024		131.8	468.0	1.3	601.1

Statement of Changes in Equity
For the year ended 30 June 2024

Company

	<i>Note</i>	Share capital £m	Retained earnings £m	Total equity £m
Balance at 1 July 2022		131.8	18.7	150.5
Total comprehensive income for the year				
Profit for the year		-	78.0	78.0
Other comprehensive income		-	-	-
Total comprehensive income for the year		-	78.0	78.0
Transactions with owners, recorded directly in equity				
Dividends	10	-	(80.0)	(80.0)
Total contributions by and distributions to owners		-	(80.0)	(80.0)
Balance at 30 June 2023		131.8	16.7	148.5
Balance at 1 July 2023		131.8	16.7	148.5
Total comprehensive income for the year				
Profit for the year		-	79.9	79.9
Other comprehensive income		-	-	-
Total comprehensive income for the year		-	79.9	79.9
Transactions with owners, recorded directly in equity				
Dividends	10	-	(78.0)	(78.0)
Total contributions by and distributions to owners		-	(78.0)	(78.0)
Balance at 30 June 2024		131.8	18.6	150.4

Statements of Cash Flows
For year ended 30 June 2024

	Note	Group 2024 £m	Group 2023 £m	Company 2024 £m	Company 2023 £m
Cash flows from operating activities					
(Loss)/profit for the year		(0.4)	(4.8)	79.9	78.0
<i>Adjustments for:</i>					
Depreciation and amortisation	5	128.0	140.7	0.1	0.6
Gain on disposal of property, plant and equipment	5	(1.4)	(0.5)	-	-
Impairment of intangible assets	5	4.2	-	-	-
Impairment of investment/loans in subsidiary		-	-	(0.4)	(2.2)
Increase in Fair Value of investments	15	-	(0.3)	-	-
Finance income	8	(13.2)	(9.4)	(86.4)	(86.2)
Finance costs	8	185.8	160.0	3.0	2.2
Taxation	9	(7.8)	(8.1)	(0.3)	(0.1)
		<u>295.2</u>	<u>277.6</u>	<u>(4.1)</u>	<u>(7.7)</u>
(Increase)/decrease in trade and other receivables		(41.8)	(20.9)	-	1.1
Decrease/(increase) in inventories		0.2	(1.6)	-	-
Increase/(decrease) in trade and other payables		51.7	29.0	0.2	11.9
(Decrease) in provisions and employee benefits		(0.1)	(37.0)	-	-
		<u>10.0</u>	<u>(30.5)</u>	<u>0.2</u>	<u>13.1</u>
Tax received		7.7	11.8	0.2	-
Net cash from operating activities		<u>312.9</u>	<u>258.9</u>	<u>(3.7)</u>	<u>5.3</u>
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		2.1	2.8	-	-
Proceeds from infrastructure charges and capital contributions		5.7	5.4	-	-
Acquisition of property, plant and equipment		(423.0)	(275.7)	-	-
Acquisition of intangible assets		(7.3)	(10.6)	-	(0.3)
Interest received		7.0	5.9	-	3.7
Dividends received		-	-	77.5	79.2
Acquisition of financial instruments		-	(45.0)	-	-
Proceeds from sale of financial instruments		47.3	-	1.0	-
Net cash used in investing activities		<u>(368.2)</u>	<u>(317.2)</u>	<u>78.5</u>	<u>82.6</u>
Cash flows from financing activities					
Proceeds from new borrowings		409.0	608.5	14.0	10.5
Interest paid		(105.0)	(74.7)	(2.3)	(2.1)
Repayment of borrowings		(314.9)	(248.6)	(13.9)	(12.1)
Payment of principal portion of lease liabilities		(0.6)	(0.7)	-	-
Dividends paid		(71.5)	(79.1)	(71.5)	(79.1)
Net cash from financing activities		<u>(83.0)</u>	<u>205.4</u>	<u>(73.7)</u>	<u>(82.8)</u>
(Decrease)/increase in cash and cash equivalents		(138.3)	147.1	1.1	5.1
Cash and cash equivalents at 1 July		133.5	(13.6)	(0.9)	(6.0)
Cash and cash equivalents at 30 June	18	<u>(4.8)</u>	<u>133.5</u>	<u>0.2</u>	<u>(0.9)</u>

Notes to the financial statements

1. Accounting policies

1.1 Basis of preparation

Wessex Water Limited (the "Company") is a private company incorporated, domiciled and registered in England in the UK. The registered number is 02366633 and the registered address is Wessex Water Operations Centre, Claverton Down Road, Bath, BA2 7WW.

The group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group") and equity account the Group's interest in associates and jointly controlled entities. The parent company financial statements present information about the Company as a separate entity and not about its group. Both the parent company financial statements and the group 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. On publishing the parent company financial statements here together with the group financial statements, the Company is taking advantage of the exemption in s408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these approved financial statements.

In preparing these financial statements the Directors have considered the impact of climate change including but not limited to the impairment of assets and compliance with regulations and are satisfied there is currently no material impact on the group's financial performance and position.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these consolidated 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 33.

1.2 Measurement convention

The consolidated financial statements have been prepared on a historical cost basis, except for investments that have been measured at fair value. The consolidated financial statements are presented in pounds sterling which is the groups functional and presentational currency.

1.3 Going concern

An overview of the business activities of the group is given in the Strategic Report on pages 2 to 34. A review of the principal risks that the group faces is given in the risk management section on pages 11 to 14. The debt facilities available at the year end date, amounts outstanding and the maturity profile of this debt are shown in note 20. The Group 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 19 and the facilities described in note 20. Prior to the year end date the Group secured a £300m loan facility for 12 months with an option for the Group to extend the loan for a further 6 months and the undrawn WWSL revolving credit facilities referenced in note 20 were increased to from £225m to £300m with a maturity date of June 2027, both reflecting the Group's ability to secure finance. Under some of the facilities the Group is required to comply with an interest cover and gearing covenant tested quarterly and the covenants remain the same in the new facilities.

The Directors have considered the financial position of the Group and cash flow forecasts for the period from the date of approval of these Financial Statements through 31 December 2025 (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 on revenues and debt collectability, the repayment of loans maturing in the going concern review period and the required future financing requirements of the Group and for WWSL Ofwat's announcement of the PR24 draft determination and the company's subsequent re-submission in August 2024. , which is available on the Company's website at <https://corporate.wessexwater.co.uk/our-future/business-plan-2025-2030/updates-to-our-business-plan-2025-30>.

The Directors have noted there is further debt falling due for repayment within the going concern period, in particular £50m of European Investment Bank loan due in May 2025 and the new loan facility referred to above that, if extended, will mature at the end of December 2025. The Directors have considered the consistently strong operating performance, market experience for the Group and other water companies, the current leverage and credit rating of the bonds and a successful history of issuing bonds and raising debt over the past 20 years, most recently the bond issued in November 2023 and the new loan facilities obtained as noted above.

Notes to the financial statements (continued)

1. Accounting policies (continued)

1.3 Going concern (continued)

Based on this consideration, as well as the time period available to raise the required funding, the Directors are satisfied that the issuance of debt included within the forecasts for the going concern period to repay the new facility and finance the capital programme over the period is achievable.

In order to facilitate the future issuance of bonds the Group established a £5bn Euro medium-term note programme on 6 September 2023. The first issuance under the new programme having taken place in November 2023. The programme has since been renewed on 6 September 2024.

On the assumption that the required funding noted above will be successfully raised by the Group for the reasons noted above, the Directors have considered a severe but plausible downside scenario, to assess the impact on covenant compliance through the going concern review period. This includes considering the impact of adverse macroeconomic factors including sustained lower inflation combined with lower consumption and operational events such as asset and customer service failures leading to regulatory enforcement. In addition, we have considered regulatory impacts such as the ongoing Ofwat price and tariff review, i.e. PR24, covering the period from April 2025 to March 2030. *In situations requiring mitigations to be deployed, the Group could reduce discretionary expenditure, defer capital expenditure and/or cancel non-essential capital expenditure, reduce the amount of dividend payable and raise additional finance.*

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 and to comply with its financial covenants for the going concern review period through to 31 December 2025; 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 Group'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 Group's business model for managing them. The Group initially measures a financial asset at its fair value plus transaction costs. 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 Group'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.

Notes to the financial statements *(continued)*

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 Group. The Group 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 Group's financial assets at amortised cost includes intercompany loans repayable in more than 12 months.

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 Group's statement of financial position) when:

- The rights to receive cash flows from the asset have expired, or;
- The Group 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 Group has transferred substantially all the risks and rewards of the asset, or (b) the Group 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 Group'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 Group. 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 19.

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.

Notes to the financial statements (continued)

1. Accounting policies (continued)

1.6 Property, plant and equipment

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

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

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

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

- Land and buildings 10 to 80 years
- Infrastructure assets 60 to 200 years
- Plant, equipment and vehicles 2 to 30 years
- Office & IT equipment 3 to 10 years

Infrastructure assets comprise 8 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 and goodwill

Goodwill

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment.

Research and development

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

Other intangible assets

Other intangible assets that are acquired by the Group 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:

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

Notes to the financial statements (continued)

1. Accounting policies (continued)

1.9 Intangible assets and goodwill (continued)

Impairment of intangible assets

Determining whether intangible assets are impaired requires an estimation of the value in use of those assets. The value in use calculation requires the Group to estimate the future cash flows expected to arise from those assets and apply a suitable discount rate in order to calculate the present value.

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 Group has applied the practical expedient and followed the simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group 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 Group's historical observed default rates. The Group 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 Group'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 Group's trade receivables and contract assets is disclosed in Note 17.

The Group considers a financial asset in default when contractual payments are 80 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. 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 Group'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.

Notes to the financial statements (continued)

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 Group'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 Group 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 Group'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 Group 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 Group, 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 assets of the scheme are held separately from those of the Group. The Company recognizes a cost equal to its contribution payable for the period. 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 Group 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 statement of profit or loss 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 Group 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.

1.11 Provisions

A provision is recognised in the statement of financial position when the Group 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 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.

Notes to the financial statements (continued)

1. Accounting policies (continued)

1.12 Revenue (continued)

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.

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 wastewater mains.

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

Period over which performance obligations are satisfied

From the perspective of the Company these activities are not separable nor distinct and instead form a bundle of activities necessary to establish an authorised connection from which the network access can be obtained. Also, the Company has an additional obligation under statute to keep the connection in place for all current and future occupiers and facilitate ongoing access to the network for as long as the property requires service provision. Consequently, revenue from Developer Services will be deferred over the shorter of expected period of service provision or the period to the end of the assets expected 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 - Renewable Obligation Certificates (ROC) and Renewable Heat Incentives (RHI)

A subsidiary of the group generates green electricity and gas from combined heat and power plants along with the Biomethane plants which are accredited with government incentive schemes. The schemes run for twenty years from application and are based on fixed tariffs plus inflation each year. ROCs are issued monthly relating to the supply of green electricity to the grid with meter readings and submissions subsequently checked by OFGEM. Revenue is therefore recognised in the period to which it relates.

Notes to the financial statements (continued)

1. Accounting policies (continued)

1.12 Revenue (continued)

Other revenue - Liquid Waste Treatment

Customers waste is categorised as domestic or controlled. The agreements for treatment of controlled waste are short term and acceptance of all waste is determined by available treatment capacity at Wessex Water Services Ltd sewage treatment works.

Domestic waste has an annual fixed tariff which has three tiers for strength of waste based on suspended solids and chemical oxygen demand. Waste is either measured using sludge loggers or from samples taken from the tanker sent to Wessex Water laboratory for analysis. Controlled waste is organic waste coming from industrial processes such as food processing and landfill leachate. Each individual waste stream is sampled with the suspended solids and chemical oxygen demand determining a treatment charge which is agreed with the customer.

Revenue is recognised in the period the waste was treated, the acceptance of waste from the customer being the fulfilment of the performance obligation.

Other revenue - Property Searches

The group trades under the brand 'Wessex Searches' delivering the CON29DW product, a drainage and water search. Solicitors, search agencies and individuals are supplied with mapping information of water supply and sewage pipes relating to an individual residential or commercial property. Associated products are also procured from third parties such as local councils, mining authority and environmental search providers and sold as a package within the COND29DW product.

The fee charged for these services covers a specific product supplied at a particular point with the revenue being recognised at this point.

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.

1.13 Contract Balances

Contract Assets

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

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group 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 Group performs under the contract.

1.14 Deferred Grants and Contributions

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

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

Sewers adopted at nil cost to the Group 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.

Notes to the financial statements (continued)

1. Accounting policies (continued)

1.15 Expenses

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).

Financing income and expenses

Financing expenses comprise interest payable and lease interest. 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.

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.

1.16 Taxation

Tax on the profit for the year comprises current and deferred tax. Tax is recognised in the statement of profit or loss 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.

1.17 Dividends

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

Notes to the financial statements (continued)

1. Accounting policies (continued)

1.18 Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. In assessing control, the Group takes into consideration:

- Power over the investee (i.e. existing rights that give it the current ability to direct relevant activities of investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Joint venture

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The consolidated financial statements account for joint ventures using the equity method, initially recognising the investment at cost. Subsequently the carrying amount is adjusted to recognise changes in the Group's share of net assets, after adjustments to align the accounting policies with those of the Group, from the date that joint control commences until the date that joint control ceases.

1.19 Fair value measurement

Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset takes place either:

- In the principal market for the asset or;
- In the absence of a principal market, in the most advantageous market for the asset

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset is measured using the assumptions that market participants would use when pricing the asset, assuming that market participants act in their economic best interest.

A fair value measurement of investment properties takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

Notes to the financial statements (continued)

1. Accounting policies (continued)

1.19 Fair value measurement (continued)

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

1.20 Leases

The Group 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.

Group as a lessee

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

- | | |
|--------------------------------------|---------------|
| • Land and property | 4 to 97 years |
| • Motor vehicles and other equipment | 3 to 4 years |

If ownership of the leased asset transfers to the Group 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 Group 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 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 Group 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 Group's lease liabilities are included in Interest-bearing loans and borrowings (see Note 19).

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

The Group 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.

Notes to the financial statements (continued)

1. Accounting policies (continued)

1.20 Leases (continued)

Group as a lessor

Leases in which the Group 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.

Where the lease terms require, we maintain adequate insurance to cover all risks retained by the Group as a lessor.

As a lessor, the Group does not have any items of property, plant or equipment that are subject to operating leases.

1.21 Software-as-a-Service (SaaS)

SaaS arrangements are service contracts providing the Group 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.

1.23 Adopted IFRS not yet applied

There are no IFRS standards issued but not effective as at 30 June 2024 that will have a material impact on the Financial Statements.

2. Changes in accounting policies and disclosures

In the year, the Group adopted the amendments to IAS12 "Income Taxes" relating to "International Tax Reform – Pillar Two Rules" issued by the International Standards Boards (IASB) in May 2023. The amendments provide a temporary mandatory exception from recognising and disclosing information about deferred tax assets and liabilities arising from the implementation of Pillar Two model rules.

Notes to the financial statements *(continued)*

3. Business unit performance

	2024 £m	2023 £m
<i>Revenue</i>		
Regulated	794.8	704.8
Unregulated	69.1	84.1
	<u>863.9</u>	<u>788.9</u>
<i>Operating profit</i>		
Regulated	156.9	124.4
Unregulated	7.5	13.3
	<u>164.4</u>	<u>137.7</u>
<i>Net assets</i>		
Regulated	446.4	529.6
Unregulated	154.7	155.0
	<u>601.1</u>	<u>684.6</u>

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

The board monitors the operating results of business units separately for the purpose of making decisions about resource allocation and performance assessment. Business unit performance is evaluated based on a combination of Revenue, Operating profit and Net Asset value and is measured consistently with the consolidated financial statements.

Notes to the financial statements (continued)

4. Revenue from contracts with customers

Current year	House- hold £m	Non- house- hold £m	Total £m
Wholesale revenue - Water Supply			
Unmeasured	51.8	8.6	60.4
Measured	90.5	150.7	241.2
	<u>142.3</u>	<u>159.3</u>	<u>301.6</u>
Wholesale revenue - Waste Water			
Unmeasured	100.7	41.1	141.8
Measured	179.9	119.0	298.9
	<u>280.6</u>	<u>160.1</u>	<u>440.7</u>
Retail revenue			
Unmeasured	7.6	2.3	9.9
Measured	24.3	8.4	32.7
	<u>31.9</u>	<u>10.7</u>	<u>42.6</u>
Other revenue			
Regulated			9.9
Unregulated			69.1
Total revenue			<u><u>863.9</u></u>
Prior year	House- hold £m	Non- house- hold £m	Total £m
Wholesale revenue - Water Supply			
Unmeasured	46.4	6.8	53.2
Measured	82.3	128.3	210.6
	<u>128.7</u>	<u>135.2</u>	<u>263.9</u>
Wholesale revenue - Waste Water			
Unmeasured	95.4	31.7	127.1
Measured	161.6	86.2	247.8
	<u>257.0</u>	<u>117.9</u>	<u>374.9</u>
Retail revenue			
Unmeasured	8.9	1.9	10.8
Measured	25.5	6.0	31.5
	<u>34.4</u>	<u>7.9</u>	<u>42.3</u>
Other revenue			
Regulated			23.7
Unregulated			84.1
Total revenue			<u><u>788.9</u></u>

Notes to the financial statements (continued)

4. Revenue from contracts with customers (continued)

In accordance with IFRS 15, revenue has been disaggregated based on what is recognised in relation to the core services of supplying clean water and the removing and treating of wastewater. Each of these services is deemed to give rise to a distinct performance obligation under the contract with customers, though following the same pattern of transfer to the customer who simultaneously receives and consumes both of these services over time. Residential retail revenue relates solely to the margin applied to the wholesale amounts charged to residential customers. The wholesale charges and retail margin are combined in arriving at the total revenues relating to water and wastewater services provided to household customers.

Other revenues comprise a number of smaller non-core income streams including those relating to activities, typically performed opposite property developers, which impact the Group's capital network assets including activities that facilitate the creation of an authorised connection through which properties can obtain water and wastewater services.

Contract balances

Contract cost assets of £5.8m (2023: £6.3m) are included in the statement of financial position under trade and other receivables. At the year end there were liabilities for receipts in advance relating to contracts of £89.4m (2023: £83.8m).

5. Operating costs and auditor's remuneration

Included in the income statement are the following:

	2024 £m	2023 £m
Employee costs (note 6)	183.4	162.5
Power	58.5	65.0
Raw Materials and consumables	232.3	204.2
Rates	22.4	26.2
Charge for bad and doubtful debts	23.3	15.8
Service charges	6.5	6.6
Depreciation of property, plant and equipment (note 12)	118.5	131.0
Depreciation of right-of-use assets (note 11)	0.9	0.6
Amortisation of intangible assets (note 13)	9.8	10.4
Impairment of intangible assets (note 13)	4.2	-
Property, plant and equipment written off - disposals	1.9	2.0
Short term lease expense (note 11)	17.2	15.4
Infrastructure maintenance expenditure	19.4	21.3
Ofwat licence fee	2.0	1.1
Cost of finished goods and work-in-progress	5.8	5.6
Other operating costs	125.1	106.7
	<u>831.2</u>	<u>774.4</u>
Own work capitalised	(127.2)	(119.1)
	<u>704.0</u>	<u>655.3</u>
Other income		
(Gain) on disposal of property, plant and equipment	(1.4)	(0.5)
Amortisation of deferred income (note 22)	(3.1)	(3.3)
	<u>(4.5)</u>	<u>(3.8)</u>

Notes to the financial statements (continued)

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

	2024 £000	2023 £000
<i>Fees payable to the Company's auditor for:</i>		
Audit of these parent and consolidated financial statements	55	48
Audit of the Company's subsidiaries	472	367
Audit-related assurance services	140	133
Other non-audit services	189	93
	<u>856</u>	<u>641</u>

6. Staff numbers and costs

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

	Number of employees	
	2024	2023
Water and sewerage services	2,936	2,691
Billing and customer services	374	369
Operations and maintenance contracts	153	124
Other	130	159
	<u>3,593</u>	<u>3,343</u>

The aggregate payroll costs of these employees were:

	2024 £m	2023 £m
Wages and salaries	149.3	132.4
Social security costs	16.1	14.6
Pension costs - defined cost	12.1	9.8
Pension costs - defined benefit	5.9	5.7
	<u>183.4</u>	<u>162.5</u>

7. Directors' remuneration

	2024 £'000	2023 £'000
Total Directors' remuneration including benefits in kind	<u>435</u>	<u>553</u>
Remuneration of highest paid Director	<u>313</u>	<u>432</u>

Details of Directors' remuneration can be found in the Directors' Report. Directors' remuneration is in respect of two Executive Directors and five YTL appointed Directors (2023: two Executive Directors and five YTL appointed Directors).

Notes to the financial statements (continued)

8. Finance income and expense

Recognised in the income statement:

	2024 £m	2023 £m
<i>Finance income</i>		
Interest receivable on deposits	5.1	3.1
Interest receivable on amounts owed by immediate holding company	6.1	4.3
Gain on short term financial instrument	1.3	-
Net interest on net defined benefit pension plan surplus	0.7	2.0
Total finance income	<u>13.2</u>	<u>9.4</u>
<i>Finance expense</i>		
On interest-bearing loans and borrowings	<u>(185.8)</u>	<u>(160.0)</u>
Total finance expense	<u>(185.8)</u>	<u>(160.0)</u>
Net interest payable	<u>(172.6)</u>	<u>(150.6)</u>

In accordance with IAS 23 borrowing costs of £16.2m (2023: £8.5m) associated with the funding of eligible capital projects have been capitalised at an interest rate of 6.8% (2023: 5.9%).

9. Taxation

Recognised in the income statement

	2024 £m	2023 £m
<i>Current tax expense/(credit)</i>		
Current year	0.6	0.3
Adjustments for prior years	(0.5)	(9.0)
Current tax expense/(credit)	<u>0.1</u>	<u>(8.7)</u>
<i>Deferred tax (credit)/expense</i>		
Origination and reversal of temporary differences	(4.1)	(10.2)
Adjustments for prior years	(3.8)	10.8
Deferred tax (credit)/expense	<u>(7.9)</u>	<u>0.6</u>
Total tax credit	<u>(7.8)</u>	<u>(8.1)</u>

Taxation recognised in other comprehensive income

	2024 £m	2023 £m
Remeasurements of defined benefit surplus	<u>1.6</u>	<u>15.3</u>
Tax expense	<u>1.6</u>	<u>15.3</u>

Notes to the financial statements (continued)

9. Taxation (continued)

Reconciliation of effective tax rate

	2024	2023
	£m	£m
Loss for the year	(0.4)	(4.8)
Total tax credit	<u>(7.8)</u>	<u>(8.1)</u>
Loss excluding taxation:	(8.2)	(12.9)
Tax using the UK corporation tax rate of 25% (2023 - 20.5%)	(2.0)	(2.6)
Rate difference on current year earnings	-	(1.8)
Non-deductible expenses	1.7	1.6
Impact of Super deduction	-	(3.3)
(Over) / under provided in prior years	(4.3)	1.8
Group relief for nil consideration	(3.1)	(3.7)
Capital transaction	<u>(0.1)</u>	<u>(0.1)</u>
Total tax credit	<u>(7.8)</u>	<u>(8.1)</u>

The statutory rate of Corporation tax of 25% has applied to the current year profits (2023: 20.5%). The Group has benefited from the Full Expensing regime which has now been made permanent. As a result, the Group has generated current year tax losses which have been recognised as a deferred tax asset and offset against the existing deferred tax liabilities.

The Finance (No 2) Act 2023 was enacted in June 2023. This legislation includes the BEPS Pillar Two legislation which will impact the Group's accounting period starting on 1 July 2024. The group is part of the wider YTL Group which operates across a number of jurisdictions some of which are yet to implement the Pillar Two legislation, or some have only done so recently with an effective start date of 1 January 2025.

As a result of the different effective start dates of the legislation, the Group is still in the process of assessing the potential exposure to Pillar Two income taxes across the whole Group and its impact is currently not known or reasonably estimable. However, considering the UK entities on a standalone basis, the Group has performed an initial assessment based on the most recent information available. Based on the assessment performed, the Group does not expect a potential exposure to Pillar Two top-up taxes in the UK.

Notes to the financial statements (continued)

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.

	2024 £m	2023 £m
Interim dividends for the current year	59.7	62.2
Final dividend for the current year	18.3	17.8
	<u>78.0</u>	<u>80.0</u>

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 group'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 group is delivering the required quality and environmental outputs and making sufficient investment in its infrastructure to maintain and, where necessary, increase resilience
- that appropriate payments have been made and can continue to be made into the group's final salary pension scheme as agreed with the scheme's trustees
- that the correct amount of tax has been paid
- that the group 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 for WWSL and its comparison with Ofwat's expectations pertaining at the time
- sufficiency of distributable reserves

The group will maintain a solid investment grade credit rating in WWSL at all times.

During the year the company paid dividends of £77.5m (2023: £79.1m), of which £6.0m (2023: £3.6m) was settled against intercompany interest payable by the parent undertaking to the company.

11. Leases

Group as a lessee

The Group 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 Group's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the Group 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 Group also has certain leases of machinery with lease terms of 12 months or less and leases of office equipment with low value. The Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases. Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period:

	Land & buildings £m	Plant & machinery £m	Motor Vehicles £m	Total £m
As at 1 July 2023	1.9	0.1	1.1	3.1
Additions	0.5	-	1.3	1.8
Terminated	-	-	-	-
Depreciation charge for the year	(0.3)	(0.1)	(0.5)	(0.9)
As at 30 June 2024	<u>2.1</u>	<u>-</u>	<u>1.9</u>	<u>4.0</u>

Notes to the financial statements (continued)

11. Leases (continued)

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

		£m
As at 1 July 2023		2.9
Additions		1.8
Accretion of interest		-
Terminated		(0.2)
Payments		(0.6)
As at 30 June 2024		<u>3.9</u>
Current	Note 19	0.8
Non-current	Note 19	3.1

The maturity analysis of lease liabilities is also disclosed in Note 19.

The following are the amounts recognised in profit or loss:

	2024	2023
	£m	£m
Depreciation expense of right-of use assets	0.9	0.6
Interest expense on lease liabilities	-	-
Expenses relating to short-term leases under IFRS 16	17.2	15.4
	<u>18.1</u>	<u>16.0</u>

The Group had total cash outflows for long-term leases of £0.6m in 2024 (2023: £0.7m). Cash outflows for short-term and low-value leases were £17.2m (2023: £15.4m). The Group also had non-cash additions to right-of-use assets and lease liabilities of £1.8m in 2024 (2023: £1.1m).

Group as a lessor

The Group has entered into operating leases consisting of certain land and buildings. Rental income recognised by the Group during the year is £0.7m (2023: £0.6m).

Future minimum rentals receivable under non-cancellable operating leases as at 30 June 2024 are as follows:

	2024	2023
	£m	£m
Within one year	0.4	0.4
After one year but not more than five years	1.0	1.2
More than five years	0.9	1.2
	<u>2.3</u>	<u>2.8</u>

Notes to the financial statements (continued)

12. Property, plant and equipment – Group

	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 2022	1,022.2	2,394.5	1,990.4	46.4	44.3	257.9	5,755.7
Transfer between categories	0.3	1.1	(1.3)	-	0.1	(0.2)	0.0
Additions in year	-	4.0	0.4	-	-	287.2	291.6
Transfers on commissioning	51.2	108.9	144.3	6.1	4.8	(315.3)	-
Disposals	(3.7)	(0.2)	(39.7)	(5.0)	-	-	(48.6)
Cost of ROU assets	-	-	0.2	0.9	-	-	1.1
ROU assets terminated	-	-	-	-	-	-	-
Balance at 30 June 2023	1,070.0	2,508.3	2,094.3	48.4	49.2	229.6	5,999.8
Balance at 1 July 2023	1,070.0	2,508.3	2,094.3	48.4	49.2	229.6	5,999.8
Transfer between categories	-	-	-	-	-	-	-
Additions in year	0.1	20.9	0.1	-	-	407.4	428.5
Transfers on commissioning	27.0	53.6	86.5	7.7	6.5	(181.3)	-
Disposals	(3.2)	(0.2)	(22.8)	(3.7)	-	-	(29.9)
Cost of ROU assets	0.5	-	-	1.3	-	-	1.8
ROU assets terminated	(0.3)	-	(0.1)	-	-	-	(0.4)
Balance at 30 June 2024	1,094.1	2,582.6	2,158.0	53.7	55.7	455.7	6,399.8
Depreciation and impairment							
Balance at 1 July 2022	(355.1)	(170.1)	(1,125.5)	(27.3)	(27.9)	-	(1,705.9)
Transfer between categories	-	-	-	-	-	-	-
Depreciation charge for the year	(17.0)	(22.1)	(80.8)	(5.4)	(5.7)	-	(131.0)
Depreciation on disposals	2.3	-	38.0	4.7	-	-	44.5
Depreciation on ROU assets	(0.2)	-	(0.1)	(0.3)	-	-	(0.6)
Depreciation on ROU assets terminated	-	-	-	-	-	-	-
Balance at 30 June 2023	(370.0)	(192.2)	(1,168.4)	(28.8)	(33.6)	-	(1,793.0)
Balance at 1 July 2023	(370.0)	(192.2)	(1,168.4)	(28.8)	(33.6)	-	(1,793.0)
Transfer between categories	-	-	-	-	-	-	-
Depreciation charge for the year	(17.6)	(19.3)	(70.1)	(5.7)	(5.8)	-	(118.5)
Depreciation on disposals	1.6	-	22.7	3.0	-	-	27.3
Depreciation on ROU assets	(0.3)	-	(0.1)	(0.5)	-	-	(0.9)
Depreciation on ROU assets terminated	0.3	-	0.1	-	-	-	0.4
Balance at 30 June 2024	(386.0)	(211.5)	(1,215.8)	(32.0)	(39.4)	-	(1,884.7)
Net Book Value							
At 1 July 2022	667.1	2,224.4	864.9	19.1	16.4	257.9	4,049.8
At 30 June 2023	700.0	2,316.1	925.9	19.6	15.6	229.6	4,206.8
At 30 June 2024	708.1	2,371.1	942.2	21.7	16.3	455.7	4,515.1

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.

There are no impairment losses recognised in these financial statements.

Cumulative borrowing costs capitalised and included above were £49.3m (2023: £33.0m).

Included in freehold land and buildings above is an amount of £16.0m (2023: £15.7m) in respect of land which is not depreciated.

Notes to the financial statements (continued)

13. Intangible assets - Group

	Goodwill £m	External Customer Lists £m	Contractual Trading Rights £m	Other Intangible assets £m	Software development £m	Assets In development £m	Total £m
Cost							
Balance at 1 July 2022	0.4	2.1	4.4	2.2	73.3	15.4	97.8
Additions	-	-	-	-	-	10.5	10.5
Transfer on Commissioning	-	-	-	-	3.3	(3.3)	-
Disposals	-	-	-	-	(3.4)	-	(3.4)
Balance at 30 June 2023	0.4	2.1	4.4	2.2	73.2	22.6	104.9
Balance at 1 July 2023	0.4	2.1	4.4	2.2	73.2	22.6	104.9
Additions	-	-	-	-	-	7.3	7.3
Transfer on commissioning	-	-	-	-	10.7	(10.7)	-
Disposals	-	-	-	-	-	-	-
Balance at 30 June 2024	0.4	2.1	4.4	2.2	83.9	19.2	112.2
Amortisation and impairment							
Balance at 1 July 2022	(0.4)	(0.6)	(2.4)	(1.3)	(38.0)	-	(42.7)
Amortisation charge for the year	-	(0.2)	(0.3)	-	(9.9)	-	(10.4)
Disposals	-	-	-	-	3.4	-	3.4
Balance at 30 June 2023	(0.4)	(0.8)	(2.7)	(1.3)	(44.5)	-	(49.7)
Balance at 1 July 2023	(0.4)	(0.8)	(2.7)	(1.3)	(44.5)	-	(49.7)
Amortisation charge for the year	-	(0.2)	(0.3)	(0.2)	(9.1)	-	(9.8)
Impairment	-	-	-	-	-	(4.2)	(4.2)
Disposals	-	-	-	-	-	-	-
Balance at 30 June 2024	(0.4)	(1.0)	(3.0)	(1.5)	(53.6)	(4.2)	(63.7)
Net Book Value							
At 1 July 2022	-	1.5	2.0	0.9	35.3	15.4	55.1
At 30 June 2023	-	1.3	1.7	0.9	28.7	22.6	55.2
At 30 June 2024	-	1.1	1.4	0.7	30.3	15.0	48.5

During the year an impairment loss of £4.2m (2023: £nil) was recognised due to delays in the completion of internally developing a Billing and Customer service platform. In assessing impairment, management estimated the recoverable amount based on expected future cash flows and used an appropriate discount rate of 4.45% based on the WWSL's cost of capital.

The Group continues to evaluate how best to complete this software which includes evaluation of an option to migrate this development to a 'Software as a Service' product. Whilst no decision has currently been made to change from the original development plan, if a decision is made to change to a 'Software as a Service' product existing costs of £12.5m would be fully expensed to the income statement.

Notes to the financial statements (continued)

14. Investments in subsidiaries and joint ventures

The Group and Company have the following investments in subsidiaries and joint ventures.

	Country	Number	Principal activity	Shares held	2024 %	2023 %
Company - subsidiary						
SC Technology GmbH	Switzerland	-	Waste treatment processes	CHF ordinary	100	100
Water 2 Business Ltd	United Kingdom	08518831	Billing services	£1 ordinary	70	70
Wessex Concierge Ltd ¹	United Kingdom	10826537	Dormant	£1 ordinary	-	100
Turnbull Infrastructure & Utilities Ltd	United Kingdom	03652435	Engineering services	£1 ordinary	100	100
Entrade Ltd	United Kingdom	13829768	Dormant	£1 ordinary	100	100
Wessex Water Engineering Services Ltd ¹	United Kingdom	02286860	Dormant	£1 ordinary	-	100
Wessex Water Enterprises Ltd	United Kingdom	02279151	Water supply and waste water services	£1 ordinary	100	100
Wessex Water Pension Scheme Trustee Ltd	United Kingdom	03913589	Dormant	£1 ordinary	100	100
Wessex Water Services Ltd	United Kingdom	02366648	Water supply and waste water services	£1 ordinary	100	100
Wessex Water Trustee Company Ltd	United Kingdom	02278257	Dormant	£1 ordinary	100	100
YTL Engineering Ltd ¹	United Kingdom	03696600	Dormant	£1 ordinary	-	100
YTL Services Ltd	United Kingdom	02277608	Dormant	£1 ordinary	100	100
Company – joint venture						
Bristol Wessex Billing Services Ltd	United Kingdom	04143955	Billing services	£1 A ordinary	50	50
Group - subsidiary						
GENeco Ltd	United Kingdom	06842738	Waste water services	£1 ordinary	100	100
GENeco South West Ltd	United Kingdom	09326393	Waste water services	£1 ordinary	100	100
SC Technology Nederlands BV	Netherlands	-	Waste treatment	Euro ordinary	100	100
SC Technology Deutschland GmbH	Germany	-	Waste treatment	Euro ordinary	100	100
Wessex Utility Solutions Ltd	United Kingdom	06718997	Engineering services	£1 ordinary	100	100
Wessex Water Services Finance PLC	United Kingdom	03704265	Issue of bonds	£1 ordinary	100	100
Group – joint venture						
Searchlight Collections Ltd	United Kingdom	07940022	Billing services	£1 ordinary	50	50

¹ Dissolved on 18 July 2023.

The registered address of the UK subsidiary companies is Wessex Water Operations Centre, Claverton Down Road, Bath, BA2 7WW apart from Water 2 Business Ltd which is 21e Somerset Square, Nailsea, Bristol BS48 1RQ.

Bristol Wessex Billing Services Ltd is considered a Joint Venture because Wessex Water Ltd and Bristol Water Holdings Ltd each hold 50% of the equity share capital and voting rights of the company and as a result, it has no single controlling party. The registered address is 1 Clevedon Walk, Nailsea, Bristol BS48 1WA.

Under section 479C of the Companies Act 2006, Wessex Water Limited gives a parent company guarantee in respect of all outstanding liabilities as at 30 June 2024, until the liabilities are satisfied in full, for the following subsidiary companies. Under section 479A of the Companies Act 2006, the following subsidiaries are therefore exempt from the requirements relating to the audit of individual accounts.

GENeco Limited	06842738
GENeco (South West) Limited	09326393
Wessex Utility Solutions Limited	06718997

Notes to the financial statements (continued)

14. Investments in subsidiaries and joint ventures (continued)

Searchlight Collections Ltd is considered a Joint Venture because it is a 100% owned subsidiary of Bristol Wessex Billing Services Ltd. The registered address is PO Box 930, Galmington Trading Estate, Cornishway West, Taunton, Somerset TA1 9LQ.

Summary aggregated financial information on joint venture

	2024	2023
	£m	£m
<i>Bristol Wessex Billing Services Ltd</i>		
Assets	1.7	1.7
Liabilities	(1.7)	(1.7)
	<u>-</u>	<u>-</u>
Profit/(loss)	<u>-</u>	<u>-</u>

Investment in Subsidiaries – Company

	2024	2023
	£m	£m
Carrying value at 1 July	81.4	82.5
Impairment of investment	-	(1.1)
Carrying value at 30 June	<u>81.4</u>	<u>81.4</u>

15. Non-Current Financial Assets

Financial assets at fair value through profit and loss	Group		Company	
	2024	2023	2024	2023
	£m	£m	£m	£m
<i>Non-listed equity investments</i>				
Industrial Phycology Ltd	0.1	0.1	-	-
Inheriting Earth Ltd	0.4	0.4	-	-
	<u>0.5</u>	<u>0.5</u>	<u>-</u>	<u>-</u>
Deferred consideration on disposal of subsidiary	<u>-</u>	<u>2.0</u>	<u>-</u>	<u>2.0</u>
Debt instruments at amortised cost				
Owed by immediate holding company	97.7	97.6	97.7	97.6
Owed by subsidiary companies	-	-	30.8	32.6
	<u>97.7</u>	<u>97.6</u>	<u>128.5</u>	<u>130.2</u>

Financial assets at fair value through profit or loss include equity shares of non-listed companies. The Group holds non-controlling interests (between 4% and 8%) in these companies. The Group consider these investments to be strategic in nature.

During the year, no revaluation gain/(loss) on the investments was reported (2023: £0.3m gain).

Notes to the financial statements (continued)

16. Inventories

	Group	
	2024	2023
	£m	£m
Raw materials and consumables	7.4	7.0
Work in progress	1.0	1.6
	<u>8.4</u>	<u>8.6</u>

Raw materials, consumables and work in progress recognised as cost of sales in the year amounted to £9.1m (2023: £7.4m). There was no write-down of inventories to net realisable value in either year.

17. Trade and other receivables

	Group		Company	
	2024	2023	2024	2023
	£m	£m	£m	£m
Amounts receivable from customers	229.7	197.4	3.1	2.0
Owed by immediate holding company	-	0.3	-	0.3
Owed by subsidiary companies	-	-	18.8	18.8
Owed by other group companies	4.0	4.4	3.7	2.9
Owed by associated company	0.8	1.1	-	-
Prepayments	28.7	23.1	-	-
VAT debtors	12.1	9.0	-	-
Contract assets	5.8	6.3	-	-
Other debtors	15.9	15.6	3.5	4.3
	<u>297.0</u>	<u>257.2</u>	<u>29.1</u>	<u>28.3</u>

Amounts receivable from customers are expected to be recovered in no more than 12 months (see Note 26b).

All outstanding related party receivable balances are owed on commercial terms and arise through normal business operations. The Group 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 Group has determined that no material expected credit loss provisions are required as at year-end for related party balances owed.

Contract cost assets - group

	2024	2023
	£m	£m
Balance at 1 July	6.3	4.5
Incurred during the year	5.3	7.4
Recognised as costs during the year	(5.8)	(5.6)
Balance at 30 June	<u>5.8</u>	<u>6.3</u>

Notes to the financial statements (continued)

18. Cash and cash equivalents

	Group		Company	
	2024	2023	2024	2023
	£m	£m	£m	£m
Current assets				
Short-term bank deposits	-	85.0	-	-
Cash at bank	5.6	49.6	0.2	-
	5.6	134.6	0.2	-
<i>Other financial assets</i>				
Deferred consideration on disposal of subsidiary	1.0	-	1.0	-
Medium-term bank deposits	-	45.0	-	-
	1.0	45.0	1.0	-
Current liabilities				
Bank overdraft	(10.4)	(1.1)	-	(0.9)

The Group and the Company seek to invest cash and cash equivalents safely and profitably with creditworthy local and offshore licensed banks. The local and offshore licensed banks have a credit rating of A1/P1 as rated by Moody's Investors Service, Inc., respectively.

19. Other interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group and Company's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group and Company's exposure to interest rate and foreign currency risk, see note 26e.

	Group		Company	
	2024	2023	2024	2023
	£m	£m	£m	£m
Current liabilities				
Bank loans	106.4	165.9	40.3	7.7
Other loans	8.8	-	-	-
Current portion of lease liabilities	0.8	0.6	-	-
Bonds	-	90.5	-	-
Loan from parent company	3.3	3.3	3.3	3.3
	119.3	260.3	43.6	11.0
Non-current liabilities				
Bank loans	508.6	464.6	7.2	39.9
Other loans	-	9.3	-	-
Lease liabilities	3.1	2.3	-	-
Bonds	2,513.9	2,229.6	-	-
	3,025.6	2,705.8	7.2	39.9

Notes to the financial statements (continued)

19. Other interest-bearing loans and borrowings (continued)

Terms and debt repayment schedule

	Currency	Nominal interest rate	Year of maturity	Issue Value 2024 £m	Carrying amount 2024 £m	Issue Value 2023 £m	Carrying amount 2023 £m
<i>Short-term borrowing</i>							
Index Linked Bond	Sterling	7.27%	2023	-	-	50.0	90.5
Loan from parent	Sterling	0.00%	2024	3.3	3.3	3.3	3.3
Bank loans - EIB	Sterling	6.45%	2025	200.0	50.0	200.0	200.0
Bank loans - Natwest	Sterling	6.31%	2024	12.5	12.5	12.5	12.5
Other loans	Sterling	4.97%	2025	8.8	8.8	9.3	9.3
Revolving credit facilities	Sterling	6.22%	2024	27.8	27.8	34.9	34.9
<i>Long-term borrowing</i>							
Bank loans - KfW	Sterling	6.39%	2024-26	235.0	217.8	235.0	233.4
Bank loans - Natwest	Sterling	6.43%	2032	150.0	149.7	150.0	149.7
Revolving credit facilities	Sterling	5.83%	2025-27	157.2	157.2	-	-
<i>Listed bonds</i>							
Bond	Sterling	5.38%	2028	200.0	199.6	200.0	199.5
Bond	Sterling	5.75%	2033	350.0	346.9	350.0	346.7
Bond	Sterling	1.50%	2029	250.0	248.6	250.0	248.3
Bond	Sterling	1.25%	2036	300.0	295.9	300.0	295.6
Bond	Sterling	5.13%	2032	300.0	297.1	300.0	298.0
Bond	Sterling	6.50%	2033	35.0	34.8	-	-
Bond	Sterling	6.50%	2035	35.0	34.7	-	-
Bond	Sterling	6.50%	2038	65.0	64.2	-	-
Bond	Sterling	6.50%	2043	65.0	64.6	-	-
Index Linked Bond	Sterling	2.19%	2039	50.0	89.6	50.0	85.9
Index Linked Bond	Sterling	1.75%	2046	75.0	141.9	75.0	128.9
Index Linked Bond	Sterling	1.75%	2051	75.0	141.9	75.0	128.9
Index Linked Bond	Sterling	1.37%	2057	75.0	141.9	75.0	128.9
Index Linked Bond	Sterling	1.37%	2057	75.0	141.9	75.0	128.9
Index Linked Bond	Sterling	1.49%	2058	50.0	90.1	50.0	80.0
Index Linked Bond	Sterling	1.50%	2058	50.0	90.1	50.0	80.0
Index Linked Bond	Sterling	1.50%	2058	50.0	90.1	50.0	80.0
				2,894.6	3,141.0	2,595.0	2,963.2

All bonds are listed on the London Stock Exchange and are wholly guaranteed by Wessex Water Services Ltd. 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.

Notes to the financial statements (continued)

19. Other interest-bearing loans and borrowings (continued)

Lease liabilities

Lease liabilities are payable as follows:

	Minimum lease payments 2024 £m	Interest 2024 £m	Principal 2024 £m	Minimum lease payments 2023 £m	Interest 2023 £m	Principal 2023 £m
Less than one year	0.8	-	0.8	0.6	-	0.6
Between 1 and 2 years	0.7	-	0.7	0.4	-	0.4
Between 2 and 5 years	1.4	(0.1)	1.3	0.8	(0.1)	0.7
More than 5 years	1.7	(0.6)	1.1	1.7	(0.5)	1.2
	4.6	(0.7)	3.9	3.5	(0.6)	2.9

Changes in liabilities arising from financing activities

Group	1 July 2023 £m	Cash flows £m	New leases £m	Other £m	30 June 2024 £m
Current interest bearing loans and borrowings (excluding items listed below)	259.7	(259.7)	-	118.5	118.5
Current obligations under leases and hire purchase contracts	0.6	(0.6)	0.4	0.4	0.8
Non-current interest bearing loans and borrowings (excluding items listed below)	2,703.5	248.8	-	70.2	3,022.5
Non-current obligations under leases and hire purchase contracts	2.3	-	1.4	(0.4)	3.1
Total liabilities from financing activities	2,966.1	(11.5)	1.8	188.7	3,144.9

Group	1 July 2022 £m	Cash flows £m	New leases £m	Other £m	30 June 2023 £m
Current interest bearing loans and borrowings (excluding items listed below)	41.6	(41.6)	-	259.7	259.7
Current obligations under leases and hire purchase contracts	0.2	(0.7)	0.4	0.7	0.6
Non-current interest bearing loans and borrowings (excluding items listed below)	2,479.8	326.8	-	(103.1)	2,703.5
Non-current obligations under leases and hire purchase contracts	2.3	-	0.7	(0.7)	2.3
Total liabilities from financing activities	2,523.9	284.5	1.1	156.6	2,966.1

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

Notes to the financial statements (continued)

19. Other interest-bearing loans and borrowings (continued)

Changes in liabilities arising from financing activities

Company	1 July 2023	Cash flows	New leases	Other	30 June 2024
	£m	£m	£m	£m	£m
Current interest bearing loans and borrowings	11.0	(2.3)	-	34.9	43.6
Non-current interest bearing loans and borrowings	39.9	0.1	-	(32.8)	7.2
Total liabilities from financing activities	50.9	(2.2)	-	2.1	50.8

Company	1 July 2022	Cash flows	New leases	Other	30 June 2023
	£m	£m	£m	£m	£m
Current interest bearing loans and borrowings	25.7	-	-	(14.7)	11.0
Non-current interest bearing loans and borrowings	26.6	(1.6)	-	14.9	39.9
Total liabilities from financing activities	52.3	(1.6)	-	0.2	50.9

20. Trade and other payables

	Group 2024	2023	Company 2024	2023
	£m	£m	£m	£m
Current				
Owed to subsidiary companies	-	-	19.1	19.6
Trade payables	45.5	36.6	0.3	0.5
Dividend	18.3	17.8	18.3	17.8
Other creditors	10.5	7.9	0.6	-
Taxation and social security	3.9	3.7	0.5	0.3
Accrued expenses	148.0	115.5	0.6	0.9
Contract liabilities	83.7	77.9	-	0.5
	309.9	259.4	39.4	39.6
Non-current				
Contract liabilities	5.7	5.9	-	-
	315.6	265.3	39.4	39.6

Our standard payment terms for trade payables is end of month plus 30 days. Corporation tax is paid quarterly, other taxation is normally payable within one month.

Notes to the financial statements *(continued)*

20. Trade and other payables *(continued)*

Analysis of contract liabilities

	2024	2023
	£m	£m
At 1 July	83.8	75.3
Deferred during the year	89.2	82.2
Recognised as revenue during the year and included at the beginning of the year	(83.6)	(73.7)
	<hr/>	<hr/>
At 30 June	89.4	83.8
	<hr/> <hr/>	<hr/> <hr/>

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.

21. Employee benefits

Pension Plans

Defined Benefit Plans

	2024	2023
	£m	£m
Fair value of scheme assets	574.6	568.0
Present value of defined benefit obligations	(568.7)	(556.4)
Net surplus for defined benefit obligations	5.9	11.6
	<hr/>	<hr/>
Unfunded and compensatory added years pension	(0.7)	(0.7)
	<hr/>	<hr/>
Total employee benefits	5.2	10.9
	<hr/> <hr/>	<hr/> <hr/>

The Group 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 Group. 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 Group also operates a defined contribution section within the main pension scheme.

Notes to the financial statements (continued)

21. Employee benefits (continued)

a. Profile of the Scheme

The Defined Benefit Obligation (DBO) includes benefits for current employees, former employees, and current pensioners. Broadly, about 24% of the DBO is attributable to current employees, 14% to deferred pensioners and 62% 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 13-14 years, reflecting the appropriate split of defined benefit obligation between current employees (duration of c18-19 years), deferred members (duration of c17-18 years) and current pensioners (duration of c10-11 years).

b. Funding requirements

UK legislation requires that pension schemes are funded prudently. The last funding valuation of the scheme was carried out by a qualified actuary as at 30 September 2022 and showed a deficit of £35.3m. The company paid £18.4m on 30 June 2023 which, along with investment returns from return-seeking assets, has made good the shortfall. The next funding valuation is due no later than 30 September 2025, at which progress towards full-funding will be reviewed.

The Company also pays contributions of 15.5% of pensionable salaries in respect of current accrual and non-investment related expenses.

c. Risks associated with the Scheme

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

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

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

Life expectancy - The majority of the Scheme's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the liabilities.

The Trustees insure certain benefits payable on death before retirement.

d. Reporting at 30 June 2024

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.

Notes to the financial statements (continued)

21. Employee benefits (continued)

The principal assumptions used to calculate the liabilities under IAS 19 are set out below. The major assumptions used by the actuary were:

	30.06.24	30.06.23
Rate of increase in salaries – long term	1.90%	1.90%
Rate of increase in pensions		
- WWPS and 1/80ths members	2.90%	3.00%
- MIS members	2.60%	2.70%
- Reduced level members	2.00%	2.10%
- Post 88 GMP	2.10%	2.10%
Discount rate	5.10%	5.20%
Inflation assumption – RPI	3.10%	3.20%
Inflation assumption – CPI	2.60%	2.70%

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.

	2024	2024	2023	2023
	Male	Female	Male	Female
	years	years	years	years
Life expectancy - current age 60	25.4	28.2	25.6	28.3
Life expectancy - current age 40	46.6	49.4	46.8	49.4

The mortality table adopted is based upon 105% of standard tables S3P(M/F)A adjusted to allow for individual years of birth. Future improvements are assumed to be in line with the CMI 2022 projection, with a long-term improvement rate of 1.0% p.a. for all members.

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 £7.3m from £568.7m to £576.0m, reducing the scheme surplus to a deficit of £1.4m.
- An increase in the inflation assumption of 0.1% would increase the scheme liabilities by £6.9m from £568.7m to £575.6m, reducing the scheme surplus to a deficit of £1.0m.
- An increase in life expectancy of 1 year would increase the scheme liabilities by £18.7m from £568.7m to £587.4m, reducing the scheme surplus to a deficit of £12.8m

Notes to the financial statements (continued)

21. Employee benefits (continued)

e. The value of the assets as follows:

	2024	2023
	£m	£m
Equities	159.0	158.2
Property funds	34.1	33.1
Government Bonds	45.0	46.0
Corporate Bonds	329.4	305.2
Other	7.1	25.5
	<u>574.6</u>	<u>568.0</u>

All assets are quoted in an active market except those classed as "Other".

f. The amounts recognised in comprehensive income:

	2024	2023
	£m	£m
Operating cost – service cost		
Current service cost	4.9	5.9
Administration expenses	1.2	0.9
Past service (credit)	(0.2)	(1.2)
Financing cost		
Interest on net benefit liability/(assets)	(0.7)	(2.0)
Pension expense recognised in Income Statement	<u>5.2</u>	<u>3.6</u>
Rc measurements in OCI		
Return on plan assets (in excess of) that recognised in net interest	(1.6)	103.6
Actuarial losses/(gains) due to changes in financial assumptions	1.6	(95.3)
Actuarial (gains)/losses due to changes in demographic assumptions	(2.6)	12.3
Actuarial losses due to liability experience	9.0	40.7
Losses recognised in OCI	<u>6.4</u>	<u>61.3</u>
Losses recognised in Income Statement and OCI	<u>11.6</u>	<u>64.9</u>

Notes to the financial statements (continued)

21. Employee benefits (continued)

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

	2024	2023
	£m	£m
Opening defined benefit obligation	556.4	599.4
Current service cost	4.9	5.9
Interest expense on defined benefit obligation	28.3	22.6
Actuarial losses/(gains) due to changes in financial assumptions	1.6	(95.3)
Actuarial (gains)/losses due to changes in demographic assumptions	(2.6)	12.3
Actuarial losses due to liability experience	9.0	40.7
Net benefits paid out	(28.7)	(28.0)
Past service cost (including curtailments)	(0.2)	(1.2)
Closing defined benefit obligation	<u>568.7</u>	<u>556.4</u>

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

	2024	2023
	£m	£m
Opening fair value of scheme assets	568.0	632.9
Interest income on scheme assets	29.0	24.6
Re-measurement gains/(losses) on scheme assets	1.6	(103.6)
Contributions by employer	5.9	43.0
Net benefits paid out	(28.7)	(28.0)
Administration costs incurred	(1.2)	(0.9)
Closing fair value of scheme assets	<u>574.6</u>	<u>568.0</u>

Additional analysis:	2024	2023
	£m	£m

Actual return on scheme assets

Interest income on scheme assets	29.0	24.6
Re-measurement gains/(losses) on scheme assets	1.6	(103.6)
Actual return on scheme assets	<u>30.6</u>	<u>(79.0)</u>

Analysis of amounts recognised in Other Comprehensive Income

Total re-measurement (losses)	<u>(6.4)</u>	<u>(61.3)</u>
Total (loss)	<u>(6.4)</u>	<u>(61.3)</u>

Notes to the financial statements (continued)

21. Employee benefits (continued)

Defined contribution plans

The Group also operates a defined contribution section within the main pension scheme. During the year the Group paid £12.1m (2023: £9.8m) to the defined contribution section and at 30 June 2024 owed £1.4m (2023: £0.9m).

Virgin Media vs NTL Case

The Virgin Media Ltd v NTL Pension Trustees II decision, handed down by the High Court on 16 June 2023, considered the implications of section 37 Pension Schemes Act 1993. The Court of Appeal upheld this ruling on 25 July 2024. The company will continue to investigate the possible implications together with the trustees and its advisers, but as it stands, does not have cause to believe that it will have any material impact on the Scheme.

22. Deferred Grants and Contributions

	Requisition- tions £m	Other contribu- tions £m	Sewer adoptions £m	Infra- structure charges £m	Total £m
Balance at 1 July 2022	36.7	32.4	108.9	131.8	309.8
Received during the year	1.9	1.5	4.4	2.0	9.8
Amortisation	(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
Balance at 1 July 2023	38.3	33.3	112.3	132.4	316.3
Received during the year	2.5	0.9	5.1	2.3	10.8
Amortisation	(0.4)	(0.5)	(0.8)	(1.4)	(3.1)
Balance at 30 June 2024	40.4	33.7	116.6	133.3	324.0

Notes to the financial statements (continued)

23. Provisions

Group	Decomm- issioning	Claim costs	Restructuring costs £m	Total £m
Balance at 1 July 2023	0.6	1.1	0.1	1.8
Provisions made during the year	-	0.2	0.2	0.4
Provisions used during the year	(0.3)	-	(0.2)	(0.5)
Balance at 30 June 2024	0.3	1.3	0.1	1.7
Non-current	-	-	-	-
Current	0.3	1.3	0.1	1.7
Balance at 30 June 2024	0.3	1.3	0.1	1.7

In the ordinary course of business, the Group 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 2024.

Notes to the financial statements (continued)

24. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Liabilities		Assets		Net
	2024	2023	2024	2023	2023
	£m	£m	£m	£m	£m
Property, plant and equipment	701.0	648.1	(48.6)	(46.7)	601.4
Losses	-	-	(72.6)	(13.1)	(13.1)
Employee benefits	1.5	2.9	-	-	2.9
Provisions	-	-	-	(0.4)	(0.4)
Tax (assets) / liabilities	702.5	651.0	(121.2)	(60.2)	590.8
Net of tax liabilities/(assets)	(121.2)	(60.2)	121.2	60.2	-
Net tax (assets) / liabilities	581.3	590.8	-	-	590.8

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 2023	Recognised in income	Recognised in OCI	30 June 2024
	£m	£m	£m	£m
Property, plant and equipment	601.4	51.0	-	652.4
Losses	(13.1)	(59.5)	-	(72.6)
Employee benefits	2.9	0.2	(1.6)	1.5
Provisions	(0.4)	0.4	-	-
	590.8	(7.9)	(1.6)	581.3

Movement in deferred tax during the prior year

	1 July 2022	Recognised in income	Recognised in OCI	30 June 2023
	£m	£m	£m	£m
Property, plant and equipment	597.5	3.9	-	601.4
Losses	-	(13.1)	-	(13.1)
Employee benefits	8.4	9.8	(15.3)	2.9
Provisions	(0.4)	-	-	(0.4)
	605.5	0.6	(15.3)	590.8

Notes to the financial statements (continued)

25. Capital and reserves

Share capital – Group and Company

Ordinary shares - Authorised

	2024	2023
	£m	£m
346,666,670 ordinary shares at £0.60 each	208.0	208.0
	<u>208.0</u>	<u>208.0</u>

Allotted, called up and fully paid

219,585,986 ordinary shares of £0.60 each	131.8	131.8
Shares classified in shareholders' funds	<u>131.8</u>	<u>131.8</u>

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.

Non-controlling interests

The non-controlling interests in the equity of subsidiary companies are as follows:

Group	Share of gains or (losses)	
	2024	2023
	£m	£m
Balance at 1 July	0.6	(0.1)
Water 2 Business Ltd	0.7	0.7
Balance at 30 June	<u>1.3</u>	<u>0.6</u>

Notes to the financial statements (continued)

26. 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 value of long-term bonds is classified as level 1 in the IFRS 13 fair value hierarchy and have a carrying value of £2,513.9m (2023: £2,320.1m) and a fair value of £2,378.9m (2023: £2,272.2m). Bank loans are classified as level 2 and have a carrying value of £629.3m (2023: £633.4m) and fair value of £629.3m (2023: £633.4m). Loans from the parent company are classified as level 2 and have a carrying and fair value for £3.3m (2023: £3.3m). All other loans and leases are classified as level 2 and have a carrying and fair value of £8.8m (2023: £9.3m).

It is the Group'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.

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

	Carrying amount 2024 £m	Fair value 2024 £m	Level 1 2024 £m	Level 2 2024 £m	Carrying amount 2023 £m	Fair value 2023 £m	Level 1 2023 £m	Level 2 2023 £m
Financial liabilities								
<i>Interest-bearing loans and borrowings:</i>								
Fixed rate borrowings	1,590.3	1,448.0	1,444.1	3.9	1,491.3	1,300.7	1,197.4	103.3
Floating rate borrowings	637.5	637.5	-	637.5	542.8	542.8	-	542.8
Indexed-linked borrowings	927.5	934.8	934.8	-	932.0	1,074.8	1,074.8	-
Total financial liabilities	3,155.3	3,020.3	2,378.9	641.4	2,966.1	2,918.3	2,272.2	646.1

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.

Notes to the financial statements (continued)

26. Financial instruments (continued)

(b) Credit risk

Financial risk management

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

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

	2024	2023
	£m	£m
Other financial assets	-	45.0
Cash and cash equivalents	<u>5.6</u>	<u>134.6</u>
	<u>5.6</u>	<u>179.6</u>

The concentration of credit risk for amounts receivable from customers (see Note 17) at the balance sheet date by geographic region was:

	2024	2023
	£m	£m
South West England	<u>228.9</u>	196.6
Netherlands	<u>0.8</u>	0.8
	<u>229.7</u>	<u>197.4</u>

Notes to the financial statements (continued)

26. Financial instruments (continued)

Billed and unbilled receivables are from domestic and business customers. No individual customer or industrial sector has a material balance outstanding at either year-end.

Set out below is the information about the credit risk exposure on the Group's receivables from customers using a provision matrix:

Amounts receivable from customers

	2024	2023
	£m	£m
Billed receivables	168.5	141.0
Unbilled receivables	128.4	109.6
Expected credit losses	<u>(67.2)</u>	<u>(53.2)</u>
	<u>229.7</u>	<u>197.4</u>

Ageing of receivables

	Gross 2024 £m	ECL rate 2024 %	ECL 2024 £m
Less than 1 year	218.8	10.1%	(22.2)
1 to 2 years	22.3	30.9%	(6.9)
2 to 3 years	19.0	41.1%	(7.8)
3 to 4 years	15.9	59.1%	(9.4)
More than 4 years	<u>20.9</u>	<u>100.0%</u>	<u>(20.9)</u>
	<u>296.9</u>	<u>22.4%</u>	<u>(67.2)</u>

	Gross 2023 £m	ECL rate 2023 %	ECL 2023 £m
Less than 1 year	181.5	8.8%	(15.9)
1 to 2 years	20.7	30.0%	(6.2)
2 to 3 years	18.4	40.2%	(7.4)
3 to 4 years	15.4	59.1%	(9.1)
More than 4 years	<u>14.6</u>	<u>100.0%</u>	<u>(14.6)</u>
	<u>250.6</u>	<u>21.2%</u>	<u>(53.2)</u>

The expected credit loss rate resulting from varying billing and payment methods was as follows;

Payment Method	Measured Billing			Unmeasured Billing		
	Direct Debit %	Normal %	Other %	Direct Debit %	Normal %	Other %
Less than 1 year	13.1%	10.9%	23.2%	39.5%	12.2%	19.8%
1 to 2 years	46.2%	29.1%	31.2%	48.5%	31.7%	29.9%
2 to 3 years	57.8%	50.8%	40.1%	54.5%	41.5%	42.0%
3 to 4 years	56.1%	66.1%	54.3%	58.5%	53.5%	63.8%
More than 4 years	99.4%	96.9%	78.9%	99.4%	96.7%	83.2%

Notes to the financial statements (continued)

26. Financial instruments (continued)

The movement in the expected credit loss allowance in respect of amounts receivable from customers during the year was as follows:

	2024	2023
	£m	£m
Balance at 1 July	(53.2)	(51.5)
Written off	9.6	14.0
Adjustment for non-paying customers	0.8	0.8
Non-payers subsequently becoming payers	(1.1)	(0.7)
Charge to profit and loss	(23.3)	(15.8)
	<u>(67.2)</u>	<u>(53.2)</u>
Balance at 30 June	<u>(67.2)</u>	<u>(53.2)</u>

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

(c) Cash flow hedges

The Company does not have any cash flow hedges (2023: none).

(d) Liquidity risk

Financial risk management

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

The Company's principal subsidiary 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 a subsidiary company. This means that the need to obtain additional finance has been spread over future years and is not considered onerous in any one regulatory period.

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

	Carrying amount	Contractual cash flows	Year 1	Years 2 to 5	Over 5 years
	2024	2024	2024	2024	2024
	£m	£m	£m	£m	£m
Non-derivative financial instruments					
Bank overdraft	10.4	10.4	10.4	-	-
Lease liabilities	3.9	4.6	0.8	2.1	1.7
Secured bank loans	615.0	761.9	150.4	428.6	182.9
Other loans	8.8	9.4	9.4	-	-
Parent company loans	3.3	3.3	3.3	-	-
Bonds	2,513.9	4,623.3	82.5	524.1	4,016.7
	<u>3,155.3</u>	<u>5,412.8</u>	<u>256.8</u>	<u>954.8</u>	<u>4,201.3</u>
Total financial instruments	<u>3,155.3</u>	<u>5,412.8</u>	<u>256.8</u>	<u>954.8</u>	<u>4,201.3</u>

Notes to the financial statements (continued)

26. Financial instruments (continued)

	Carrying amount	Contractual cash flows	Year 1	Years 2 to 5	Over 5 years
	2023	2023	2023	2023	2023
	£m	£m	£m	£m	£m
Non-derivative financial instruments					
Bank overdraft	1.1	1.1	1.1	-	-
Lease liabilities	2.9	3.5	0.6	1.2	1.7
Secured bank loans	630.5	761.8	195.5	329.1	237.2
Other loans	9.3	10.6	0.6	9.9	-
Parent company loans	3.3	3.3	3.3	-	-
Bonds	2,320.1	4,681.9	162.7	492.8	4,026.5
Total financial instruments	2,967.2	5,462.1	363.8	833.0	4,265.4

(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 Group's interest-bearing financial instruments was:

	2024	2023
	£m	£m
Fixed rate instruments	1,593.6	1,491.4
Floating rate instruments	634.2	543.8
Index linked instruments	927.5	932.0
	3,155.3	2,967.2

The Group 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 £6.4m.

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.

Notes to the financial statements (continued)

27. Capital Management

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

The Group 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 Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group monitors capital using a gearing ratio for the principal subsidiary Wessex Water Services Ltd (WWSL), which is net debt divided Regulatory Capital Value (RCV). The Group's policy is to keep the gearing ratio of WWSL below 70%. The Group includes within net debt, interest bearing loans and borrowings, less cash and short-term deposits, excluding discontinued operations.

	2024	2023	2024	2023
	£m	£m	£m	£m
	Group	Group	WWSL	WWSL
Cash at bank	(5.6)	(49.6)	-	(41.7)
Short term deposits (less than 3 months)	-	(85.0)	-	(85.0)
Medium term deposits (3-6 months)	-	(45.0)	-	(45.0)
Bank overdraft	10.4	1.1	4.3	-
Bank Loans	627.1	643.1	567.5	583.1
Leases	3.9	2.9	3.3	2.5
Bonds	2,513.9	2,320.1	2,513.9	2,320.1
Total Net Debt	3,149.7	2,787.6	3,089.0	2,734.0
RCV at 30 June			4,331.6	4,125.0
Gearing			71.3%	66.3%

The RCV at March for each regulated water and sewerage company is published by Ofwat here: https://www.ofwat.gov.uk/wp-content/uploads/2024/05/RCV-PR19_2024_Overall-.xlsx

In order to achieve this overall objective, the Group'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 2024 and 2023.

Notes to the financial statements (continued)

28. Commitments

Capital commitments

Group

Capital expenditure contracted but not provided at 30 June 2024 was £218.6m (2023: £150.1m).

The Company has guaranteed Bonds of £2,513.9m (2023: £2,320.1m) issued by its wholly owned subsidiary company Wessex Water Services Finance Plc.

Wessex Water Ltd provided performance guarantees on behalf of subsidiary companies of £1.4m (2023: £1.4m).

Made by	Beneficiary	Amount (£m)	Expiry date
SCT Ned BV	Ministry of Housing	0.3	N/A
GENeco (SW) Ltd	Bristol City Council	0.5	N/A
Wessex Water Enterprises Ltd	Somerset County Council	0.1	N/A
Wessex Water Services Ltd	Dorset Council	0.5	N/A

29. Contingencies

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 Company is defending the claims. The first phase trial took place in November and December 2023 and judgment was handed down on 28 June 2024. The judgment is largely in the defendants' favour and the trial judge has refused leave to appeal (though the Claimants can re-apply to the Court of Appeal), In the absence of an appeal there is still the possibility of a second phase trial (considering levels of compensation), however it remains to be seen which issues fall to be determined at that trial or whether, in light of this judgment, it is required at all.

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, 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. It is not possible to assess any financial penalties or related costs that could be incurred as a result of such investigations.

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 all sewerage undertakers in England and Wales, including the Company. Ofwat has yet to formally respond on the investigation of the Company and the timing of a response is unknown, though In early August 2024 Ofwat published proposed enforcement action in respect of three other companies, including proposed fines. The EA continue to issue written requests for information and have conducted a number of visits of Water Recycling Centres. The Company continues to co-operate with both organisations as they conduct their investigations.

Notes to the financial statements (continued)

30. Significant transactions with related parties

There were no transactions with key management personnel other than the directors emoluments outlined in the Directors' report on page 34.

There have been no transactions with pre-penultimate, penultimate and ultimate holding companies described in note 31. All other transactions with related parties and balances at the year-end are summarised in the following table:

	Group		Company	
	2024	2023	2024	2023
	£m	£m	£m	£m
Sales of goods and services:				
Immediate holding company	0.3	0.5	0.3	0.5
Subsidiaries	-	-	2.0	1.7
Fellow subsidiaries	0.8	1.5	-	-
Other group companies	0.2	0.2	-	0.1
Associated company	1.4	1.3	-	-
Dividend income:				
Subsidiaries	-	-	78.0	80.6
Interest income:				
Immediate holding company	6.1	4.3	6.1	4.3
Subsidiaries	-	-	2.1	1.5
Purchase of goods and services:				
Subsidiaries	-	-	30.4	30.7
Other group companies	0.7	0.8	-	-
Associated company	14.7	12.6	-	-
Year-end balances owing by:				
Immediate holding company	97.7	97.9	97.7	97.9
Subsidiaries	-	-	49.6	51.4
Other group companies	4.0	4.4	3.7	2.9
Associated company	0.8	1.1	-	-
Year-end balances owing to:				
Immediate holding company	18.3	17.8	18.3	17.8
Subsidiaries	-	-	19.1	19.6

Terms and conditions of transactions with related parties

The sales to and purchases from related parties are made on terms equivalent to those that prevail in arm's length transactions.

Notes to the financial statements (continued)

31. Ultimate parent company and parent company of larger group

The company is 100% owned by YTL Utilities (UK) Limited, a company incorporated in the United Kingdom whose registered address is Wessex Water Operations Centre, Claverton Down Road, 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.

32. Subsequent events

There were no subsequent events requiring disclosure in these financial statements.

33. Accounting estimates and judgements

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

Significant estimates

a) Defined benefit pension scheme surplus

In recognising the surplus 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 2024 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 £5.7m.

c) Revenue recognition

The unbilled income accrual from metered water services requires an estimation of the amount of unbilled charges at the period end. This is calculated based on previous customer volume usage adjusted for seasonality and regulatory price changes. A 2% movement in average consumption equates to a £1.1m movement in the unbilled income accrual.

d) Asset lives

Assets recorded in the Group's fixed asset register are depreciated systematically using asset lives assigned to the classification of the asset into a number of standard asset types. These asset lives are subject to review based on historical performance, new technologies or new areas of capital investment. A reduction in the average asset life for property, plant and equipment of 1 year would increase the depreciation charge by £10m.

Notes to the financial statements (continued)

33. Accounting estimates and judgements (continued)

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. These judgements are based on engineering experience of differentiating between treatment as a 'repair' or a 'replacement' of an infrastructure asset. The Group follows both accounting standards and guidelines issued by Ofwat in making these judgements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WESSEX WATER LIMITED

Opinion

We have audited the financial statements of Wessex Water Limited ('the parent company') and its subsidiaries (the 'group') for the year ended 30 June 2024 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Statements of Financial Position, the Consolidated Statement of Changes in Equity, the Company Statement of Changes in Equity, the Statements of Cash Flows and the related notes 1 to 33, including material accounting policy information. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted International Accounting Standards and as regards the parent company financial statements, as applied in accordance with section 408 of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the group's and of the parent company's affairs as at 30 June 2024 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with UK adopted International Accounting Standards;
- the parent company financial statements have been properly prepared in accordance with UK adopted International Accounting Standards as applied in accordance with section 408 of the Companies Act 2006; and

the financial statements 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 group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the group and parent 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 key factors were taken into account.
- Obtained management's forecast cash flows and covenant calculations covering the period from 01 July 2024 to 31 December 2025 and agreed these to the Board 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.
- Challenged the 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.
- Evaluated the timing of the additional funding during the going concern period against management's treasury plan.
- Performed forecast covenant testing and considered any indicator of breach in the assessment period.

- Considered the most challenging but plausible downside scenario modelled by management in respect of the assumptions used in the going concern assessment and included sensitivity analysis on management's forecast cashflows to understand how more severe the conditions would have to be to breach liquidity and/or covenants.
- We considered regulatory impacts such as the ongoing Ofwat price and tariff review, i.e., PR24, following Ofwat's Draft Determination announcement on 11 July 2024 and the re-submission made in August 2024. This covers the period from April 2025 to March 2030 on the going concern assessment period.
- Verified that management's going concern assessment took into account the updated PR24 submission, as well as a downside scenario reflecting the possibility of Ofwat's final determination being less favourable than the revised plan.
- 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 November 2023, the Group secured a £200 million bond.
- In June 2024, the Group secured a facility for £300m maturing in 12 months with an option at its discretion, to extend for a further 6 months thereafter.
- The Group increased its revolving bank facility in June 2024, from £225 million to £300million. The undrawn amount of the revolving credit facility as at 31 August 2024 is £105m.
- Management's going concern model incorporates the updated PR24 submission, as well as a downside scenario reflecting the possibility of Ofwat's final determination being less favourable than the revised plan.
- The Group has £66m of debt maturity payments to make from the date of approval of the financial statements to the end of the going concern assessment period.
- The Group will need to raise further funding before the end of the going concern assessment period to be able to repay the new £300m facility and finance the capital programme over the period.
- Considering the assessment made by the Directors, as disclosed in the basis of preparation, the Directors are satisfied that the likelihood of not securing the forecasted debt within the going concern period is remote.

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 group and parent company's ability to continue as a going concern for a period to 31 December 2025.

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 group'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 group and the parent 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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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 38, 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 group's and the parent 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 group or the parent 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

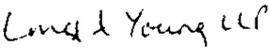
Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not 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
 - 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 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 Group and 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 Group and 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.

DocuSigned by:

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Simon O'Neill (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Bristol
20 September 2024