

# Annual Report and Accounts 2019-20



[wessexwater.co.uk](http://wessexwater.co.uk)

**Wessex Water**  
YTL GROUP



**FOR YOU. FOR LIFE.**

## Contents

<b>Risk and compliance statement</b> .....	<b>2</b>
<b>Governance report</b> .....	<b>6</b>
<b>Strategic Report</b> .....	<b>51</b>
<b>Directors' Report</b> .....	<b>80</b>
<b>Statement of Directors' Responsibilities</b> .....	<b>84</b>
<b>Independent Auditor's Report to the members of Wessex Water Services Limited</b> .....	<b>85</b>
<b>Non-statutory accounts</b> .....	<b>96</b>
<b>Notes to the regulatory accounts</b> .....	<b>101</b>

## Risk and compliance statement

### Introduction

The Water Services Regulation Authority (Ofwat) requires the Board to provide an annual Risk and Compliance Statement (the Compliance Statement). The Compliance Statement confirms that the Company has complied with all its relevant statutory, operating licence and regulatory obligations (where not confirmed by other processes) and that it is taking appropriate steps to manage and/or mitigate the risks its faces. The Company is required to report by exception any instances where a regulatory output has not been met.

Our Annual Review including our annual performance report details progress on performance commitments, outputs and financial information. This information is for our customers, investors and regulators. Our Annual Review is supported by fact; however, occasional reliance is placed on estimates. These estimates have been made in good faith, based on reasonable assumptions.

### Compliance statement

The Board confirms that it has appropriate and effective assurance process in place and:

- the Board has a full understanding of and is meeting, in all material respects, its statutory, licence and regulatory obligations
- the Company has met, in all material respects, relevant regulator and customer expectations as demonstrated by those outputs and service standards set out in its business plan and funded through the Final Determination
- the Board is satisfied that the Company has sufficient processes and internal systems of control to fully meet its obligations, or has disclosed any modification or failure to meet such obligations
- the Company has appropriate systems and processes in place to allow the Board to identify, manage and review risks. Principal risks and the appropriate management of them are set out in the Strategic Report and in the relevant section of the annual review summary
- the Company has sufficient financial and management resources for the 12 months from the date of this report
- the Company has sufficient rights and assets available to enable a special administrator to run the business
- any trade with associate companies was at arm's length and no cross subsidy arose
- Directors' pay is linked to standards of performance as disclosed on page 34
- any failure to deliver outputs agreed at the Final Determination has been disclosed
- the Company is compliant with its licence condition on credit ratings
- the Board considered and approved the proposed charges for 2020 and the associated assurance statement confirming that the Company had met Ofwat's charging expectations and all regulatory and statutory obligations
- greenhouse gas reporting complies with Defra and Ofwat reporting requirements.

## Output review

The Company has 958 individual regulatory outputs and 32 performance commitments covering the AMP6 period. In 2019-20, 269 regulatory outputs and 25 performance commitments were delivered. All statutory outputs as set out in our business plan and funded through the Final Determination have been met. Our regulators agree our regulatory outputs and performance commitments.

The Board keeps all outputs and commitments under constant review. Some of the performance commitments in our Final Determination are stretch targets with the potential that the target could not be met in year (or subsequent years). Regular progress reports are prepared for Directors and senior management on progress and mitigation strategies are in place to manage any risk of slow progress or failing to deliver. The Company engages with its regulators (Environment Agency and Drinking Water Inspectorate) where it is foreseen that an output cannot be met. This includes agreeing a future course of action including potential advancement of other outputs. Performance commitments are externally audited each year by the Company's technical auditor.

The Wessex Water Partnership (WWP) represents our key stakeholder groups. It has met four times this year and is chaired by an independent chairman. WWP reviews our progress towards our performance commitments each year and formally reports this to our Board. WWP have produced a final report for the Board recommending their support for the performance commitment information that is provided in our Annual Review and Annual Performance Report. This is published on our website.

## Customer experience

The Company regularly monitors its customers' experience by:

- our customer care team contact customers after work has been completed at a property to check that the customer is satisfied, that the problem has been resolved and the work area left clean and tidy. This feedback is displayed in visual dashboards and shared across the business to drive continuous improvement. They also keep the customer informed on the progress of our work
- customers are invited to leave Trustpilot reviews and all ratings and comments are published on our website
- feedback cards left upon departure with all customers visited
- each month an independent telephone satisfaction survey replicating the C-MeX customer satisfaction survey is undertaken. This is a random selection of contacts received from customers about a billing issue or operational problem
- throughout the year, a continuous independent image tracker uses telephone interviewing to gather customers' views on our service now and in the future including satisfaction, value for money, effort scores and other general feedback
- our online customer panel "Have your Say" is used to gather customers' views on different aspects of our service. In 2019-20 surveys have been carried out to understand customers' views of Wessex Water getting more involved in local communities and their attitudes towards metering.
- WWP represents the views of our customers and key stakeholder groups and takes an ongoing interest in customer engagement and customer experience. The group provided independent challenge throughout the development of our business plan for 2020-2025

## Customer information

The Company satisfies Licence Condition G on providing customer information by regular review of its core customer information. This takes the form of detailed information on our website, complemented by a suite of leaflets covering all key aspects of our work. It includes information on the services we provide, our customer guarantees, how to make enquiries and explains our complaints procedure.

Our communication process is customer-led and continues to meet Ofwat's requirements for the provision of customer information as detailed in Information Notice 13/04. All information provided to customers and stakeholders is validated to ensure it is accurate, transparent, clear, current and easily accessible. The Company's Assurance Plan (available on our website) supports this, providing details of how we propose to make further improvements.

We consult with the Consumer Council for Water (CCW) to ensure that the information provided meets customer requirements. CCW review the nature of the information provided and the way we provide it on an annual basis when our customer charges are revised as well as on an ad-hoc basis when updating any customer information.

## Risk review

The management of risk is of fundamental importance to the Company, to guard against both financial loss and customer dissatisfaction. The Company's risk identification and management framework is subject to annual review by the Board. The Board reviews its principal risks twice a year. The Company's processes are flexible to respond to changes in risk and ensure that the necessary controls and mitigation measures are put in place and any significant changes in risk, risk impact and mitigation effectiveness are brought to the Board's attention as they arise. The Audit and Risk Committee includes audits that review the status and mitigations of the principal risks, including as part of the annual Internal Audit programme.

## Risk process

Risk is identified and managed through a tiered system of groups drawn from operational staff, senior management, Executive Directors and the Board. The Board reviews and is ultimately responsible for risk. Risks have been identified evaluated and managed in line with our processes throughout the year and up to the approval of the Annual Report and Accounts. Full details of our risk management are available on pages 60 to 75 of this document.

Operational staff and senior management review, assess and record asset and operational risks monthly. Risks are scored by assessing probability and impact on a "five-by-five" scoring mechanism. Risk mitigation plans are recorded and implemented where appropriate and pre-and post-mitigation scores are monitored.

Any identified risk acts as a foundation for the separate corporate risk register. The Risk Management Group maintains and reviews all business risks; the corporate risk register includes emerging and strategic risks. The Risk Management Group comprises senior managers from across the business. The risks are assessed by subject matter experts and subject to independent challenge from our risk experts. We assess risks based on their financial, social, and environmental impacts over the next five years. Risks above our tolerance levels will have additional measures to manage and mitigate the risk exposure.

The Board reviews risk as a matter of course and undertakes an in-depth review every six months. This sets out the risk review process and identifies current and emergent principal risks to the business and the relevant mitigation measures.

## Assurance and Board Endorsement of the Compliance Statement

The Company has a clear focus on its performance reporting and verification procedures. The Compliance Statement is assured by:

- a clear governance process over output and performance commitments
- data collation and reporting process that are externally audited and verified
- an annual process of self-certification confirming compliance to our internal controls
- a programme of internal audits
- governance and scrutiny over the risk management framework
- validation of information being provided to customers and feedback and improvement processes
- Audit and Risk Committee and Board approval of the methodology and content of the Compliance Statement.

The Board confirms it is satisfied it has the appropriate assurance processes in place and based on these processes endorses this compliance statement and states that, to the best of its knowledge and belief, the information produced is accurate, reliable and complete in all material respects.

Francis Yeoh  
Chairman

Colin Skellett  
Chief Executive

Gillian Camm  
Senior Independent  
Director

Huw Davies  
Chair of Audit and  
Risk Committee

30 June 2020

## Governance report

### Chairman's Introduction to Governance

Wessex Water is committed to high standards of corporate governance. This report outlines how we have ensured that best practice and effective corporate governance procedures are in place to help support the long-term success of the Company.

The Company takes its privileged position as a monopoly provider of essential public services very seriously and ensures that it builds and maintains successful relationships with a wide range of stakeholders. The purpose, strategy, values and culture of the Company are developed and promoted through continuous engagement with these stakeholders, including customers, community and interest groups, employees and regulators. Further details on how we have engaged with all of our stakeholders over the year can be found on pages 53 to 57. This year, in particular, the Board has recognised the importance of understanding the views of those who work for the Company and has established a People's Council as a means of making sure that views from across the Company are considered in Board discussions and decision making.

Maintaining the highest standards of corporate governance is integral to the long-term success of the Company. The Company has fully embraced Ofwat's Board leadership, transparency and governance principles and is satisfied that it meets all of the objectives which are now enshrined in the Company's licence. In this report, we demonstrate and explain how this is the case. This view is endorsed by the independent Board evaluation exercise which also concluded that the quality of the Company's governance arrangements can be considered best practice with respect to Ofwat's principles.

Whilst the Company, as a private company with a single shareholder, is not required to comply with the 2018 UK Corporate Governance Code we explain how the Company voluntarily applies the Principles and spirit of the Code to ensure the highest standards of governance. In the few areas where the Company does not follow the precise requirements of the Code we explain why. We also have regard to the Wates Corporate Governance Principles for Large Private Companies, and believe that our governance arrangements ensure that the Company continues to operate effectively and efficiently to the benefit of all of our stakeholders, maintaining our position as a leading water and sewerage company for customer service and satisfaction.

The following pages set out details of our Board of Directors (pages 7 to 11), further information on our governance arrangements and compliance with Ofwat's Board leadership, transparency and governance principles (pages 12 to 24) and the reports of the Audit and Risk, Nomination, Corporate Social Responsibility and Remuneration Committees (pages 25 to 50). This report also contains, on page 21, details of the Board evaluation which this year was conducted independently. The evaluation delivered very positive feedback and confirmed that the Board works well and in the interests of all of its stakeholders.

Francis Yeoh  
Chairman

30 June 2020

## The Board of Directors

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

### **Shareholder Non-Executive Chairman**



*Tan Sri Francis Yeoh KBE*

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

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

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

### **Executive Directors**



*Colin Skellett – Chief Executive*

Colin has had non-executive roles in rail, travel and international infrastructure businesses, served on the board of the South West Regional Development Agency and is involved with a number of charities. Colin is a former President of the Bristol Chamber of Commerce, Master of the Society of Merchant Venturers and Chair of the Initiative for Bath & North East Somerset. He was chair of the West of England Local Enterprise Partnership from 2011 until early 2016.

He was appointed as Chief Executive of Wessex Water in 1988 and appointed to the board of Wessex Water Services Limited in 1989. He is currently Group Chief Executive of Wessex Water, chairman of The Gainsborough Bath Spa Hotel and Thermae Bath Spa, non-executive chairman of European Connoisseurs Travel and chair of YTL Land and Property UK. Colin is also a Board member of the Venturers Trust and Chair of Visit Bath.

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



*Andy Pymer – Managing Director*

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

Andy was appointed to the board of Wessex Water Services Limited in August 2012. Co-chair of Wessex Water's joint venture billing company, Pelican Business Services.

He is also a council member for the industry trade association, Water UK, and chair of Wessex WaterAid, which has raised more than £1.5m for the charity over the past 10 years.





**Mark Watts – Finance Director**

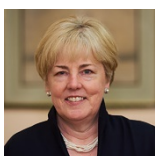
Mark worked for a decade at Barclays International Bank before spending 19 years in the treasury department of Wessex Water followed by nine years as finance director.

He is Group Finance Director of YTL UK with overall responsibility for accounting, treasury, tax, pensions, procurement, fleet and unregulated businesses within the group.

Mark was appointed to the board of Wessex Water Services Limited in March 2010 and is a trustee of Wessex Water Pension Scheme. In addition, he holds a number of directorships within the YTL and Wessex Water companies in the UK but no external directorships outside the group.

A member of the Association of Corporate Treasurers, Mark has extensive experience in international banking, treasury, fund raising and corporate finance.

**Independent Non-Executive Directors**

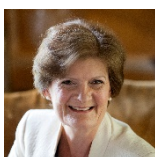


**Gillian Camm – Senior Independent Non-Executive Director**

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

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

She is a Pro Chancellor for the University of the West of England, a vice-president of Quartet Community Foundation and a member of the Merchant Venturers (where she currently holds the position of Senior Warden). She is a deputy lieutenant of Gloucestershire and has been awarded an Honorary Doctorates by both the University of Bristol and UWE.



**Dame Fiona Reynolds DBE – Independent Non-Executive Director**

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

She was appointed to the board of Wessex Water Services Limited in August 2012. In the same year she became Master of Emmanuel College, Cambridge after a long career in the voluntary conservation movement, latterly as Director-General of the National Trust from 2000-2012.

At Wessex Water, she is chair of the Futures Panel and a member of the audit and risk and corporate social responsibility committees.



***Huw Davies – Independent Non-Executive Director***

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

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

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



***Richard Keys – Independent Non-Executive Director***

A chartered accountant and a former senior partner at PricewaterhouseCoopers, where he held a number of senior management positions including that of Global Chief Accountant. Since 2010, he has enjoyed a portfolio of board roles ranging across banking, air transport, utilities, central government and education.

Richard was appointed to the Wessex Water Services Limited board in May 2016 and is a member of the audit and risk, nomination, remuneration and corporate responsibility committees.

He is also a non-executive director of Merrill Lynch International and a member of the Governance, Risk and Audit committee of NATS Holdings Ltd.



***Kate Mingay – Independent Non-Executive Director***

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

Appointed to the board of Wessex Water Services Limited in June 2019, Kate is a member of the audit and risk, remuneration, nomination and corporate social responsibility committees.

Kate is the Senior Independent Director at Mutual Energy and was formerly a NED at Ansaldo STS S.p.A. (now Hitachi Rail STS). She is actively involved in economic and corporate finance consulting including being a Senior Adviser at Cambridge Economics Policy Associates.



*Jim McKenna – Independent Non-Executive Director*

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

Appointed to the board of Wessex Water Services Limited in June 2019, Jim is a member of the nomination committee, remuneration committee and audit committee. Jim is also chairman of the SS Great Britain Trust and vice-president of Catch22, a social business he helped create in 2008.

Previously chairman of Parsons Brinkerhoff (Europe) and chairman of Azzurri Communications, Jim also chaired the Senate at the University of East London and was a member of the Government's Senior Salaries Review Board. Jim is currently chair for SS Great Britain and Director of 27/28 Royal Crescent.



*Tim Gardam – Independent Non-Executive Director*

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

Appointed to the board of Wessex Water Services Limited in January 2020, Tim is a member of the audit and risk and nomination committees. He is also a member of the Futures Panel.

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



*David Barclay – Non-Executive Director*

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

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



*Hong Yeoh – Shareholder Non-Executive Director*

Hong is the Managing Director of YTL Power International Berhad, parent company of Wessex Water. He has been an Executive Director of YTL Corporation Berhad, Malaysia since 1985 and spearheaded the group's investments into Utilities and Infrastructure. He is also the Managing Director of YTL Construction.

He has been a director of Wessex Water Services Limited since May 2002.

Hong is a member of the nomination committee and also chairs the remuneration committee. He is a trustee of the YTL Foundation.



*Mark Yeoh – Shareholder Non-Executive Director*

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

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



*Hann Yeoh – Shareholder Non-Executive Director*

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

Hann is executive director of YTL Power Generation Sdn Bhd and leads the projects and business development team of YTL Power International Berhad.

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

## Purpose, values and culture

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

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

Reflecting the privileged position that the Company holds as a monopoly provider of essential public services, the purpose, aims, strategy, values and culture of the Company are developed and promoted through continuous engagement with wider stakeholders, including customers, community and interest groups, employees and regulators. The Company has mechanisms through which stakeholder interests can be represented and changing societal pressures can be understood by the Board, including the Wessex Water Partnership, the Futures Panel and the Catchment Panel, the role and responsibilities of which are described further in this report. Additional information about the range of stakeholder engagement that has informed and influenced the aspirations of the Board is contained in the Strategic Report on pages 51 to 79.

Through this approach the Board ensures that the Company's vision, which encompasses its purpose, values and culture, aims and strategy to deliver, are aligned to ensure the Company performs and delivers for all that it serves.

The Board periodically resets and publishes its vision, aims and strategy in a strategic direction statement and also as part of its five-year business plan for 2020 to 2025. The Board's processes ensure that the proposals contained within the business plan are consistent with its vision, aims and strategy for the long term. The activities of the Board that enabled it to be satisfied that the business plan is consistent with its long-term vision for the Company are set-out within the published plan which is available on the Company's website.

The most recent business plan affirmed the Board's vision for the Company to redefine public service by adopting an approach that is not limited by its statutory obligations to provide essential services.

Accordingly, given the long-term challenges faced by society, this year the Board debated and agreed an updated statement of the Company's social purpose. This statement specifies the Company's wider role, in particular the opportunity to help tackle the climate emergency, to support the communities we serve, to deliver wider environmental benefit and to contribute to the growth of the UK economy. This statement has been published on the Company's website and has been underpinned by visible messaging, training, policies and regular reviews to ensure that everyone in the Company feels our strength of purpose.

The Board monitors and assesses the values and culture of the business to satisfy itself that behaviours are aligned with the Company's purpose and values on an ongoing basis. It does so by monitoring the performance of the business against its key targets. It also seeks out the views and experiences of customers and key stakeholders. In particular, it seeks out the views of employees through regular surveys and by giving further opportunities for instant feedback. The Board also takes account of independent assessments of the Company's commitment to customer service excellence by achieving both the government's Customer Service Excellence accreditation and the Institute of Customer Service "Service Mark" accreditation. Where there is evidence that behaviours are misaligned with the Company's purpose and values, the Board acts, through the executive, to correct this. Further details are included in the Strategic Report on pages 51 to 79.

The Company has adopted and publicised to all its employees a whistleblowing policy for reporting instances of malpractice or inappropriate activity across all areas of business, including water

regulation, health and safety, bribery, corruption and fraud. In the reporting year, the Company reviewed the policy and issued a new “Raising a Concern” policy, including step-by-step guidance on how to raise concerns. All “raising a concern” whistleblowing reports are treated on a strictly confidential basis whether from internal or external sources. Reports on whistleblowing are made to the Audit and Risk Committee and details are set out in the Audit and Risk Committee Report on pages 25 to 28.

The Company has also adopted a formal policy on business ethics. Directors and employees are expected to commit to the highest standards of professional and ethical conduct in order to protect the Company’s reputation and standing. Bribery and corruption are not tolerated. All Directors and employees are made aware of the Company’s policy and that breaching it will result in disciplinary action. No instances of a breach of the policy were recorded in the year.

### **Standalone regulated company.**

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

The Board is fully focused on and has full responsibility for the activities of the Company and is responsible and accountable for setting, implementing and supporting the Company’s strategy, aims, values and culture. The Board takes full responsibility for all aspects of the Company’s business for the long-term. The Board composition and details of career backgrounds, relevant skills, Committee membership and tenure is set out in the individual biographies on pages 7 to 11.

The Board sets the strategy, oversees its delivery and maintains the highest standards of governance. The Board also ensures that, in making its decisions, these create sustainable, long-term value for the Company’s stakeholders. The Board has ultimate responsibility for risk management and determines the appropriate risk appetite. In order to manage risk, the Board and its Committees assess the integrity of financial information and whether financial controls and systems of risk management are robust and defensible. The Board requires management to identify, assess and report the impact of risks to enable the Board to effectively monitor and approve any decisions affecting the Company’s risk profile. The Board receives detailed reports from Executive Directors on all aspects of the Company’s business.

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

The principal duties of the Board and the matters reserved for its decision are fully documented and published on the Company’s website. The Board is responsible for strategy, charges, material changes to the Company’s management and control structure, Board appointments, approval of material contracts, risk management, health and safety policies, disposal of material assets, approval of the annual operating budgets, employee pension arrangements, significant changes in accounting policies and defence and settlement of material litigation.

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

In line with the Code, the Board delegates certain roles and responsibilities to its Committees. All Board Committees report to the Board and where required, final decisions are taken by the Board.

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

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

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

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

### **Board leadership and transparency**

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

Details of the Company's group structure can be found on page 23. Details of the Board Committees, including membership, number of meetings, and attendance are set out in the Committee reports on pages 25 to 31.

The Company's dividend policy and detail on dividends paid during the year are set out in the Notes to the Non-statutory accounts on page 122. Details of the Company's executive pay policy can be found on page 36.

The Board is also responsible for the management of risk. The principal risks to the Company and how these have been considered and addressed can be found in the Strategic Report on pages 60 to 75.

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



## Board structure and effectiveness

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

The Board is satisfied that this objective is met and the findings of the independent Board evaluation exercise conducted by Professor Giovanna Michelin support this conclusion. The findings of the review can be found on page 21.

The following were Directors during the year under review:

Independent Non-Executive Directors	Executive Directors	Non-Executive Director	Shareholder Non-Executive Directors
Gillian Camm (Senior Independent Director)	Colin Skellett	David Barclay	Francis Yeoh (Chair)
Huw Davies	Mark Watts <sup>4</sup>		Hong Yeoh
Fiona Reynolds	Andy Pymer		Hann Yeoh
Richard Keys <sup>1</sup>			Mark Yeoh
Kate Mingay <sup>2</sup>			
Jim McKenna <sup>2</sup>			
Tim Gardam <sup>3</sup>			

<sup>1</sup> To December 2019

<sup>2</sup> Appointed June 2019

<sup>3</sup> Appointed January 2020

<sup>4</sup> To 31 March 2020

The Company has carefully reviewed its Board composition and following the appointment of two new Independent Non-Executive Directors in June 2019 and a further appointment in January 2020, there are currently six Independent Non-Executive Directors on the Board. This makes the Independent Non-Executive Directors the single largest group on the Board and ensures that wider group or shareholder interests are not able to override independent judgment and/or dominate decision-making.

In addition to the Independent Non-Executive Directors, during the reporting year there were three Executive Directors and the experienced former Senior Independent Non-Executive Director who is appointed as a Non-Executive Director. As part of planned organisational changes, Mark Watts' appointment as a director of the Company ended on 31 March 2020 and his responsibilities as finance director of the Company will be performed by Andy Pymer as Executive Director Finance and Regulation in the future. Subsequent to the end of the year, the company appointed two new Executive directors on 1 June 2020, John Thompson was appointed as Executive Director Engineering and Sustainable Delivery and Mohammed Saddiq was appointed as Executive Director Operations.

Four further Non-Executive Directors are appointed by the Company's sole shareholder, including the Chair and Kathleen Chew as an alternate director for Hann Yeoh. Due to the Company having a single shareholder, the Code Provisions in relation to Directors being subject to annual election by shareholders are of limited relevance and not applied.



The collective experience of the Directors and the diverse skills and experience they possess ensures that the Board makes decisions in a balanced way. The Board considers that its current composition ensures an appropriate balance of skills, experience, independence and knowledge so that no individual or small group of individuals can dominate the Board's decision taking. Details of the Board's skills and experience can be found in the Director's biographies on pages 7 to 11 and are summarised below:

		Utility experience	Financial	Regulatory	Customer	Public Affairs / Policy	Environment	Technology	Infrastructure / Capital Delivery	Commercial	Transformational Change
Chairman	Francis Yeoh	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Group Chief Executive	Colin Skellett	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Independent Non-Executive Directors	Gillian Camm			✓	✓	✓				✓	✓
	Huw Davies	✓	✓	✓	✓		✓	✓	✓	✓	
	Richard Keys		✓	✓					✓	✓	
	Fiona Reynolds	✓	✓		✓	✓	✓	✓	✓	✓	✓
	Kate Mingay		✓	✓		✓			✓	✓	
	Jim McKenna	✓	✓	✓	✓	✓		✓	✓	✓	✓
	Tim Gardam			✓	✓	✓				✓	✓
Executive Directors	Mark Watts	✓	✓	✓		✓			✓	✓	
	Andy Pymmer	✓	✓	✓	✓	✓	✓		✓		
Non-Executive Director	David Barclay		✓			✓				✓	✓
Shareholder Non-Executive Directors	Hong Yeoh	✓	✓	✓	✓		✓	✓	✓	✓	
	Mark Yeoh	✓	✓	✓	✓		✓	✓	✓	✓	
	Hann Yeoh	✓	✓	✓	✓		✓	✓	✓	✓	

The Independent Non-Executive Directors scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance. The Independent Non-Executive Directors have direct access to senior management and contact with the wider business is encouraged to ensure a deeper understanding of the Company's operations. Periodically, the Board visits different business locations to meet with local management and employees. The Executive Directors also hold their monthly management team meetings at various sites and receive presentations and updates from the wider business during these sessions.

The search for Board candidates is led by the Nomination Committee, and appointments and re-appointments are made by the Board on merit, against objective criteria, with due regard to the benefits of diversity on the Board (including skills, experience and gender). All directors receive induction training on joining the Board and regularly update and refresh their skills and knowledge.

## Chair

Throughout the financial year under review Francis Yeoh was the Company's Chair. The Chair was appointed by the shareholders and has, by exception to the Code, been in post beyond nine years.

However, this is considered to be appropriate given the Company is a private company with a single shareholder.

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

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

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

### **Senior Independent Director**

Gillian Camm is the Board's Senior Independent Director. Gillian is a member of all Board Committees and is responsible for leading the annual review of Board performance. As Senior Independent Director, Gillian would chair Board meetings if the Chair were unavailable. The Senior Independent Director's role is to act as a sounding board for the Chair and to serve as an intermediary for the other Directors when necessary, as well as an additional point of contact for the shareholder and other stakeholders. Gillian also attends the Wessex Water Partnership which acts as the Company's customer challenge group. By way of exception to the Code, the performance of the Chair is incorporated within the Board review, rather than led by the Senior Independent Director.

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

### **Independent Non-Executive Directors**

The Company's Independent Non-Executive Directors are appointed from a range of different backgrounds to bring to the Board an appropriate balance of skills, external experience and knowledge. Details of their skills and experience can be found in their biographies on pages 7 to 11 and in the Board skills matrix on page 16.

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

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

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

On the recommendation of the Nomination Committee, the Board appointed three new Independent Non-Executive Directors in the reporting year. Kate Mingay, Jim McKenna and Tim Gardam were all identified as having skills, experience and knowledge relevant to ensuring that the Board can take decisions that promote the long-term success of the Company. When appointing the new Non-Executive Directors, the Board discussed whether there were any potential conflicts and concluded that all candidates were independent of the shareholder and management and had no relationship with the shareholder that could materially interfere with the exercise of their independent judgment.

<b>Independent Non-Executive Director</b>	<b>Appointed</b>	<b>Current term expires</b>
Gillian Camm	1 November 2011	31 October 2020
Huw Davies	1 September 2014	31 August 2020
Fiona Reynolds	1 August 2012	30 September 2020
Kate Mingay	3 June 2019	2 June 2022
Jim McKenna	3 June 2019	2 June 2022
Tim Gardam	27 January 2020	26 January 2023
Richard Keys	1 May 2016	31 December 2019

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

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

The training and development needs of the Directors are reviewed annually by the Senior Independent Director (and not the Chair as required by the Code) and where relevant, all Directors are offered the opportunity to complete online training alongside the business.

### **Company Secretary**

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

Ruth Jefferson was appointed as Company Secretary in 2018. As Company Secretary her role is

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

### Board meetings

The Board meets a minimum of six times a year at approximately bi-monthly intervals, which is considered sufficiently regular to enable the Board to discharge its duties effectively. It may meet on such further occasions as may be required. The Board held seven meetings during the year ended 31 March 2020. The Board received regular reports on business and financial performance, regulatory issues, health and safety performance, employee issues and the management of key business risks. As a private company with a single shareholder, the Company does not consider it necessary to hold Annual General Meetings. Attendance by individual Directors at scheduled meetings of the Board and Committees during the financial year under review was as follows:

Director	Board	Audit and Risk Committee	Nomination Committee	Remuneration Committee	Corporate Social Responsibility Committee
Francis Yeoh	6/7		2/2		
Colin Skellett	7/7				
David Barclay	7/7			2/2	
Gillian Camm	7/7	4/4	2/2	2/2	2/2
Mark Watts	7/7				
Andy Pymer	7/7				
Huw Davies	7/7	4/4	2/2	2/2	
Fiona Reynolds	7/7	4/4			2/2
Richard Keys*	5/5	2/2	1/1	1/1	1/1
Kate Mingay**	6/6	3/3	1/1	2/2	1/1
Jim McKenna**	6/6	3/3	1/1	2/2	
Tim Gardam***	2/2	1/1	0/0		
Hong Yeoh	6/7		2/2	2/2	
Mark Yeoh	5/7			2/2	
Hann Yeoh	5/7				
Kathleen Chew (alternate)	1/1				

\* In post to 31 December 2019; \*\* Appointed in June 2019; \*\*\* Appointed in January 2020

## Board Committees and Advisory Panels

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

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

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

Reports from the Chair of each of the Committees, including details of membership and attendance, are set out on pages 25 to 50.

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

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

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

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

## Board, Committee and Director Performance

The Board reviews its own performance and the performance of its Committees, the Chair, and the Independent Non-Executive Directors, annually in accordance with the Code. The performance of the Executive Directors is appraised by the Chief Executive. Generally, the Board will engage the services of an external consultant at least one year in three. Between external evaluations, reviews are facilitated by the Company Secretary. Evaluation of the Board considers the Board's balance of skills, experience, diversity, independence and knowledge of the Company and how the Board works together as a unit, and other factors related to its effectiveness. Any areas of improvement identified as part of the annual Board review are discussed and acted on.

For the financial year under review, the Board evaluation was facilitated by Professor Giovanna Michelin (a specialist in corporate governance and social and environmental accounting and reporting). Professor Michelin had no existing connection with the Company or any of its existing Directors. Professor Michelin assessed the Board's effectiveness in collectively working for the long-term success of the Company and fulfilling its key three roles of setting the strategic direction of the Company, monitoring management performance and providing support and advice. The

Board evaluation was performed using a questionnaire-based survey, sent to the entire Board, as well as in-depth interviews.

Professor Michelin's report concluded that the Board is highly effective, working in a solid way, possibly thanks to the long-term relationships it is founded on. There is a high level of trust, with a good level of independent challenge. All Directors, including Shareholder Directors, are fully aware of, and committed to, the responsibilities that the Company has as a regulated company delivering an essential public service. Overall, the evaluation revealed an effective, well-functioning Board. Professor Michelin also noted that the quality of governance arrangements can be considered best practice with regards to Ofwat's Board leadership, transparency and governance principles.

In more detail:

1. All participating Directors expressed satisfaction with the mix of skills and experience on the Board, with the secretarial support and quality of Board minutes. Recent Board appointments had been made with careful mapping of the skills and expertise required and the overall assessment of the induction process for new Directors was very positive. The Directors had a high level of trust among one another and the Board was highly effective and fully responsible and accountable for its actions;
2. The Board was generally satisfied with the composition and work of the Committees with new arrangements for the Audit and Risk Committee being implemented to ensure sufficient time for regulatory-driven activities;
3. The role of the Chair was seen as aspirational setting the high standards of integrity and business conduct expected of the Company. The Chair, with the support of the Chief Executive, created an atmosphere where constructive and open debate were encouraged;
4. The risk management process led by the Board and its Committees is undergoing improvement, including the introduction of new reporting tools, but overall the response to the recent pandemic had highlighted that the systems and processes worked well; and
5. Board members fully understood the Company's strategic positioning and the key issues in the regulatory / institutional environments and the positive culture of the Board aligned with the values of the organisation.

No significant areas for improvement were identified, but Professor Michelin confirmed the Board's need to prepare for potential senior change, formalising a succession plan for senior executives and the Chief Executive to ensure successful Board dynamics were maintained. The Board should also continue to develop its strategic direction considering the role of the Company in the wider society and environment, and to ensure organisational resilience, complete the work to strengthen the formal risk management systems and procedures.

Overall, the evaluation did not raise any significant concerns and the findings were of a sound, well-functioning Board, with an appropriate level of accountability and strategic guidance, working effectively in delivering long-term success.

### **Directors' remuneration**

Details of Directors' remuneration are set out in the Remuneration Committee Report on page 43.

### **Directors' Interests and Conflicts**

In the reporting year, the Board formalised its approach to conflicts of interest by including its conflicts within the business ethics policy. This policy now covers employee and Board conflicts and enables Directors and employees to identify, report and manage such conflicts. Directors are aware of the requirement to disclose interests in contracts with the Company and any conflicts of

interest are recorded by the Company Secretary. No new interests or conflicts were disclosed during the year.

### **Raising a concern**

In the reporting year, the Company reviewed its whistleblowing policy and issued a new “Raising a Concern” policy, including step-by-step guidance on how to raise concerns. The policy sets out how to report any concerns about malpractice or inappropriate activity across all areas of business, including water regulation, health and safety, bribery, corruption and fraud. All “raising a concern” reports are treated on a strictly confidential basis whether from internal or external sources. Reports are made to the Audit and Risk Committee and details are set out in the Audit and Risk Committee Report.

### **Anti-corruption**

The Company has adopted a formal policy on business ethics. Directors and employees are expected to commit to the highest standards of professional and ethical conduct in order to protect the Company’s reputation and standing. Bribery and corruption are not tolerated. All Directors and employees are made aware of the Company’s policy and understand that breaching it will result in disciplinary action. No instances of a breach of the policy were recorded in the year.

### **Procurement**

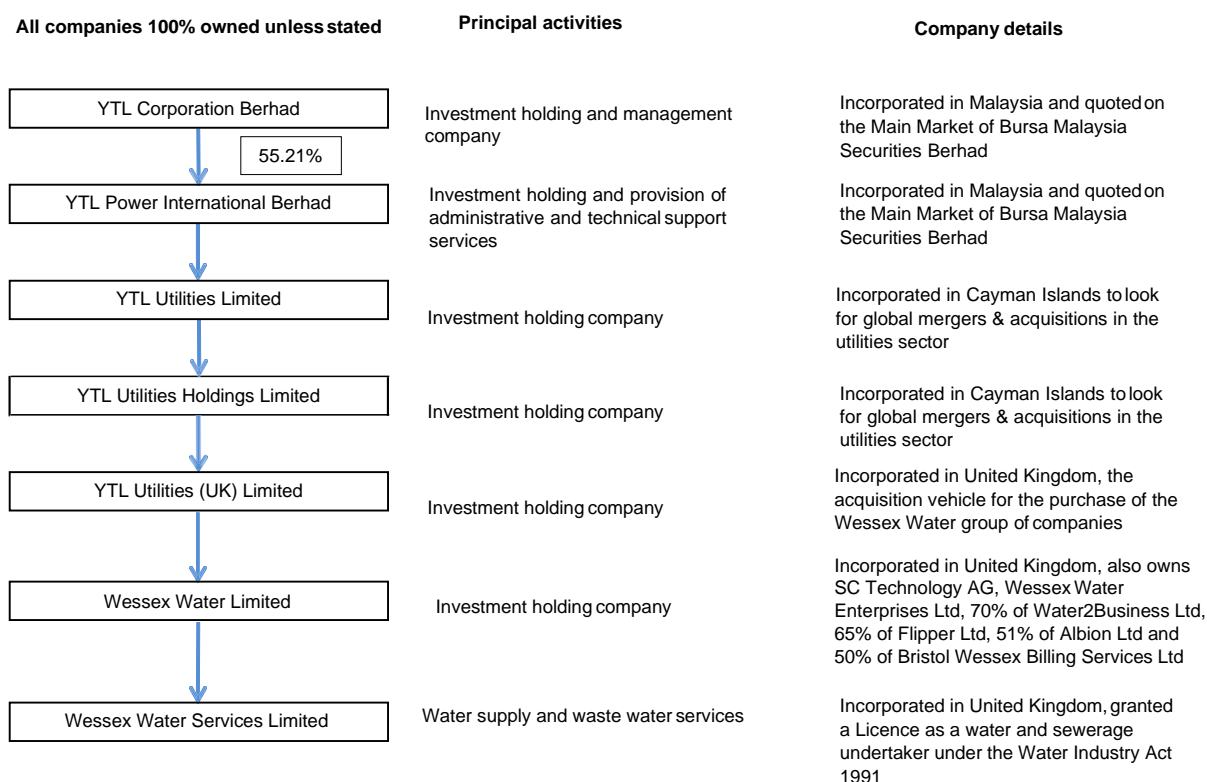
The Company has in place procurement rules that ensure awards of contracts for works, services and supplies are made after compliance with the Utilities Contracts Regulations 2016 and for contracts below the relevant thresholds in accordance with clear internal rules. The rules promote fair competition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

## Group Structure

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

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

A diagrammatic representation of the Group's structure appears below showing ownership of the regulated company through to YTL Corporation Berhad and each company's country of incorporation and role in the structure. YTL Corporation Berhad at 31 March 2020 was 49.98% owned by third-party shareholders and 50.02% owned by Yeoh Tiong Lay & Sons Family Holdings Ltd.



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

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

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

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

The Company operates independently. There are no matters specifically reserved to the shareholder. In practice the Board operates (and has operated continuously for more than a



decade) without the requirement for shareholder resolutions. A list of those Directors of the Company who also hold office within the Group structure appears above. Disclosure of the interests of such Directors has been made to the Company.

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

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

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

YTL Corporation Berhad has confirmed that it:

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

## Audit and Risk Committee Report

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

### Audit and Risk Committee Members' Attendance

Audit and Risk Committee attendance		Length of Committee Service
Huw Davies	4/4	6 years
Gillian Camm	4/4	9 years
Fiona Reynolds	4/4	8 years
Richard Keys*	3/3	4 years
Kate Mingay**	2/2	9 months
Jim McKenna**	2/2	9 months
Tim Gardam***	1/1	3 months

\* In post to 31 December 2019; \*\* Appointed in June 2019; \*\*\* Appointed in January 2020

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

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

### Composition

The Audit and Risk Committee comprises six independent Non-Executive Directors of the Board. The Chairman of the Board is not a member of the Audit and Risk Committee preserving the independence of the Committee. The Committee is independently led. Three Non-Executive Directors have been members of the Audit and Risk Committee throughout the full year and comprise Huw Davies (Chairman), Gillian Camm, Fiona Reynolds. Three further appointments were made during the year (Kate Mingay, Jim McKenna and Tim Gardam).

The Board is satisfied that each of the Committee members is appropriately qualified and experienced to fulfil their role. Huw Davies is nominated as having recent and relevant auditing experience, and Kate Mingay has recent and relevant financial experience for the Committee.

### Role and report on committee activity

The Audit and Risk Committee met four times in the financial year under review, reporting their work to the subsequent Board, which it considered sufficient to enable it to discharge its duties effectively. Its work focused on:

- monitoring the integrity of the financial statement and any formal announcements of the Company's financial performance
- overseeing the Company's financial reporting processes and accounting policies
- providing advice to the Board on whether the annual report and accounts are fair, balanced and understandable in relation to the company strategy and performance

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

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

In accordance with both the Financial Reporting Council's code and the Wates Principles, key issues discussed during the financial year under review included:

- ongoing compliance with the Data Protection Act 2018
- preparedness for the IR35 (off-payroll working) rules
- detailed and ongoing compliance work in relation to the Security of Network and Information Systems (NIS) Regulations 2018
- governance over our drinking water safety plans
- detailed review of the Company's Information Assurance Statement and Information Assurance Plan in accordance with Ofwat's Company Monitoring framework
- compliance with regulatory requirements as an appointed water and sewerage business
- the external quality assessment of the internal audit provision, undertaken every five years in accordance with the international internal auditing standards (IPPF)
- company performance on a number of internal processes to deliver regulatory outputs and performance commitment data

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

The Board review the principal risks twice a year and the company risk policy and process annually. Risk is assessed based on its financial, social and environmental impacts over the next five years and any impact on the next AMP period. The Company has a tiered governance structure to identify, scrutinise, challenge and mitigate risk. Our principal risks are detailed on page 63.

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

## Internal controls

Topic	Activity
Internal controls	<p>The Audit and Risk Committee, assisted by Internal Audit, monitors the effectiveness of the system of internal controls that have been in place for the year under review and up to the date of approval of the annual report and accounts. The Audit and Risk Committee also reviews management reports received from the external auditor.</p> <p>The Audit and Risk Committee receives reports on any "Raising a Concern" whistleblowing allegations made to the Company from either internal or external sources, concerning fraud, bribery or other matters. Reports include the outcomes of resulting investigations and the management action taken. Where appropriate the Audit and Risk Committee is asked to approve the proposed management actions.</p>
Oversight of Internal Audit and External Audit	<p>The Audit and Risk Committee oversees the work of the Company's Internal Audit function. It monitors and reviews the effectiveness of the internal audit activities and manages the relationship with its external auditor. The Audit and Risk Committee reviews the performance of the internal and external auditor independently of executive management.</p>
Internal Audit	<p>The annual programme of planned internal audits is agreed by the Audit and Risk Committee prior to the start of each financial year based on significant business risks, key internal processes, and both financial and regulatory compliance requirements. A total of 11 individual audit reports were submitted during the financial year. The Group Head of Internal Audit reports on the adequacy and effectiveness of the Company's risk, control and governance framework.</p> <p>The Internal Audit plan and required resource are reviewed annually by the Audit and Risk Committee. The Group Head of internal Audit has an unhindered direct report to the Audit and Risk Committee or its Chairman at all times.</p>
External auditor	<p>Ernst and Young LLP were appointed as the Company's external auditor in 2017. The EY audit partner is invited to attend all Audit and Risk Committee meetings and has been present at every meeting during the year. The Audit and Risk Committee monitors the effectiveness of the external auditor throughout their term of appointment.</p> <p>In relation to the current year, Ernst and Young LLP audit fees are £206k (£129k for March financial year and £77k for June financial year) and £15k for audit related assurance work. The Audit and Risk Committee scrutinise the volume and value of non-audit work and as a matter of policy, fees paid to the external auditor for non-audit services will not exceed the limits set out in EU Regulation 537 or the rules set out in the Financial Reporting Council's code of ethics. The proportion of fees for non-audit services is compliant with EU Regulation 537 (currently 33% assessed over a three-year rolling period)</p> <p>Ernst and Young LLP also reports to Ofwat in respect of the Company's Annual Performance Report.</p> <p>As part of the assurance process for this Annual Review document, the Audit and Risk Committee also receives a report from the Company's technical auditor on non-financial regulatory performance information including the performance commitment data. The current technical auditor (Mott MacDonald) was appointed during 2015-16 and has been re-appointed from a competitive re-tender of the services</p>

Further details of internal controls and risk management systems in relation to the financial reporting process can be found in the Risk and Compliance Statement on pages 2 to 5 and in more detail on pages 60 to 75.

## Financial reporting

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

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

## Nomination Committee Report

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

<b>Nomination Committee attendance</b>	
Francis Yeoh (Chair)	2/2
Gillian Camm	2/2
Huw Davies	2/2
Richard Keys*	1/1
Kate Mingay**	1/1
Jim McKenna**	1/1
Tim Gardam***	0/0
Hong Yeoh	2/2

\* In post to 31 December 2019; \*\* Appointed in June 2019; \*\*\* Appointed in January 2020

The membership of the Nomination Committee was reviewed during the year and, on appointment as Independent Non-Executive Directors, Jim McKenna, Kate Mingay and Tim Gardam were all appointed to the Nomination Committee. This ensures that there is a majority of independent members on the Nomination Committee, in line with Ofwat's Board leadership, transparency and governance principles. The Nomination Committee is chaired by a Non-Executive Director appointed by the shareholder, by way of exception to the relevant Code Provision and Ofwat's principles. However, the Committee's composition is considered to be appropriate in the context of a private company with a single shareholder.

### Role and Report on Activities

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

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

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

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

During the reporting year the Nomination Committee considered the appointment of three new Independent Non-Executive Directors and changes to the organisational structure effective from 1 April 2020.

## Corporate Social Responsibility Committee Report

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

Corporate social responsibility committee attendance	
Gillian Camm	2/2
Fiona Reynolds	2/2
Richard Keys*	1/1
Kate Mingay	1/1

\*Appointment ended 31 December 2019

Chaired by an Independent Non-Executive Director, the principal purpose of this Committee established in 2013 is to make recommendations to the Board about the Company's corporate and social obligations to its employees and other stakeholders. Executive and Non-Executive Directors, senior management and other external advisors are invited to attend meetings as required. The inclusion of 'Social' in the Committee's name during 2018-9 reflects the increasing emphasis on Wessex Water's social purpose moving forward. Two new Non-Executive Directors joined the Committee in January 2020: Tim Gardam and Kate Mingay.

### Role and Report on Activities

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

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

Culture, Diversity and Inclusion and Health, Safety and Wellbeing are standing agenda items for the Committee. Each meeting includes a progress review to assess performance against targets and metrics, in addition to detailed discussion on recent initiatives relating to these two key areas.

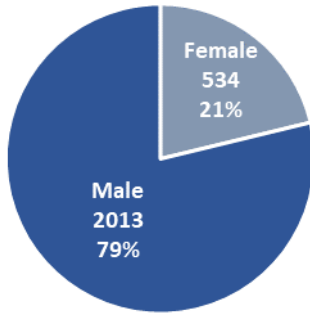
Culture has been an area of focus for the Committee during the year, particularly when reviewing the lessons which could be learnt from Southern Water, specifically compliance and whistleblowing. There was positive support for the Culture Champions who offer staff alternative avenues to have conversations about culture and changes needed across the company.

The Committee has advised on a number of changes and new initiatives proposed by the company during the year including changes to the Wessex Water Partnership as we enter AMP7; the newly formed Community Fund; alignment of the Environmental Policy and the suggested update to the Sustainability Vision. The Committee has been fully supportive of the newly formed Community Fund which will support a number of community and engagement projects helping to deliver a range of performance commitments during 2020 to 2025.

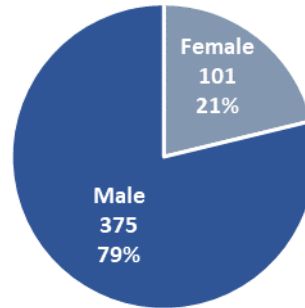
Further work has been undertaken to assess Corporate Social Responsibility accreditation schemes for the company. This has included self-assessment against B-Corporation Certification standard- the company achieved the required score. However, the Committee determined that current schemes are not yet appropriate for Wessex Water, mirroring similar conclusions reached by other water companies and Ofwat. An industry wide approach to CSR accreditation is being considered by the sector.

Gender Diversity at March 2020

Whole Workforce



Leadership Grades



Part-time / Full-time Diversity

Whole Workforce



Female

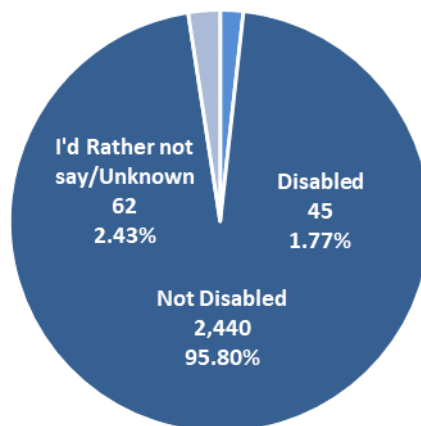


Male



Employees with a disability

Disability





## Remuneration Committee Report

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

Remuneration Committee Attendance	
David Barclay	2/2
Gillian Camm	2/2
Huw Davies	2/2
Jim McKenna**	2/2
Kate Mingay**	2/2
Richard Keys*	1/1
Hong Yeoh	2/2
Mark Yeoh	2/2

\* In post to 31 December 2019; \*\* Appointed in June 2019

The relevant Code Provision envisages at least three Independent Non-Executive Directors on the Remuneration Committee. The Remuneration Committee is chaired by a Non-Executive Director appointed by the shareholder, by way of exception to the relevant Code Provision and Ofwat's principles. These provisions envisage the Committee being independently led and are intended to ensure a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual Directors in the case of a listed company with disparate shareholders. However, there is a majority of independent members on the Committee. The Company's Remuneration Committee complies with the principles and spirit of the Code and reflects the requirements of a private company with a sole shareholder, resulting in a formal and transparent procedure for developing policy on executive remuneration.

The membership of the Remuneration Committee for 2019-2020 was reviewed following the appointment of two new Independent Non-Executive Directors. Jim McKenna and Kate Mingay were appointed to the Remuneration Committee on 3 June 2019. Richard Keys stepped down from the Board on 31 December 2019.

### Role and Report on Activities

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

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

This report sets out the remuneration policy for the Directors of Wessex Water and discloses the amounts paid to them in the financial year ended 31 March 2020. The policy also applies to the remuneration of the Company's senior managers.

The Remuneration Committee met twice during the financial year under review. The Remuneration Committee continued to monitor the Company's remuneration policy to take account of evolving best and market practice. The annual bonus plan is designed to promote the success of the

Company over the five-year regulatory period and is based on a portfolio of KPIs linked to the Company's performance scorecard and Ofwat's measures of success.

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

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

The Remuneration Committee considered performance related executive pay in the context of Ofwat's "putting the sector back in balance". The Remuneration Committee also reviewed and approved the Company's gender pay gap report which was published on the Government website in March 2020.

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

### **Deferment of Bonus Payments**

The Remuneration Committee assessed the performance of the Company against the scheme criteria in March 2020. In exercising its discretion, it was decided that bonus payments for the Executive Directors would not be paid at this time as a result of Covid-19 and will be reconsidered by the Committee at their next meeting. Payments to the wider workforce were approved for payment in May.

### **Recruitment of Executive Directors**

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

Individual Executive Directors participate in a senior manager bonus scheme, governed by the Remuneration Committee. Executive Directors have a target bonus set at 50% of base salary and their maximum bonus at 100% of base salary, of which a proportion is withheld until 2020 under LTIP arrangements.

During the year, the Remuneration Committee took advice from their independent advisers, Korn Ferry Hay Group. Korn Ferry Hay Group provided detailed market analysis and advice to the Committee for the senior management group, including Executive Directors and Non-Executive Directors. Korn Ferry Hay Group's fee for providing such advice was £11,290 for the year ended 31 March 2020. In line with best practice, the Committee assesses from time to time whether the appointment of its current independent remuneration advisers remains appropriate and whether the role should be put out to tender.

The Remuneration Committee also considers what compensation commitments (including pension

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

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

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

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

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

### Policy for loss of office

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

**Early termination payments made in the year**

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

**Relative importance of spend on pay**

Note 6 to the accounts shows the total employment costs of the Company, and the movement between 2018-2019 and 2019-2020.

	<b>2019-2020</b> <b>£m</b>	<b>2018-2019</b> <b>£m</b>	<b>Movement</b> <b>£m</b>	<b>Movement%</b>
Wages and salaries	96.1	92.9	+3.2	+3.4%
Social security costs	10.2	10.2	-	-
Other pension costs	15.7	12.9	+2.8	+21.7%
<b>Total employment costs</b>	<b>122.0</b>	<b>116.0</b>	<b>+6.0</b>	<b>+5.2%</b>

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

Percentage of	2019-2020 %	2018-2019 %	Source
Turnover	22.1%	21.1%	Income statement
Profit before tax *	100.7%	86.1%	Income statement
Profit after tax *	183.3%	105.3%	Income statement
Dividends	138.8%	127.4%	Note 9
Capital expenditure	50.5%	49.4%	Cash flow statement

### Remuneration Arrangements for Executive Directors 2019-2020

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

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

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

Element of Pay	Purpose and Link to Company Strategy	How Operated in Practice	Maximum Opportunity	Description of performance metrics
Base Salary	<p>To attract and retain the high calibre Executive Directors needed to implement the Company's strategy and maintain its leading position in the industry.</p> <p>To provide a competitive salary relative to comparable companies in terms of size and complexity.</p>	<p>Reviewed annually and takes effect from 1 April.</p> <p>Review takes into consideration:</p> <ul style="list-style-type: none"> <li>• individual responsibilities</li> <li>• salary levels for similar sized roles in the national utilities market</li> <li>• the level of pay increases awarded across the Company</li> <li>• economic and market conditions</li> <li>• the performance of the Company</li> </ul> <p>Salaries are paid monthly</p>	<p>There is no prescribed maximum increase. However, Executive Director salary increases are aligned to the increases provided to all Company employees. Such increases are negotiated by the joint staff council involving management and trade union representatives.</p>	n/a

Element of Pay	Purpose and Link to Company Strategy	How Operated in Practice	Maximum Opportunity	Description of performance metrics
Taxable Benefits	To attract and retain high calibre Executive Directors and to remain competitive in the market.	Benefits include: <ul style="list-style-type: none"> <li>• Company car or allowance and private fuel allowance</li> <li>• Private medical insurance and executive health screening</li> </ul>	n/a	n/a
Pension	To attract and retain high calibre Executive Directors and to remain competitive in the market.	All Executive Directors participate in the Company's defined benefit pension scheme.  Executive Directors are also insured for a lump sum of up to four times their pensionable salary on death in service.	21.7% of base salary	n/a
Annual Bonus	To motivate and reward Executive Directors for the achievement of demanding objectives and key strategic measures (including measures of customer satisfaction, service quality, environmental performance, employee alignment and financial performance) over the financial year and five-year regulatory period.  The performance measures set are stretching in the context of the nature, risk and profile of the Company and have regard to historical company performance, sector comparisons and the performance commitments made in the relevant business plan. The measures and the weightings of them ensure that bonuses are substantially linked to stretching delivery for customers and the environment.	The Board of Directors sets annual performance targets for the Company prior to the commencement of each financial year. Company and individual performance against those targets are measured at the end of the financial year and the level of bonus payable is calculated at that point. Bonuses are paid in May.  The committee has the discretion to, and does consider for effect of, corporate performance on environmental and governance risks when reviewing Executive Director bonuses to ensure variable remuneration incentivises and rewards appropriate behaviour. Part of the bonus may be forfeited for underperformance in respect of customer service, environmental, regulation and employee related performance targets. Annual bonus is not pensionable.	Maximum bonus opportunity is 100% of base salary.	A combination of key performance indicators relating to customer satisfaction, service quality, environmental performance, employee alignment and financial performance.  The Committee has absolute discretion in making bonus payments.
LTIP	To motivate and reward Executive Directors for the achievement of demanding financial objectives and key	From 1 April 2015 the Remuneration Committee established a Long-Term Incentive Plan for Executive		

Element of Pay	Purpose and Link to Company Strategy	How Operated in Practice	Maximum Opportunity	Description of performance metrics
	strategic measures (including measures of customer satisfaction, service quality and environmental performance) over the five-year regular period to promote the long-term success of the Company.	Directors whereby 20% of any above target bonus element earned will be held back for payment at the end of AMP6 in 2020. The Company will match the value of the retained bonus payment, up to 100%.  Long-term incentive payment is not pensionable.		

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

Component 2019-2020	Colin Skellett Group Chief Executive	Mark Watts Finance Director	Andy Pymer Managing Director
Target bonus (% of salary)	50	50	50
Maximum bonus (% of salary)	100	100	100
Actual bonus paid * (% of salary)	-	-	-
Actual bonus held as LTIP * (% of salary)	-	-	-
Share options (maximum)	Approved 87,000 Unapproved 1,913,000	Approved 87,000 Unapproved 913,000	Approved 87,000 Unapproved 913,000
Pension arrangement	Defined benefit - Pension in payment	Defined benefit - Pension in payment	Defined benefit Pension deferred
Benefits	Benefits were company car based on list price and CO2 emissions, fuel £4,310, and private medical insurance £1,945 (family)		

\*Bonus payments for the Executive Directors are not being paid at this time and will be reconsidered by the Committee at their next meeting.

### Base Salaries and Benefits

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

## Differences between Executive Directors' and Employees' Remuneration

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

- Executive Directors pay and benefits are benchmarked against the median position of the National Utilities market whilst we benchmark median pay and benefits against the South West Industrial and Service market for all fully qualified and experienced employees
- the Remuneration Committee reviewed 2018-19 salaries and determined that salaries for Executive Directors would remain at the same level from 1 April 2019. The salaries for the rest of the Company increased by 3.2%, which was in line RPI.
- a lower level of target and maximum annual bonus opportunity applies to various employees when compared to Executive Directors.
- Executive Directors (and senior managers) participate in a bonus scheme that is not available to other employees to motivate and reward them for achievement of demanding financial objectives and key strategic measures.

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

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

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

## Executive Directors' Bonuses

### 2019-2020 scheme

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

Bonus disclosed is in relation to the performance in the year and is usually paid in May following the year end.

The Company targets are 29 key performance indicators covering customer service, environmental and asset measures, employee matters and financial measures as shown below.

Customers	Customers rating service good or very good / compliance with drinking water standards / customer contacts about drinking water quality / volume of water saved through water efficiency / properties suffering supply interruptions > 3 hours / volume of water leaked / customer reported leaks fixed within a day / restrictions on water use / internal flooding incidents per 10,000 properties / overall risk of flooding grid score.
Environment and Assets	EA's Environmental Performance Assessment / bathing waters passing EU standards / Biodiversity Action Plan landholding assessed and managed / greenhouse gas emissions / proportion of electricity self-generated / all regulatory outputs met / compliance with abstraction licences / monitoring of CSO's presenting a risk to



the environment / river water quality improved.

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

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

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

<b>Target Bonus 2019-2020</b>	<b>Colin Skellett CEO</b>	<b>Mark Watts FD</b>	<b>Andy Pymer MD</b>
<b><i>Customer</i></b>			
% of salary	10.0%	10.0%	10.0%
Amount £	27,600	16,280	31,200
<b><i>Environment and Assets</i></b>			
% of salary	10.0%	10.0%	10.0%
Amount £	27,600	16,280	31,200
<b><i>Employees</i></b>			
% of salary	10.0%	10.0%	10.0%
Amount £	27,600	16,280	31,200
<b><i>Financial</i></b>			
% of salary	10.0%	10.0%	10.0%
Amount £	27,600	16,280	31,200
<b><i>Individual</i></b>			
% of salary	10.0%	10.0%	10.0%
Amount £	27,600	16,280	31,200
<b>Total</b>			
% of salary	<b>50%</b>	<b>50%</b>	<b>50%</b>
Amount £	<b>138,000</b>	<b>81,400</b>	<b>156,000</b>

In the financial year under review, 27 of the 29 Company targets were achieved or bettered. There were two failures, one relating to bathing waters not passing EU standards and the overall risk of flooding grid score.

The Committee used its discretion to determine that bonus payments to the Executive team for the year under review would be deferred as a result of Covid-19 with a decision on payment being made at the next meeting. Therefore, the 2019-20 bonus payments in the Directors' Emoluments table are nil. Annual bonus payments to Executive Directors are not pensionable.

#### *Long-term incentive plan (2015 - 2020)*

The Remuneration Committee approved the establishment of a long-term incentive plan (LTIP) for Directors in 2015 whereby 20% of any above target bonus element earned, will be held back for payment at the end of AMP6 in 2020. The Company will match the value of the retained bonus payment, up to 100%. The Committee has decided to review the LTIP scheme and a decision on level and timing of payment has not yet been made.

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

<b>Bonus Held Back as LTIP</b>	<b>Colin Skellett Group Chief Executive</b>	<b>Mark Watts Finance Director</b>	<b>Andy Pymer Managing Director</b>
2015-16	£10,608	£8,000	-
2016-17	£9,634	£8,430	£2,667
2017/2018	£5,963	£7,370	£1,000
2018/2019	£2,400	£3,520	-
2019/2020	-	-	-
<b>Total</b>	<b>£28,605</b>	<b>£27,320</b>	<b>£3,667</b>

## **Pensions**

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

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

Members' contributions are payable at the rate of 8% of basic salary, with the Company making a further 21.7% contribution. Early payment of pension is available from age 55 with the consent of the Company. Any pension would be subject to a reduction, based on rates the trustees consider appropriate, acting on actuarial advice, to reflect the expected longer payment of the pension. No additional pension will become receivable by a Director if that Director retires early.

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

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

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

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

### Executive Directors’ Service Contracts

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

Executive Directors	Date of current agreement	Date of appointment as Executive Director	Notice Period
Colin Skellett	1 April 2014	1 September 1989	12 months
Mark Watts	1 April 2014	16 March 2010	12 months
Andy Pymer	21 July 2016	1 August 2016	12 months

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

### Non-Executive Directors

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

The breakdown of the Independent Non-Executive Directors’ fees from 1 April 2019 is shown in the Directors’ Emoluments table below. Independent Non-Executive Directors do not participate in share or bonus schemes or any other performance-related scheme, nor is any pension provision made.

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

Any term beyond six years for an Independent Non-Executive Director is subject to particularly rigorous review and takes into account the need for progressive refreshing of the Board balanced

against the requirement for skills, experience, independence and knowledge.

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

## Directors' Emoluments

The table below shows the emoluments for the current and preceding year. The auditor is required to report on the information in the following tables for 2019-20.

	Salary/Fees		Benefits		Other		Bonus		LTIP		Pension		Total	
	2019/ 2020	2018/ 2019	2019/ 2020	2018/ 2019	2019/ 2020	2018/ 2019	2019/ 2020	2018/ 2019	2019/ 2020	2018/ 2019	2019/ 2020	2018/ 2019	2019/ 2020	2018/ 2019
	£k	£k	£k	£k	£k	£k	£k	£k	£k	£k	£k	£k	£k	£k
Colin Skellett	276	276	20	19	-	-	-	148	-	2	-	-	296	445
Mark Watts	163	163	18	17	-	-	-	95	-	4	-	-	181	279
Andy Pymmer	312	312	18	18	-	-	-	125	-	-	68	68	398	523
James Rider	-	223	-	23	-	548	-	110	-	-	-	48	-	952
Gillian Camm	90	90	-	-	-	-	-	-	-	-	-	-	90	90
David Barclay	-	60	-	-	-	-	-	-	-	-	-	-	-	60
Huw Davies	84	84	-	-	-	-	-	-	-	-	-	-	84	84
Richard Keys	52	70	-	-	-	-	-	-	-	-	-	-	52	70
Jim McKenna	62	-	-	-	-	-	-	-	-	-	-	-	62	-
Kate Mingay	62	-	-	-	-	-	-	-	-	-	-	-	62	-
Tim Gardam	14	-	-	-	-	-	-	-	-	-	-	-	14	-
Fiona Reynolds	72	72	-	-	-	-	-	-	-	-	-	-	72	72
	1,187	1,350	56	77	-	548	-	478	-	6	68	116	1,311	2,575

Notes to table:

1. No emoluments earned by Francis Yeoh, Hann Yeoh, Hong Yeoh, Mark Yeoh or Kathleen Chew
2. Benefits comprise private medical insurance, company car or allowance and fuel benefits
3. Three Directors received emoluments for services to other Group Companies: Colin Skellett £197k, Mark Watts £248k and David Barclay £100k. The Audit Committee was satisfied that services provided to other Group Companies do not reduce the effectiveness of the Directors' provision of services to the Company.
4. Richard Keys stepped down from the Board on 31 December 2019.
5. Jim McKenna and Kate Mingay were appointed to the Board on 3 June 2019.
6. Tim Gardam was appointed to the Board on 27 January 2020.

## Chairman

No remuneration was paid to the Chairman (2019 – £nil).

## Chief Executive

The total remuneration for the Chief Executive (Colin Skellett) was:

*(information in the table below is subject to audit)*

	Remuneration 2019-2020 £000	Remuneration 2018-2019 £000	% change
<b>WWSL</b>			
Salary	276	276	-
Bonus*	-	148	-100%
LTIP*	-	2	-100%
Benefits	20	19	+5.3%
<b>Other group companies</b>			
Salary	184	184	-
Bonus*	-	278	-100%
LTIP*	-	2	-100%
Benefits	13	12	+8.3%
<b>Total</b>	<b>493</b>	<b>921</b>	<b>-46.6%</b>
All employees WWSL			
Wages and salaries	96,300	92,900	+3.4%
Social security costs	10,200	10,200	-
Other pension costs	15,600	12,900	+20.9%
<b>Total</b>	<b>122,100</b>	<b>116,000</b>	<b>+5.3%</b>

\*Bonus payments for the Executive Directors are not being paid at this time and will be reconsidered by the Committee at their next meeting

The pay increase awarded to the employees of the Company on 1 April 2019, for the year 2019-2020, was a 3.2% increase over the preceding year.

**Pay ratios table**

Year	Method	25 <sup>th</sup> percentile pay ratio (P25)	50 <sup>th</sup> percentile pay ratio (P50)	75 <sup>th</sup> percentage pay ratio (P75)
2019/20	A	18:1	15:1	12:1

*Notes:*

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

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

3. The pay ratios were calculated by dividing the CEO's single table of remuneration with the employee pay and benefits at each of those percentile points. The pay ratio was calculated for all employees as at April 2020.

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

**Executive Directors' Defined Benefit Pension Provision**

(information in the table below is subject to audit)

	Pension service completed in years <sup>(1)</sup>	Normal retirement date at 65	Accrued pension at 31/03/2019 £pa	Increase in accrued pension during the year £pa	Accrued pension at 31/03/2020 £pa
Colin Skellett <sup>(2)</sup>	42	13/06/2010	182,593	4,883	187,476
Mark Watts <sup>(2)</sup>	29	19/09/2026	72,631	1,961	74,592
Andy Pymer <sup>(3)</sup>	24	18/08/2033	66,022	1,794	67,816

*Notes:*

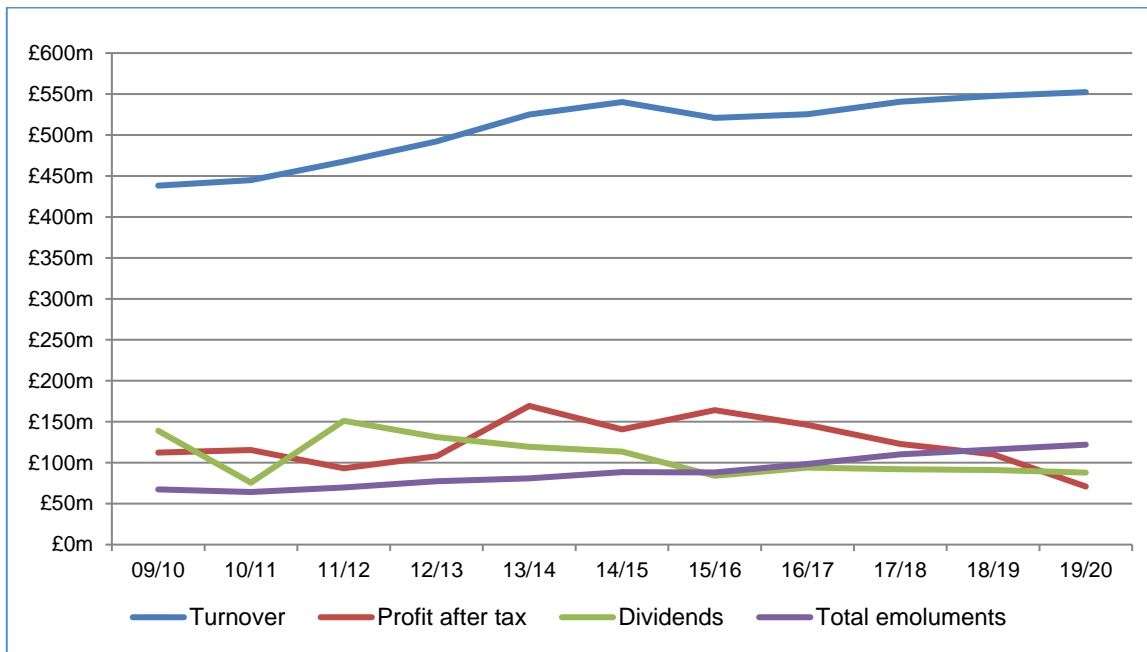
(1) Includes transfers in and bonus years

(2) Pension is currently in payment

(3) Deferred pension

## Remuneration Link to Financial Performance

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



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

## Executive Directors' Share Interests

### Share Options

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

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

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

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

*(information in the table below is subject to audit)*

	Opening number 31/03/2019	Exercise price RM	Date of grant	Exercise date	Expiry date	Closing number 31/03/2020
Colin Skellett	87,000	1.65	01/6/2012	1/6/2015	31/03/2021	87,000
Colin Skellett	1,913,000	1.38	01/6/2012	1/6/2015	31/03/2021	1,913,000
Mark Watts	87,000	1.65	01/6/2012	1/6/2015	31/03/2021	87,000
Mark Watts	913,000	1.38	01/6/2012	1/6/2015	31/03/2021	913,000
Andy Pymer	87,000	1.65	01/6/2012	1/6/2015	31/03/2021	87,000
Andy Pymer	913,000	1.38	01/6/2012	1/6/2015	31/03/2021	913,000

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

The share price at 31 March 2020 was RM0.61 or £0.11.

### Shares Held

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

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

*(information in the table below is subject to audit)*

	Opening number 31/03/2019	Closing number 31/03/2020
Mark Watts	395,790	395,790
Andy Pymer	54,891	54,891

The share price at 31 March 2020 was RM0.61 or £0.11.



## Remuneration Arrangements for Executive Directors 2020-21

Component	Colin Skellett Group Chief Executive	Andy Pymer Finance & Regulation
Annual bonus Target (% of base salary)	50	50
Annual bonus Maximum (% of base salary)	100	100
LTIP Maximum <sup>(1)</sup> (% of bonus salary)	50	50
Share options (maximum)	Approved 87,000 Unapproved 1,913,000	Approved 87,000 Unapproved 913,000
Pension arrangement	Defined benefit - Pension in payment	Defined benefit - Pension deferred
Taxable Benefits	Company car or allowance, fuel and private medical insurance	

<sup>(1)</sup> Maximum opportunity across AMP7 and paid in April 2025 (subject to performance)

### Bonus scheme 2020-21

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

Customers and communities	C-Mex / D-MeX / CRI – customer risk index / water supply interruptions / volume of water leaked / restrictions on water use (hosepipe bans) / customer property internal sewer flooding incidents.
Protecting and enhancing the environment	wastewater pollution incidents (cat 1- 3) / wastewater treatment compliance/ satisfactory sludge disposal / greenhouse gas emissions / length of river with improved water quality (WINEP).
Employees	H&S plan and accident statistics progress as assessed by Corporate Responsibility Committee / employee rating company as a good employer / staff retention / diversity plan progress as assessed by Corporate Responsibility Committee.

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

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

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

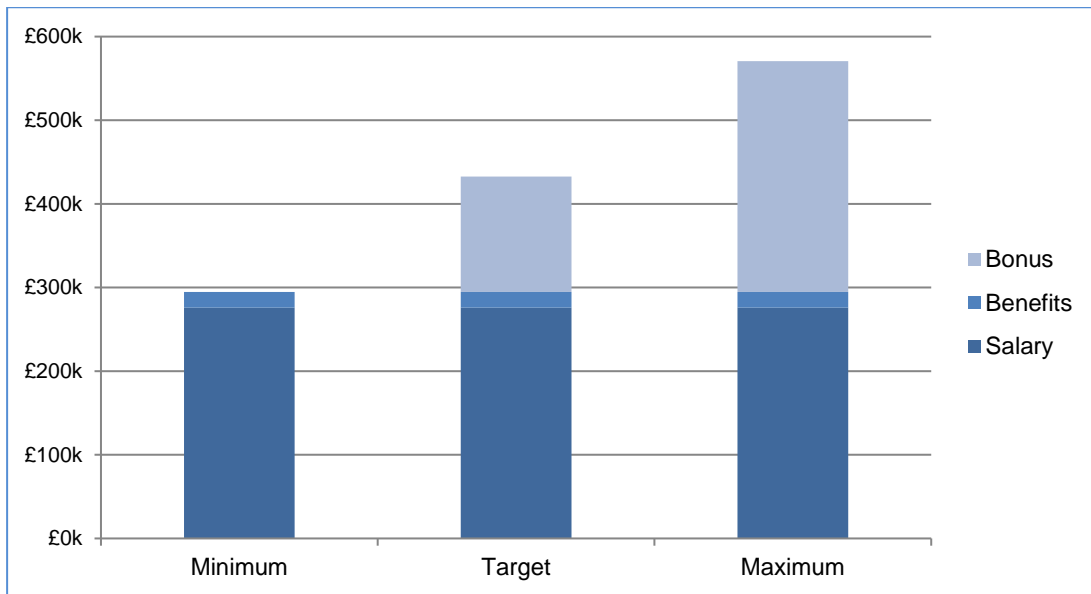
Financial profit after corporation tax / operational costs / net capital expenditure / cash flow before dividends / dividends declared.

<b>Target Bonus 2020-2021</b>	<b>Colin Skellett</b>	<b>Andy Pymer</b>
<b><i>Customer</i></b>		
% of salary	15%	15%
Amount £	41,400	46,800
<b><i>Environment and Assets</i></b>		
% of salary	15%	15%
Amount £	41,400	46,800
<b><i>Employees</i></b>		
% of salary	10%	10%
Amount £	27,600	31,200
<b><i>Individual</i></b>		
% of salary	10%	10%
Amount £	27,600	31,200
<b>Total</b>		
<b>% of salary</b>	<b>50%</b>	<b>50%</b>
<b>Amount £</b>	<b>138,000</b>	<b>156,000</b>

### Illustrations of Remuneration Policy

#### A) Colin Skellett - CEO

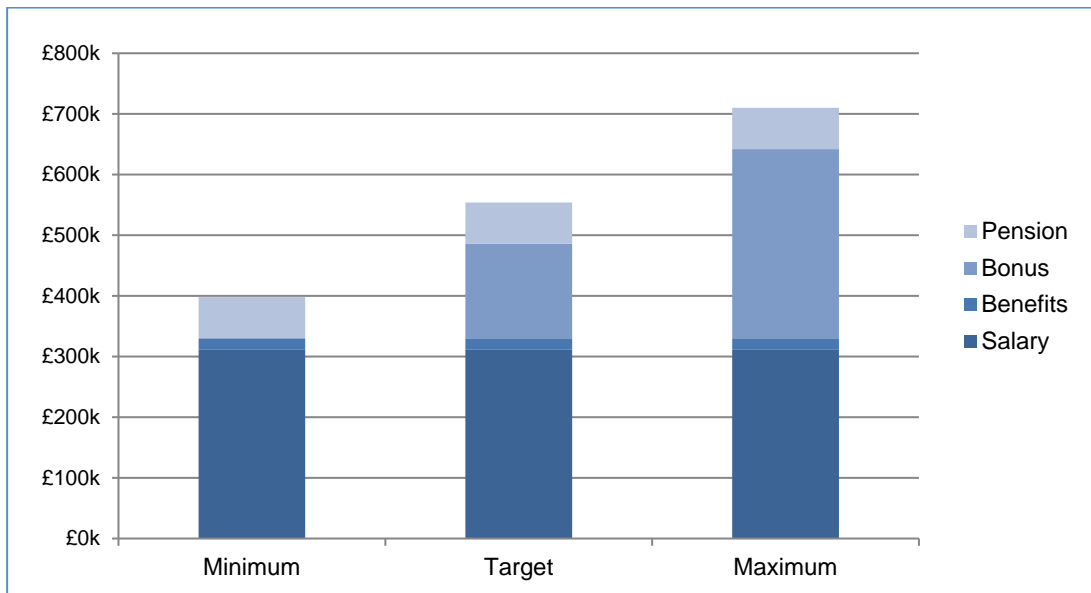
(using estimated 2020-2021 data)



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

#### B) Andy Pymer – Executive Director, Finance & Regulation

(using estimated 2020-2021 data)



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

# Strategic Report

## Introduction

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

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

We are pleased, therefore, that we have had another strong year, exceeding most of our targets and improving our service. The investment and performance that we have delivered in the past 12 months demonstrates that we take our responsibilities seriously.

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

### Setting our aspirations

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

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

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

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

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

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

On an ongoing basis the Company engages regularly with stakeholders including through the Wessex Water Partnership, the People's Council, the online customer panel, the Young People's Panel, and frequent customer surveys and consultations. In 2019 the Company held a series of stakeholder roadshows across our region each attended by directors.

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

- The commitments made to customers and the environment in the published business plan

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

For 2019-20, customer and environmental targets were set to:

- maintain the company's overall leading position amongst water and sewerage companies on key regulatory measures (Ofwat, Environment Agency, Drinking Water Inspectorate and Consumer Council for Water)
- achieve the key commitments we made in our 2015-2020 business plan
- ensure there is no reduction in standards against our average performance over the last three years on key measures of performance

Notably, the Board set a target in 2019 for the Company to achieve an Environment Agency assessment of "Leading" for environmental performance. This followed an assessment of "Good" in 2018 which was not in line with the Board's aspirations. The Board therefore took particular note of actions during the year designed to prevent pollution incidents and the company Chief Executive chaired regular strategy meetings on this subject.

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

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

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

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

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

### Our performance in 2019-20

The Company's performance this year is judged to be in line with the board's aspirations.

We expect to be:

- one of the top water and sewerage companies for customer service in Ofwat's service incentive mechanism,
- assessed as leading by the Environment Agency
- one of the leading water and sewerage companies for the DWI's key quality measure (CRI)

During the year we were also shown to be the water and sewerage company with the lowest

number of complaints according to CCW.

The table below shows how the company performed against the board's targets.

<b>Performance against target</b>	<b>Customer</b>	<b>Environment</b>	<b>Employee</b>	<b>Financial</b>
Better	7	3	3	2
Same	2	5	2	3
Worse	1	1	0	0
<b>Same or Better</b>	<b>9/10</b>	<b>8/9</b>	<b>5/5</b>	<b>5/5</b>

In the financial year under review, 27 of the 29 Company targets were achieved or bettered. The two measures where performance was below target were 'Bathing waters not passing EU standards' (Environment measure) and 'Risk of flooding from public sewers due to hydraulic inadequacy' (Customer measure). Further detail is given in Section 3.

In 2015 we accepted a regulatory price determination from Ofwat (PR14) which included a number of performance commitments for 2019-20 as part of the regulator's incentive package. Our acceptance of a price determination is always in the round and recognises that there are trade-offs in the regulator's incentive framework.

We have met or exceeded our targets for 25 of our 32 PR14 regulatory targets for the year. We exceeded our target against those which are of most importance to stakeholders, such as minimising internal sewer flooding, leakage and water supply interruptions, for which we have achieved provisional incentive payments.

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

Our current performance is available on our website [here](#), and we talk in detail about our future performance [here](#).

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

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

This section sets out how the Board has had regard to the matters set out in s.172(1) (a) to (f) of the Companies Act when acting to promote the success of the company for its members. In particular:

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

conduct; and

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

Our directors have a duty, individually and collectively at the Board, to act as they consider most likely to promote the success of the Company, for the benefit of our stakeholders. As part of this duty, our directors must have regard for likely long-term consequences of decisions and the reputation of the business through high standards of business conduct. Our directors must also have regard for our employees' interests; business relationships with our wider stakeholders; the impact of our operations on the environment and the communities we serve; and the need to act fairly. 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 below.

Stakeholder group	What matters to our stakeholders?	Who?	Company engagement	Board level engagement and Impact
<p>Customers</p> <p>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</p> <p>Non-residential</p> <p>Those in vulnerable circumstances</p> <p>Developers</p> <p>Retailers and bulk supply customers</p> <p>Future customers including children and students</p>	<p>Customer feedback surveys</p> <p>Customer contacts</p> <p>Market research</p> <p>Feedback routes through customer magazine</p> <p>Website, including livechat</p> <p>Developer consultations</p> <p>Young People's Panel</p>	<p>Performance metrics</p> <p>CEO / MD correspondence</p> <p>Young People's Panel</p> <p>The outcome informs our business planning priorities as well as our charges and pricing strategy.</p>
<p>Customer representatives</p> <p>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 or representing particular groups such as RNIB</p>	<p>Wessex Water Partnership</p> <p>Affordability Advisory Group</p> <p>Online partner hub and roadshows</p> <p>CCW public meetings</p>	<p>Wessex Water Partnership</p> <p>CCW public meetings</p> <p>We believe that "every customer matters", and this information informs our business planning, priorities and decisions.</p>
<p>Our people</p> <p>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</p> <p>Pension scheme members and trustee board</p> <p>Future employees</p> <p>Unions</p>	<p>People's council</p> <p>Staff survey</p> <p>"Ask the CEO"</p> <p>Staff roadshows</p> <p>Lunchtime talks</p> <p>Pension Trustee Board</p> <p>Apprentice days</p> <p>Staff committee</p> <p>Health, safety and welfare committee</p>	<p>People's council</p> <p>Ask the "CEO"</p> <p>Pension Trustee Board</p> <p>Staff committee</p> <p>Health, safety and welfare committee</p> <p>We listen and act on our employees' opinions to provide our people with satisfying careers.</p>
<p>Our local communities and charitable organisations</p>	<p>Our communities and charitable organisations we work with want us to value and respect all aspects of the society which we serve.</p>	<p>Schools, universities, local charities, pressure groups, farmers, landowners</p>	<p>Education programme, visits to sites, community talks</p>	<p>Stakeholder roadshows</p>

Stakeholder group	What matters to our stakeholders?	Who?	Company engagement	Board level engagement and Impact
Everything we do touches our wider communities, the society we serve and the world we all live in.	They want us to provide growth through economic and employment opportunities whilst protecting and enhancing the environment.		Community email groups Capital schemes community meetings and exhibitions Wessex Water Foundation Employee volunteering scheme Catchment Panel	Wessex Water Foundation Our communities' opinions inform our corporate aspirations and help us to prioritise our work.
Our supply chain Excellent relationships with our suppliers are key to delivering excellent services to our customer and nurturing business and innovation within our communities.	Our suppliers want us to provide them with fair, open and competitive opportunities regardless of their size, so that both ourselves and they can grow and excel. Our suppliers want fair payment terms and assistance during times of economic hardship, so that they can support us in delivering critical services to our customers.	External suppliers Other group companies	Wessex Water marketplace Membership of British Water Pipeline Industries Guild CBI	Wessex Water marketplace Our suppliers have provided us with innovative and new ways of working to deliver more services for less. We listen and nurture our supply base ensuring that they have been supported during the Covid-19 outbreak
Our investors Our investors provide the financial support to enable us to deliver our strategy and live our values.	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.	Banks and financial institutions Bond holders Shareholder	Ratings agencies Annual Report	Ratings agencies Annual Report Our investors provide our financial resilience
Government and Regulators Our Regulators provide the oversight to allow us to contribute to the UK as a nation, to support our environment, our public health standards and our economic infrastructure.	Our regulators and government want the best outcomes for our customers, the environment and resilience. They want us and the water industry to be responsible, trustworthy and transparent in all our activities.	Government departments MPs Local councillors Ofwat Environment Agency Natural England DWI Health & Safety Executive Pensions regulator Market Operator Services Ltd (MOSL)	Performance and risk reporting Formal meetings Annual Review, Annual Performance Report and interim accounts Health liaison panel	Attendance at board meetings Pre-appointment interviews Business planning and target setting Health and Safety strategy 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	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 Panel Wessex Water Foundation Liaison groups	Futures Panel We embed the opinions of our environmental colleagues into our aspirational direction and priorities.



Stakeholder group	What matters to our stakeholders?	Who?	Company engagement	Board level engagement and Impact
environmental colleagues.				

The following case studies 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 - Publishing an updated business plan for 2020-25**

In April 2019 the company published a business plan for the period to 2025 which was approved by the Board. This updated the previous plan that had been published in September 2018.

In making the changes the Board considered feedback from stakeholders, in particular in January 2019 the regulator Ofwat published its Initial Assessment. The company also continued to engage with customers through additional market research, with the Wessex Water Partnership (who act as our regulatory Customer Challenge Group), and with environmental regulators.

The original plan had been developed through unprecedented engagement with customers, employees and other stakeholders, with more than 140,000 direct responses taken into account.

The plan itself coupled ambitious targets for environmental improvements and measures to enhance the involvement of the company within the community with affordable bills for customers. Research had shown that the original plan had very high levels of acceptability amongst bill payers.

Based on this further engagement however the Board agreed a small number of amendments that allowed future required revenues (and therefore bills) to be reduced further. In particular the Board:

- accepted amended regulatory targets which allowed it to reduce the future expenditure requirement
- revised its view on the appropriate cost of capital, taking account of new evidence

In making this decision, the Board considered at length how these changes would impact the company in terms of long-term financial resilience and its ability to meet its obligation to employees, including but not limited to pension liabilities.

### **Principal decision 2 - Decision not to appeal Ofwat's determination for 2020-25**

During the year the Board resolved not to appeal Ofwat's final determination for 2020-25, published in December 2019, which set revenues and an incentive package around costs and service levels over the same period.

The Board did so after considering whether the proposed package allowed the company to deliver the expectations of customers, employees and investors while delivering the required environmental improvements up to 2025. It concluded that, in the round, it did allow the Company to do this. The Board also resolved to write to Ofwat to express its concerns that the PR19 settlement did not adequately further long-term financial and operational resilience.

### **Principal decision 3 - Decision to approve investment (Wareham WRC)**

The Urban Waste Water Treatment Directive (UWWTD) includes a requirement to reduce the

amount of nitrogen discharging into Poole Harbour, a designated environmentally sensitive area. The Company has considered two options to deliver these tightened targets at its Wareham Water Recycling Centre:

- **nitrate treatment asset solution:** build an extension to the current site to house additional treatment plant in an area of outstanding natural beauty. The scheme would have an estimated cost of over £7m with ongoing operational costs of in excess of £200k a year.
- **catchment alternative to nitrate treatment:** agree and purchase nitrogen offsets from local farmers. This would include initiatives such as conversion of arable farmland to grassland or wetland. This solution was estimated to cost £250k with ongoing operational costs of £50k a year. The Company has significant experience and success with catchment-based solutions and this approach would provide longer term sustainable catchment investment over 20 years.

Considering the best interests of the environment and the communities served, the Board agreed to engage with a number of stakeholders, including the Secretary of State and the Environment Agency, on the outputs required under the UWWTD. Despite advancing the case that the environmental outcome would be better achieved through catchment nutrient balancing rather than an asset solution, the Board ultimately had no option but to approve the asset solution given the stringent requirements of the UWWTD and the lack of support from the Secretary of State.

#### **Principal decision 4 – Response to the COVID-19 pandemic**

The COVID-19 crisis had a significant operational impact on the business in the final part of the reporting year. The Company took quick action to ensure continuity of essential services for all of our customers and to ensure the safety of our people in line with latest government advice. It also amended some non-essential service provision for reasons of safety, for instance by pausing programmes of household metering, water sampling at customer taps and in-home assistance to save water.

The Board recognised that the Company had wider obligations to the communities that we serve, and that compared to many other businesses we were in a fortunate position. The Board therefore agreed the following:

- That the Company would not take any government funding or furlough any employees.
- Wessex Water volunteers are engaged in a wider variety of community support.
- A £50 bill rebate for additional uniform washing by NHS frontline staff.
- Additional encouragement for any customers with difficulty in paying their bills to contact us so we can use our wide range of affordability assistance measures to greatest effect.
- Enhanced payment terms for our supply chain.
- Continued funding of our staff restaurant and cleaning contractors at our Operations Centre so that they could support our free community meals service.
- A £75,000 donation to support the work of Marie Curie nurses caring for COVID-19 patients.
- The provision of additional liquidity into the non-household retail market through delayed invoicing and revised payment terms.

#### **Financial Performance**

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

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

financial third parties.

Gearing, as measured by net debt to regulatory capital value (RCV), stands at 66%. On a pensions-adjusted basis, this figure rises to 69%, which the board still finds an acceptable level. During the year the board has continued to pay particular attention to the projected level of the company's gearing ratio with a view, when declaring dividends, to protect the company's existing credit ratings. The board remains committed to maintaining investment grade credit ratings for the company at all times.

The latest actuarial valuation of the company's pension scheme took place on 30 September 2016, showing a deficit of £160.9m. The company has agreed with the scheme's trustees a payment recovery plan in respect of the deficit comprising employer contributions of 21.7% and special contributions to reduce the deficit. The company paid a special contribution of £15m on 31 March 2020 and is committed to future contributions of £11.4m plus inflation annually through to 31 March 2026.

The company has an adequate liquidity position comprising cash and cash equivalents held on the balance sheet along with undrawn bank facilities, giving the company instant access to funding if needed. In September 2019 the company issued a new £250m corporate bond at 1.5%.

Highlights include:

- operating profit decreased by £15.9m from £228.4m to £212.5m
- turnover increased by £4.6m or 0.8% while underlying operating costs increased by £20.5m or 6.4%
- the cost of debt fell from 4.4% to 4.2%. We maintained a balanced mix of financial instruments.
- capital expenditure on Tangible & Intangible assets delivered in the final year of AMP6 was £271.7m, an increase of £27.2m over £244.5m last year but in line with expectations
- profit before tax fell by £13.5m from £134.7m last year to £121.2m. This was due, primarily, to increases in retail services, site operations, depreciation and the impact of Covid-19 on debt collectability.
- gearing, as measured by net debt to regulatory capital value, has risen from 64.7% last year end to 66.2% this year end
- we achieved all of our five key financial targets in the year (profit after corporation tax, operational costs, cash flow before dividends, capital expenditure and dividends declared).

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

## **Tax Strategy**

### *Our attitude towards UK tax planning*

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

areas, we will seek external advice when required.

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

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

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

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

*The company approach towards dealings with HMRC*

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

## Risk Management

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

### Risk management process

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

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

Operational risks act as a foundation for separate tactical risk registers which feed into the corporate risk register. The Risk Management Group maintains and reviews all business risks; the corporate risk register includes emerging (e.g. climate change) and strategic risks.

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

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

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

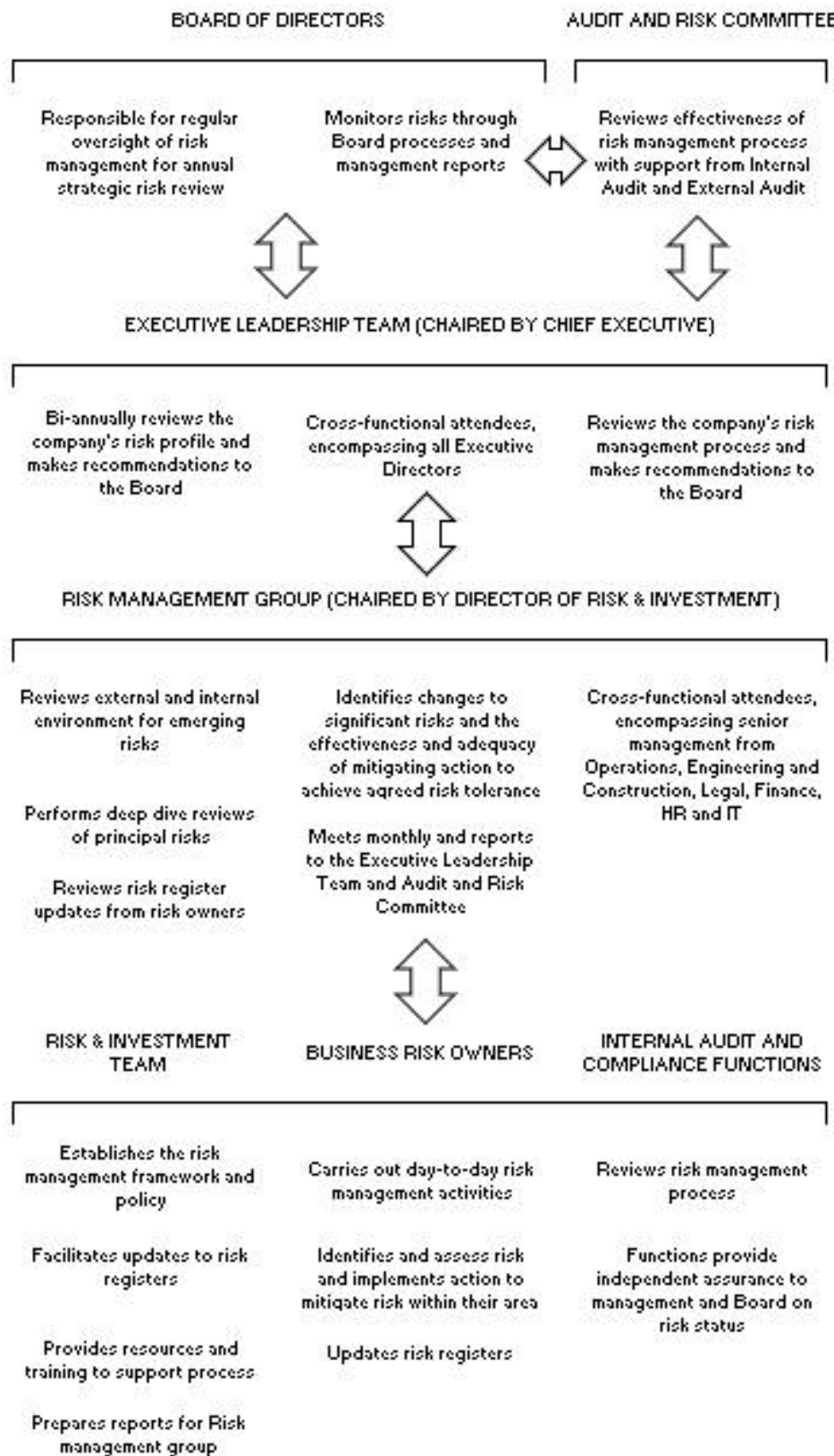
The CEO submits a bi-annual risk review paper to the Board for its review. This paper details the risk review process, identifies the current principal risks (listed below) to the business and the mitigation measures. It also records the status of emerging risks that have been identified.

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

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

## Risk management governance

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



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

- following the review of risk management software applications, we have procured a governance, risk and compliance tool for implementation in 2020-21.
- Development of a series of tactical risk registers to improve escalation of risk from operational risk registers to the corporate risk register
- Development of a risk and resilience management framework as part of our resilience action plan, submitted in August 2019 that adopts a systems-based approach to managing the impact of shocks and stresses to the business
- Risk based review of the PR19 final determination and the creation of an internal business plan to achieve the stretching performance targets within the totex allowance we have while maintaining an acceptable level of risk.
- Updated the definitions of our risk scores to reflect the priorities of the Board following the review of the PR19 Final Determination.

## Principal risks

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

Since 2018-19, there has been one new principal risk, pandemic infection. Pandemic infection has always been on our corporate risk register, however, with the outbreak of Covid-19 it is clearer that either this virus will have an on-going impact or that another virus could arise within the foreseeable future. We are also much clearer in terms of the potential root cause effects of such a virus on our business and as a result we have escalated pandemic infection to be a principal risk.

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

Principal risk	Description	Risk trend
<b>Political / regulatory action</b>	Actions taken by Government or regulators that fundamentally change the operating environment in which we work, affecting the business and/or cash flows	<b>Decreasing</b>
<b>Anti-competitive behaviour</b>	Ineffective internal controls resulting in anti-competitive behaviour	<b>Increasing<sup>1</sup></b>
<b>Digital resilience</b>	A malicious attack or failure of cyber security that results in the corruption or loss of data and/or inefficient operations	<b>Stable</b>
<b>Widespread unfit water</b>	External factors (e.g., contamination of supply or customer pipes) or internal factors (e.g., asset failure or poor operating performance) that results in the supply of unfit water affecting public health	<b>Stable</b>
<b>Major pollution incident</b>	External factors (e.g., sewer misuse or asset failure caused by a third party) or internal factors (e.g., asset failure or poor operating performance) that results in a major pollution incident significantly affecting the natural environment	<b>Decreasing</b>
<b>Health and safety</b>	Failure of operational controls or an external hazard that affects the health and safety of employees, contractors or the public	<b>Stable</b>
<b>Insider threat</b>	A disgruntled, vulnerable or radicalised employee or contractor causes malicious damage to operational activities and/or the company's reputation	<b>Decreasing</b>
<b>Resources and skills</b>	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	<b>Stable</b>
<b>Failure to meet performance commitments</b>	Failure to manage delivery of performance commitments resulting in a net penalty and/or reputational damage to the business	<b>Increasing<sup>2</sup></b>
<b>Pandemic infection</b>	Loss of resources (goods/services/people) and/or revenue inhibit our ability to operate	<b>Increasing<sup>3</sup></b>
<b>Ability to raise finance</b>	We are unable to fund the business sufficiently in order to meet our liabilities as they fall due	<b>Stable</b>

1. Internal controls remain robust; however, we believe the regulator has signalled it is more likely to use its enforcement powers because it wants to do more to promote competitive markets
2. It is expected that it will be more challenging to achieve consistently high performance against the stretching new AMP7 performance commitments.
3. The trend reflects the likely on-going impact of Covid-19 and that another virus could arise within the foreseeable future



## Strategic Risks

### Political/ Regulatory action

#### Description of the risk

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

#### Context

As a private provider of an essential public service our position as a licensed water and sewerage undertaker and many of our associated obligations are defined by statute. A strong regulatory framework allows quality and independent economic regulators to determine many of the outcomes we are required to deliver and the amount of revenue that we can collect through our charges.

#### Mitigation and controls include

- Consult with customers and stakeholders to understand their requirements
- Communicate value to customers and stakeholders of our operational performance and investment.
- Dedicated and experienced PR19 project team who were committed to getting the best outcome in PR19 for the business and our customers
- Embedded culture that embraces Ofwat's challenges to seek opportunities
- Engage in relevant government and regulatory consultations
- Keep abreast of changing or new legislation and regulatory requirements

## Anti-competitive behaviour

### Description of the risk

Ineffective internal controls resulting in anti-competitive behaviour.

### Context

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

### Mitigation and controls include

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

## Operational Risks

### Digital resilience

#### Description of the risk

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

#### Context

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

#### Mitigation and controls include

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

## Widespread unfit water

### Description of the risk

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

### Context

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

### Mitigation and controls include

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

## Major pollution incident

### Description of the risk

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

### Context

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

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

### Mitigation and controls include

- Risk-based prioritisation process for the maintenance and replacement of our assets
- ISO 9001 (Quality management) and ISO 55001 (Asset Management) certified
- Robust monitoring of our operations 24/7
- Rigorous sampling/testing programme
- Emergency planning and business continuity plans
- 'Love your Loo' and '3 P's – poo, pee and paper' campaigns to raise awareness of sewer misuse
- National lobbying of wet wipe manufacturers and supermarkets to tackle false advertising of 'flushable wet wipes'
- Planned preventative maintenance to reduce blockages
- Installation of EDM monitors to identify frequently spilling overflows
- Rising main monitoring programme
- Robust culture of self-reporting

## Health and Safety

### Description of the risk

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

### Context

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

### Mitigation and controls include

- Embedded framework and strategy
- Inclusion of H&S considerations in design standards
- Embedded behavioural safety programmes (e.g., Make It Right, Take 5 to Check 5, Take 5 to Take care)
- OHSAS 18001 certified for our Engineering and Construction activities
- Easy reporting of incidents, near misses and observation through our Health and Safety App
- Supporting our employees through resilience building, mental health and financial wellbeing initiatives
- Improved communication with employees on H&S issues
- Sharing of best practice and advice between Water UK members

## Insider threat

### Description of the risk

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

### Context

We have more than 2,300 employees who have varying degrees of access to our assets, systems and information. A risk exists that an employee could use this access to cause malicious damage.

### Mitigation and controls include

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

## Resources and skills

### Description of the risk

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

### Context

Our business is made up of more than 2,300 employees undertaking a wide breadth of roles with varying skills requirements. We have a predominance of positions requiring STEM (Science, Technology, Engineering and Maths) skills. There is a national shortage of STEM skills across the UK, particularly Engineering. The construction project at Hinkley C in Somerset has exacerbated the STEM skills shortage in our region and we anticipate this risk to increase as a result of the extent of our 2020-25 investment programme.

### Mitigation and controls include

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



## Failure to meet performance commitments

### Description of the risk

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

### Context

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

### Mitigation and controls include

- Prioritisation of totex budgets to enable delivery of performance commitments
- Monthly monitoring and reporting to senior management and executive
- Monthly reviews of trends and streamlined governance to allow rapid allocation of resources and reserves to implement response plans
- Corporate and remuneration targets set to achieve performance commitments
- Collaborative solutions-based approach with stakeholders to identify alternative ways of delivering improvements at the lowest totex cost
- Hold management and staff briefings to embed processes and ensure performance culture focuses on priority areas

## Pandemic infection

### Description of the risk

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

#### Context

We directly employ 2,800 people, obtain the goods or services from over 1,500 suppliers and receive £500m revenue from 2.4 million customers each year. This supports our ability to provide industry leading service to our customers and fulfil our regulatory requirements. Pandemic infection has a direct impact on our employees, supply chain and customers.

### Mitigation and controls include

- Emergency planning and business continuity plans
- Maintain strong links with Water UK and Defra
- Maintain strong relationships with Public Health England and Local Resilience Forums
- Employees have appropriate access to hardware and software for remote working
- Build on lessons learnt from Covid-19

## Financial Risk

### Ability to raise finance

#### Description of the risk

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

#### Context

The company has a significant funding requirement for its investment programme and refinancing maturing debt, both in the current AMP period and into the future. This is a well -controlled risk, but it is important we continue to maintain our high standards to mitigate the risk. In September 2019, the company raised £250m through a new corporate bond issue and secured an additional £75m facility with existing lenders and, whilst the outcome of Brexit and the impact of Covid-19 may affect our access to some channels of funding, we have other sources we can initiate should the need arise.

#### Mitigation and controls include

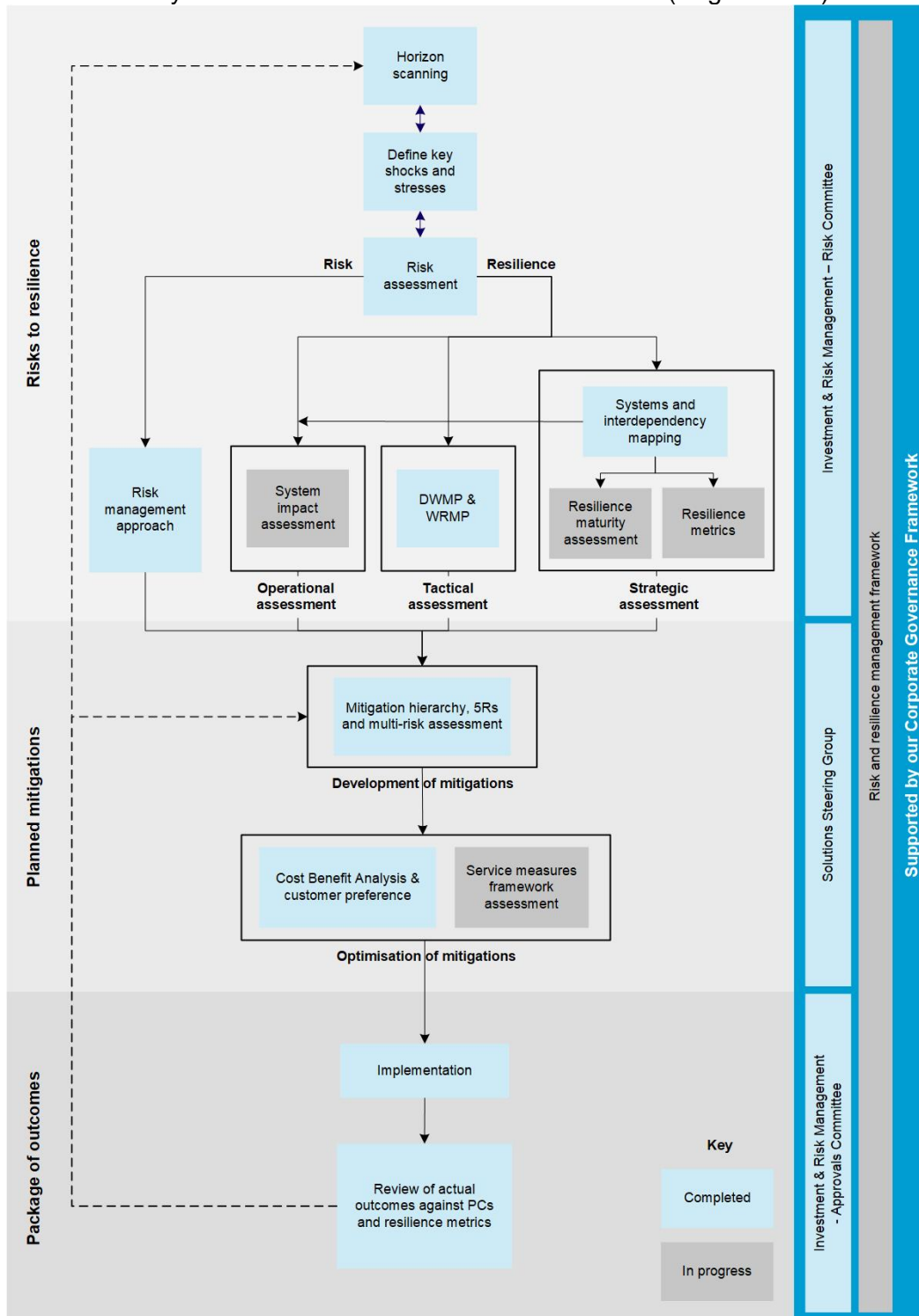
- Maintain strong relationships with financial institutions and credit rating agencies
- Maintain and annually review borrowing policy
- Regular monitoring of position

## Resilience

As part of our submission of the Resilience Action Plan (RAP) we proposed to update, audit and publish the plan on an annual basis. Following receipt of Ofwat’s feedback to the plan and the alignment of this work to our risk and resilience management framework (see below) it seemed most sensible to update this in September, a year on from when it was originally submitted, rather than as originally proposed as part of the Annual Performance Report.

A working group is in place progressing the detailed actions to develop a more mature system-based capability across the business.

Our system-based risk and resilience framework (August 2019)



## Long Term Viability Statement

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

Over 2018 and 2019 as part of the Company's business planning cycle the board considered an operational business plan that included financial projections up to 2030. In December 2019 the company received the final determination for 2020-25, giving increased certainty to the final projections to this point.

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

For the most immediate term analysis up to the end of June 2021 for the purposes of making their going concern assessment the Directors have taken into account:

- the current financial position of the Company, its cash deposits and available funds
- the expected turnover up to June 2021 from the customer charge rates that have already been set
- that the large capital expenditure programme is of a similar nature to that delivered in previous regulatory control periods, allowing the Directors to be able to predict the cost of construction with some certainty
- that borrowing facilities in place are long term and maturing after 30 June 2021. The mix of borrowings is spread between fixed, floating and index linked, and that predictions of interest rate increases are moderate
- that there are sufficient finance facilities in place to fund our working capital requirements
- the potential range of impacts that may result from the ongoing Covid-19 pandemic

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

- the principal risks as shown in the Annual Review summary
- the liquidity of the Company over this period
- compliance with financial covenants in respect of gearing and interest cover

Having done so, the Directors confirm that they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due up to 30 June 2021.

The Directors acknowledge the need for additional financing over medium term beyond June 2021 and the strategy in place, and underway, to raise this finance. The requirement is largely driven by substantial investment under the WINEP (Water Industry National Environment Programme) and the Company's RCV (Regulatory Capital Value) will increase commensurately. Considering the flexibility in timescales to raise the required finance, and the associated increase in RCV, the Directors are satisfied that this does not present an additional barrier to financial viability.

The Company's approach to the assessment and consideration of the full range of risks, including common external risks that affect the water sector as whole as well as specific Company risks is detailed in the previous section of this Annual report and accounts document (see pages 60 to 75).

When considering financial viability over a longer time period, the Directors considered the impact if the risks identified in the corporate risk register, including those related to the wider

group, were to occur. On top of this, the wider economic situation and regulatory environment were considered, and the impact of any foreseeable risk was considered. This ensures that all operational, financial and regulatory risks and liabilities are fully considered. The individual shocks used in stress testing for this viability statement are consistent with this wider risk assessment reported elsewhere in the Company's accounts (pages 60 to 75), these have then been combined into bespoke scenarios for this assessment.

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

The shocks and scenarios and levels of sensitivity considered within the financial viability assessment are reviewed and agreed by the Director of Risk and Investment, Director of Regulation and Financial Controller. Our full approach to risk identification, management and mitigation is described on pages 60 to 75 of this annual report and accounts. These are then presented to the Company's Audit and Risk Committee for review.

The shocks considered include but were not limited to:

- inflation
- revenue variation
- expenditure
- costs associated with obligations not allowed for in the most recent price determination
- debt service requirements
- pension liabilities
- exceptional costs such as regulatory fines
- a credit rating downgrade, including one determined by a rating agency due to other group activities
- impact of covid-19, considering both a short-term peak and a longer-term peak

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

In total, the Company modelled 36 scenarios, the most severe of which consider multiple concurrent and linked risks. All the scenarios include either the most likely, or more severe Covid-19 impact.

The table below sets out the types of risks that were considered. Against each of these, scenarios were run considering different severities of the expected impacts, either individually or collectively.

Risks	Details and sensitivity testing
Wastewater incident	This might include a major pollution incident or the widespread distribution of unfit water. The base scenarios include the capital costs of rectification and then increases severity by progressively including risks of fines, penalties from regulatory delivery incentives, customer compensation payments and at the most extreme the withholding of customer bill payments.
Water supply incident	
Simultaneous water and wastewater incidents	As above but assumes incidents occur concurrently.
Macroeconomy	<p>These scenarios assume a sustained economic downturn in the UK that:</p> <ul style="list-style-type: none"> <li>• increases company input prices and reduces productivity</li> <li>• lowers inflation</li> <li>• reduces company sales</li> <li>• increases the cost of new finance.</li> </ul>
Combined operational and macroeconomic shock	Assumes operational failure coincides with higher input costs resulting in consistent overspends against regulatory allowances. Alongside this depressed consumer price indices reduce sales and regulatory value. Sensitivity testing in some of the scenarios increases the severity by assuming demand and sales volumes also decrease and the company suffers higher interest costs through a credit rating downgrade.
New unfunded obligations and operational incident	These scenarios assume that government or regulators impose new obligations on the Company that create additional costs and diverts management focus leading to operational failure.
Extreme weather event	Extreme weather event (either a 'beast from the east' or a prolonged dry period) causes overspend on opex and asset failures resulting in ODI penalties
Extreme Covid-19 Impact	Covid-19 impact on the non-household market continues throughout most of this financial year with a severe longer-term impact on the economy.

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

The regulatory model also allows for turnover to be adjusted upwards in the event of a substantial adverse effect on the financial position of the Company, where this effect would not have been avoided by prudent management action. It also allows for turnover to be

adjusted where a new legal obligation imposed on the Company as a water and sewerage undertaker has led to a material increase in the costs incurred.

The final determination significantly reduces the covenant headroom available over the next five years when compared to what the Company previously expected. The Directors noted that when considering the final determination forecasts of revenues and expenditure, several of the more severe scenarios would breach the financial covenants in our bank facilities beyond June 2021, prior to mitigation.

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

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

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

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

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

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

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

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



## Directors' Report

The Directors have pleasure in presenting their report and the audited non-statutory accounts (subsequently referred to as accounts) for the year to 31 March 2020. The financial year end of all Group Companies is 30 June, but under the conditions of appointment of the Company (under the Water Industry Act 1991) the Company is required to prepare a regulatory Annual Performance Report for the 12 months ended 31 March each year.

Non-statutory accounts have been prepared for the same period to allow users of the regulatory Annual Performance Report to reconcile those results to the Company accounts. Under the terms of its Licence as a water and sewerage undertaker the Company is required to prepare a statement of corporate governance as if it were a listed company.

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

### Principal Activities

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

In December 2019 the industry regulator Ofwat announced the final price control determination for the five-year period to March 2025. The Directors have accepted this price control.

### Going concern

The Directors have considered the financial position of the Company and have concluded that they will be able to meet their liabilities as they fall due for the foreseeable future. For these purposes the foreseeable future is taken to mean a period of at least 12 months from the date of approval of these accounts. In coming to this conclusion the directors have evaluated the impact of Covid-19 on revenues and debt collectability and reviewed the short term financing requirements of the company for the 12 month period from the date of the approval of these accounts. In addition the Directors have noted that beyond this period there is a need for refinancing debt falling due in September 2021, which, based on past experience, the Directors are satisfied will be achievable.

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

### Sustainability

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

### Ethical Policy

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

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

### Our People

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

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

## Employment

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

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

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

## Streamlined Energy and Carbon Reporting

*Global GHG emissions and energy use data for year to 31st March 2020*

	2019-20		Unit
	UK & offshore	Global (excl. UK & offshore)	
Energy consumption used to calculate Emissions	361,396,721	-	kWh
Emissions from activities for which the company is responsible including combustion of fuel & operation of facilities (Scope 1)	49,909		t CO <sub>2</sub> e
Emissions from purchase of electricity, heat, steam and cooling purchased for own use (Scope 2)	59,368		t CO <sub>2</sub> e
Total gross Scope 1 & Scope 2 emissions	109,277		t CO <sub>2</sub> e
Emissions outside of operational control (Scope 3)	9,932		t CO <sub>2</sub> e
Exported renewable energy	(1,743)		t CO <sub>2</sub> e
Total annual net emissions	117,466		t CO <sub>2</sub> e

	2019-20	Calculation
Intensity metric 1	185	kg t CO <sub>2</sub> e / Ml water treated
Intensity metric 2	142	kg t CO <sub>2</sub> e / Ml sewage treated (flow to full treatment)
Intensity metric 3	312	kg t CO <sub>2</sub> e / Ml sewage treated (water distribution input)

### *Methodology*

Both intensity metrics and greenhouse gas emissions (scope 1, 2 and 3) are calculated using the water industry's Carbon Accounting Workbook which incorporates the DEFRA carbon conversion factors for the relevant year, and is externally audited by Wessex Water's technical auditors each year. The workbook was originally developed by UKWIR and is updated and maintained annually. For energy consumption, data is extracted from in-house systems for power, liquid fuels and financials which are then converted using the appropriate DEFRA conversion factor.

The data presented follows the annual reporting period April-March to align with Wessex Water's regulatory reporting year. This is not the same as the company's statutory year which runs from July to June.

### *Energy Efficiency Measures*

The company is committed to protecting and improving the natural resources that are used by our water and sewage operations. We are acutely aware that our processes to treat, distribute and supply potable water, and to pump and treat waste water are inherently energy intensive. Therefore, we continually seek ways to use energy more efficiently so we can reduce energy use, optimise our assets and increase resilience. Below are a few key areas where we have implemented energy efficiency measures within the year:

- Aeration optimisation
- Advanced real-time process control measures
- Proactive blockage identification
- Optimising performance on supply pumps
- Upgrading fluorescent lighting to LEDs
- Increasing combined heat & power capacity

### **The Modern Slavery Act 2015**

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

### **Environment Policy**

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

### **Research and Development**

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

### **Market Value of Land and Buildings**

In the opinion of the Directors, the market value of land and buildings of the Company exceeds the book value of these assets at 31 March 2020.

**Suppliers**

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

The payment policy in respect of suppliers is to agree the payment terms for transactions in advance and to make payments in accordance with those terms. At 31 March 2020 trade creditors represented approximately 20 days trade purchases (2019 – 21 days).

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

**Community and Charitable Donations**

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

During the year £541,377 was donated to UK charities (2019 – £336,292) of which £215,404 (2019 – £186,230) was donated to local debt advice agencies to help provide debt and financial advice to customers in our area who are struggling to pay their water bills.

**Disclosure of Information to Auditor**

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

**Auditor**

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

By order of the Board

Ruth Jefferson – Group General Counsel

Claverton Down

Bath

BA2 7WW

30 June 2020

## Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the non-statutory accounts in accordance with applicable regulations.

The Company's licence conditions, as set by the Water Services Regulation Authority, require the Directors to prepare Company accounts for each financial year to 31 March.

The Directors have elected to prepare the non-statutory accounts in accordance with IFRSs as adopted by the EU and as if the requirements of the Companies Act 2006 were to apply to them.

The Directors are required to prepare accounts that give a true and fair view of the revenues, costs, assets and liabilities of the Company.

In preparing the non-statutory accounts, the Directors have:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that are reasonable and prudent;
- stated whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepared the non-statutory accounts on the going concern basis.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its non-statutory accounts comply with the Companies Act 2006, as if those requirements were to apply to the Company. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The Directors have decided to prepare voluntarily a Directors' Remuneration Report in accordance with Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 made under the Companies Act 2006, as if those requirements were to apply to the Company. The Directors have also prepared a Corporate Governance Statement as if the Company were required to comply with the Listing Rules and the Disclosure Rules and Transparency Rules of the Financial Conduct Authority in relation to those matters.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

We consider the annual report and non-statutory accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

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

## Opinion

We have audited the financial statements of Wessex Water Services Limited for the year ended 31 March 2020 which comprise the Profit and Loss Account, the Balance Sheet, Statement of cash flows, the Statement of comprehensive income, the Statement of changes in equity and the related notes 1 to 32, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 March 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union.

## Basis for opinion

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

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

## Conclusions relating to principal risks, going concern and viability statement

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

- the disclosures in the annual report set out on page 63 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation set out on page 60 in the annual report that they have carried out a robust assessment of the emerging and principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement set out on page 80 in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements
- whether the directors' statement in relation to going concern required under provisions 30 and 31 of the UK Corporate Governance Code is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation set out on page 76 in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

## Overview of our audit approach

Key audit matters	<ul style="list-style-type: none"> <li>• Revenue Recognition</li> <li>• Valuation of Expected Credit Loss Provision</li> <li>• Classification of Costs between Operating and Capital Expenditure</li> <li>• Defined Benefit Pension Liability</li> <li>• Impact of the COVID-19 pandemic</li> </ul>
Materiality	<ul style="list-style-type: none"> <li>• Overall materiality of £6.1m which represents 5% of profit before tax.</li> </ul>

## Key audit matters

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

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p><b>Revenue Recognition (Revenue £552.3m, PY comparative £547.7m &amp; Estimated Unbilled Income £64.8m, PY comparative £67.2m)</b></p> <p><i>Refer to the Audit Committee Report (page 25); Accounting policies (page 107); and Note 4 of the Financial Statements (page 117)</i></p> <p>Revenue relates to the provision of water and sewerage services. ISAs (UK &amp; Ireland) presume there is a risk of fraud</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> <li>• We obtained an understanding of the process for the supply of measured services, meter reading and related billing in order to assess the completeness of adjustments to reflect the accrual or deferral of revenue</li> <li>• We tested key controls linked to system generated information and around the estimation process for measured revenue</li> <li>• We compared the estimated unbilled income to bills raised post year end for a sample of customers, and compared management's history of estimating the unbilled income balance to bills raised in the</li> </ul>	<p>We concluded that the estimation process undertaken by management to calculate the measured unbilled income accrual reflects latest operational factors in the key assumptions and results in an acceptable income accrual.</p>

<p>relating to revenue recognition.</p> <p>This risk over revenue recognition arises in relation to the unbilled income accrual from metered water services. This income accrual requires an estimation of the amount of unbilled charges at the period end. This is calculated using a combination of system generated information, based on previous customer volume usage, together with management judgements as to the likely impact on usage of factors such as seasonal variations. We have also identified a further risk in relation to the posting of manual journals to revenue at or close to the balance sheet date.</p>	<p>subsequent year to assess the accuracy of the balance</p> <ul style="list-style-type: none"> <li>• For a selected sample we recalculated the estimated unbilled income based on customers' historical usage data</li> <li>• We performed analytical procedures by comparing revenue balances for the year against expectation and obtaining support for significant variances</li> <li>• We corroborated the key assumptions and estimates made by management in recognising revenue, by obtaining internal and external data on factors that influence demand from customers.</li> <li>• We tested whether contract terms and conditions were met and revenue recognised at the correct time in accordance with IFRS</li> <li>• We tested a sample of transactions to underlying bills</li> <li>• We performed journal testing with increased attention on entries impacting revenue, particularly those raised close to the balance sheet date.</li> </ul>	
<p><b>Expected Credit Losses (£42.5 million, PY comparative £35.6 million)</b></p> <p><i>Refer to the Audit Committee Report (page 25); Accounting policies (page 105); and Note 25 of the Financial Statements (page 142)</i></p> <p>The provision is calculated using a combination of system generated information on historic debt recovery rates and management's</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> <li>• We obtained an understanding of the Company's process for calculating the expected credit loss provision as at 31 March 2020, with a specific focus on the assumptions made by management in performing the calculation.</li> <li>• We performed substantive testing to ensure the completeness and accuracy of the data inputs to the calculation.</li> <li>• We challenged the assumptions used by management in</li> </ul>	<p>We concluded that the method used by the Company to calculate the expected credit loss provision results in an acceptable valuation of the provision.</p>



<p>judgement of the future likely recovery rates.</p> <p>Within the current year the provisions were calculated using the normal methodology, and then a further assessment was made to reflect the risks arising on future collection of outstanding debts as a result of the economic impacts of the COVID-19 pandemic. This resulted in an additional provision of £1.1m (which is included in the total figure above).</p> <p>There is a risk that the assumptions, used by management in calculating the expected credit loss provision, may be susceptible to management bias or that data used/calculation may contain errors and the valuation of the provision against trade receivables may be therefore be misstated</p>	<p>determining the amounts provided against the different payment profiles and considered indicators of management bias.</p> <ul style="list-style-type: none"> <li>• We compared assumptions to historic collection rates and confirmed that these were being correctly used in the calculation.</li> <li>• We utilised collection information over the past five years, to determine an alternative assessment of the likely ultimate collection of debts existing at the balance sheet date and compared this to the provision recorded by management</li> <li>• We tested management's scenario analysis of the impact of COVID-19 on the collection of trade receivables to supporting evidence. This included consideration of the long run collections history, segmentation of the customer base between household and non-household customers, external analysis performed on the likely impacts on the sector, and actual collections experience since the balance sheet date.</li> <li>• Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.</li> </ul>	
<p><b>Classification of costs between operating and capital expenditure (Capital expenditure £238.5 million, PY comparative £217.8 million)</b></p> <p><i>Refer to the Audit Committee Report (page 25); Accounting policies (page 104); and included within Note 11 of the Financial Statements (page 123)</i></p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> <li>• We tested controls over the approval of the capital budget and the classification of expenditure for individual projects.</li> <li>• We sampled capital expenditure costs in the year and agreed the costs to underlying support, including timesheets, invoices and journal postings.</li> <li>• We made enquiries of project managers for a sample of projects to understand the nature of the</li> </ul>	<p>We concluded that operating and capital expenditure had been correctly accounted for in the financial statements. We concluded that the prior year adjustment relating to the reclassification of costs between tangible and intangible assets</p>

<p>The magnitude of Wessex Water's capital spend and the level of subjectivity in allocating costs between operating and capital expenditure result in there being a potential for error in the accounting for fixed assets.</p>	<p>work being undertaken, and the status on the project.</p> <ul style="list-style-type: none"> <li>• We challenged management's assumptions used in allocating certain costs between capital and operating expenditure. Specifically, this has included assessing the appropriate capitalisation of the following types of costs; overheads, interest &amp; infrastructure maintenance.</li> <li>• We assessed the appropriate categorisation of the capitalised costs within the balance sheet. This included consideration of the classification between tangible and intangible asset in the current and prior periods. We assessed the reason for the identified prior year adjustment in relation to the classification of assets between tangible and intangible assets. We extended our testing in the current year to confirm all appropriate intangible assets had been correctly identified and separately disclosed.</li> </ul>	<p>was appropriate and correctly disclosed.</p>
<p><b>Defined benefit pension liability (£90.6 million, PY comparative £140.6 million)</b></p> <p><i>Refer to the Audit Committee Report (page 25); Accounting policies (page 106); and Note 20 of the Financial Statements (page 131)</i></p> <p>Wessex Water Services Limited operates a retirement benefits scheme for its employees which is classified as a defined benefit scheme.</p> <p>The valuation of the defined benefit pension liability requires the use of a number of actuarial</p>	<ul style="list-style-type: none"> <li>• We performed procedures to confirm the independence, objectivity and competence of the actuary's engagement by the company to perform the valuation of the defined benefit pension liability. This included make enquiries with the actuary.</li> <li>• With the assistance of our EY pension actuarial specialists we assessed the reasonableness of key assumptions, comparing these with external data.</li> <li>• We understood any key events / changes in the pension scheme during the current year.</li> <li>• We performed procedures to confirm the accuracy of data used by the actuary to perform their valuation, including the valuation of the pension assets.</li> <li>• Assessed the Company's financial statement disclosures in relation to</li> </ul>	<p>We concluded that the assumptions selected by the Company to determine the defined benefit pension liability were all within our acceptable range</p>

<p>and other assumptions in deriving the final values. Given the inherent subjectivity in setting these assumptions there is a risk that the use of inappropriate assumptions may result in a material misstatement.</p>	<p>the defined benefit pension scheme.</p>	
<p><b>Impact of COVID-19, including on the Company's Going Concern Assessment</b></p> <p><i>Refer to the Audit Committee Report (page 25); Strategic Report (page 51), Accounting policies (page 101 ); and Note 32 of the Financial Statements (page 148)</i></p> <p>Since early 2020, the COVID-19 pandemic has caused significant disruption to the world's population, business and economic activity and may ultimately impact the Company's future performance and asset values.</p> <p>Government measures taken to contain the virus have had an impact not only on the way in which businesses operate, but also in the way in which an audit can be performed.</p> <p>The Company has been designated by the government as an 'essential' services company and, as such, has continued to operate. However, there have been a number of impacts for the business in the current year and also on the short to medium term forecasts</p>	<p>Our audit procedures covered four key areas:</p> <ul style="list-style-type: none"> <li>• Audit logistics</li> <li>• Going concern</li> <li>• Other audit matters</li> <li>• Adequacy of disclosure.</li> </ul> <p><u>Audit Logistics:</u></p> <p>We had already completed the audit planning procedures, and certain control testing and some early substantive audit testing in advance of the year end.</p> <p>We have performed the year-end audit fully remotely. We have engaged with the Company throughout this period, using video calls, share-screen functionality, secure encrypted document exchanges and data downloads to avoid any limitation on the audit evidence required.</p> <p>We held bi-weekly calls with management to monitor progress, discuss evidence provided, judgements and accounting.</p> <p><u>Going Concern:</u></p> <p>We have assessed the Going Concern assumption adopted by the Directors of WWSL, which included:</p> <p>Confirming our understanding of the Going Concern process and also engaging with management early to</p>	<p>We have completed our audit in line with our plan.</p> <p>We have confirmed that management's assessment of Going Concern is appropriate and concur with the directors' assessment that there is no Material Uncertainty as there is sufficient headroom in both cash flow forecasts and covenant forecasts after severe but plausible downside scenarios have been factored in. We have considered available mitigations if key assumptions were to change.</p> <p>We have concluded that the adjustments recognised by management in relation to COVID-19 (including updates to the expected credit loss model) are appropriate and that they reflect management's best estimate of the COVID-19 impact. See the separate key audit matter on expected credit</p>

<p>as discussed in Note 1.3 (page and in the Strategic Report (page 51))</p> <p>Our audit focus has been on the following key areas:</p> <ol style="list-style-type: none"> <li>1. How the audit would be undertaken given the remote working restrictions and the resulting refinements to our team, approach and procedures;</li> <li>2. Consideration of the going concern basis of preparation, focusing on forecasting ranges to reflect the impact of the COVID-19 pandemic and resulting liquidity and covenant headroom;</li> <li>3. Consideration of the increased risks associated with the impact of COVID-19; and</li> <li>4. The adequacy of the disclosures made in the accounts.</li> </ol>	<p>ensure all key matters were considered in their assessment;</p> <p>Obtaining management's forecast cash flows and covenant calculation covering the period from the date of signing to 30 June 2021.</p> <p>We have performed reverse stress testing on management's forecasts to understand how plausible the severe downside scenarios would be to result in negative liquidity or a covenant breach.</p> <p>We have assessed management's COVID-19 impact assessment on the forecasts, considering both past historical accuracy of management's forecasting against the actual impact experienced by the Company in April and May 2020;</p> <p>We have considered management's assessment of options potentially available to the group to reduce cash flow spend in the Going Concern period, to determine whether such actions could be affected;</p> <p>We have performed a detailed review of all the facilities to assess their continued availability to the group and to ensure completeness of covenants identified by management.</p> <p><u>Other Audit Matters:</u></p> <p>As a result of COVID-19 there have been a number of areas of the audit which have been reassessed and where increased audit focus was applied.</p> <p>The key areas of increased audit risk related to: Going Concern assessment as a result of reduction in demand (mentioned previously within this KAM) and counterparty credit risk as a result</p>	<p>losses in this audit report.</p> <p>We conclude that the disclosure on the impact of COVID-19, including on the Company's Going Concern assessment, is appropriate.</p>
--	---	--

	<p>of negative economic trading conditions.</p> <p>Our audit procedures in relation to assessing counterparty credit risk have included:</p> <ul style="list-style-type: none"> <li>- Understanding the changes to the provision for bad and doubtful debts as a result of COVID-19; and</li> <li>- Assessing actual outturn in April 2020 and May 2020 compared to management's estimates</li> </ul> <p>Our audit procedures have also specifically considered:</p> <ul style="list-style-type: none"> <li>- Evaluating the impact of COVID-19 on world stock markets and the valuation of assets held within the pension scheme.</li> </ul> <p><u>Adequacy of disclosures:</u></p> <p>We have considered whether management's additional disclosure, included within the Strategic Report (page 51) and Notes 1.3, and Note 32 sufficiently capture the impacts of COVID-19 on the Company.</p>	
--	---	--

There have been no changes to the key audit matters identified above compared with those included in our prior year auditor's report, with the exception of the COVID-19 key audit matter.

## **An overview of the scope of our audit**

### **Tailoring the scope**

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

### **Our application of materiality**

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

**Materiality**

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

We determined materiality for the company to be £6.1 million (2019: £6.7 million), which is 5% (2019: 5%) of profit before tax. We believe that profit before tax provides us with appropriate and generally accepted benchmark for materiality.

**Performance materiality**

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

On the basis of our risk assessments, together with our assessment of the company's overall control environment, our judgement was that performance materiality was 75% (2018: 75%) of our planning materiality, namely £4.6m (2019: £5.1m). We have set performance materiality at this percentage due to a past history of few misstatements indicating a lower risk of misstatement in the financial statements.

**Reporting threshold**

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

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.31m (2019: £0.34m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

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

**Other information**

The other information comprises the information included in the annual report set out on pages 1 - 84, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

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

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

We have nothing to report in this regard.

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

- **Fair, balanced and understandable set out on page 84** – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting set out on page 25 - 28** – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code set out on page 6** – the parts of the directors' statement relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor by ISAs UK do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

### Opinions on other matters as agreed in our Engagement Letter:

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

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

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

### Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 84, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

### Auditor's responsibilities for the audit of the financial statements

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

### Other matter

We have reported separately on the Company's statutory accounts for the year ended 30 June 2019.

## **Use of our report**

This report is made solely to the company's members, as a body, in accordance with our engagement letter dated 26 June 2018. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP

Bristol

1 July 2020



## Non-statutory accounts

### Income Statement

For the year ended 31 March 2020

	<i>Note</i>	<b>2020</b> £m	2019 £m
<b>Revenue</b>	3,4	<b>552.3</b>	547.7
Other operating costs	5	<b>(320.8)</b>	(307.9)
Charge for bad and doubtful debts	5	<b>(19.0)</b>	(11.4)
<b>Total operating costs</b>		<b>(339.8)</b>	(319.3)
<b>Operating profit</b>	3	<b>212.5</b>	228.4
Financial income	8	<b>0.5</b>	0.1
Financial expenses	8	<b>(91.8)</b>	(93.8)
<b>Net financing expense</b>		<b>(91.3)</b>	(93.7)
<b>Profit before tax</b>		<b>121.2</b>	134.7
Taxation	9	<b>(54.6)</b>	(24.5)
<b>Profit for the year</b>		<b>66.6</b>	110.2

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

**Statement of Comprehensive Income**  
**For the year ended 31 March 2020**

	<b>2020</b>	2019
	<b>£m</b>	£m
<b>Profit for the year</b>	<b>66.6</b>	110.2
<b>Other comprehensive income</b>		
<i>Items that will not be reclassified to profit or loss:</i>		
Remeasurements of defined benefit liability	<b>40.8</b>	5.3
Income tax on items that will not be reclassified to profit or loss	<b>(20.3)</b>	(0.9)
<b>Other comprehensive income for the year, net of income tax</b>	<b>20.5</b>	4.4
<b>Total comprehensive income for the year</b>	<b>87.1</b>	114.6

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

**Balance Sheet**  
**At 31 March 2020**

	<i>Note</i>	<b>2020</b> £m	2019 £m (restated)	2018 £m (restated)
<b>Non-current assets</b>				
Property, plant and equipment	11,12	<b>3,768.8</b>	3,641.3	3,530.3
Intangible assets	13	<b>58.1</b>	34.7	25.2
Investments in subsidiaries	14	-	-	-
		<b>3,826.9</b>	3,676.0	3,555.5
<b>Current assets</b>				
Inventories	15	<b>3.9</b>	5.0	5.7
Trade and other receivables	16	<b>182.7</b>	183.9	185.0
Cash and cash equivalents	17	<b>42.3</b>	-	35.8
		<b>228.9</b>	188.9	226.5
<b>Total assets</b>		<b>4,055.8</b>	3,864.9	3,782.0
<b>Current liabilities</b>				
Bank overdraft	18	-	(20.4)	-
Other interest-bearing loans and borrowings	18	<b>(5.8)</b>	(31.4)	(145.4)
Trade and other payables	19	<b>(168.7)</b>	(174.6)	(196.1)
		<b>(174.5)</b>	(226.4)	(341.5)
<b>Non-current liabilities</b>				
Other interest-bearing loans and borrowings	18	<b>(2,255.8)</b>	(2,039.6)	(1,875.9)
Contract liabilities	19	<b>(6.3)</b>	(6.3)	(0.4)
Employee benefits	20	<b>(90.6)</b>	(140.6)	(153.7)
Deferred grants and contributions	21	<b>(289.1)</b>	(269.3)	(259.7)
Provisions	22	<b>(0.2)</b>	(1.2)	(0.1)
Deferred tax liabilities	23	<b>(415.4)</b>	(356.6)	(348.9)
		<b>(3,057.4)</b>	(2,813.6)	(2,638.7)
<b>Total liabilities</b>		<b>(3,231.9)</b>	(3,040.0)	(2,980.2)
<b>Net assets</b>		<b>823.9</b>	824.9	801.8
<b>Equity</b>				
Share capital	24	-	-	-
Retained earnings		<b>823.9</b>	824.9	801.8
<b>Total equity</b>		<b>823.9</b>	824.9	801.8

The notes on pages 101 to 149 form an integral part of these financial statements.  
These non-statutory financial statements were approved by the Board of Directors on 30 June 2020 and were signed on its behalf by:

Colin Skellett, Chief Executive

Andy Pymer, Director

**Statement of Changes in Equity**  
**For the year ended 31 March 2020**

	<i>Note</i>	Share capital £m	Retained earnings £m	Total equity £m
Balance at 1 April 2018		-	801.3	801.3
<b>Total comprehensive income for the year</b>				
Profit for the year		-	110.2	110.2
Other comprehensive income		-	4.4	4.4
Total comprehensive income for the year		-	114.6	114.6
<b>Transactions with owners, recorded directly in equity</b>				
Dividends	10	-	(91.0)	(91.0)
Total contributions by and distributions to owners		-	(91.0)	(91.0)
<b>Balance at 31 March 2019</b>		<b>-</b>	<b>824.9</b>	<b>824.9</b>
Balance at 1 April 2019		-	824.9	824.9
Effect of change in accounting policy		-	(0.1)	(0.1)
Balance at 1 April 2019 (restated)		-	824.8	824.8
<b>Total comprehensive income for the year</b>				
Profit for the year		-	66.6	66.6
Other comprehensive income		-	20.5	20.5
Total comprehensive income for the year		-	87.1	87.1
<b>Transactions with owners, recorded directly in equity</b>				
Dividends	10	-	(88.0)	(88.0)
Total contributions by and distributions to owners		-	(88.0)	(88.0)
<b>Balance at 31 March 2020</b>		<b>-</b>	<b>823.9</b>	<b>823.9</b>

Included in retained earnings are £534.6m of undistributable reserves (2019 - £553.2m) created on first time adoption of IFRS when restating infrastructure assets to fair value.

**Cash Flow Statement**  
**For the year ended 31 March 2020**

	<i>Note</i>	<b>2020</b>	2019
		£m	£m
			(restated)
<b>Cash flows from operating activities</b>			
Profit for the year		<b>66.6</b>	110.2
<i>Adjustments for:</i>			
Depreciation, amortisation and impairment		<b>113.5</b>	106.1
Financial income		<b>(0.5)</b>	(0.1)
Financial expense		<b>91.8</b>	93.8
Taxation		<b>54.6</b>	24.5
		<b>326.0</b>	334.5
Decrease in trade and other receivables		<b>1.2</b>	1.1
Decrease in inventories		<b>1.1</b>	0.7
(Decrease) in trade and other payables		<b>(4.9)</b>	(8.1)
(Decrease) in provisions and employee benefits		<b>(13.7)</b>	(10.6)
		<b>(16.3)</b>	(16.9)
Tax paid		<b>(25.8)</b>	(21.6)
<b>Net cash from operating activities</b>		<b>283.9</b>	296.0
<b>Cash flows from investing activities</b>			
Proceeds from sale of property, plant and equipment		<b>2.2</b>	2.2
Proceeds from sale of intangible assets		-	-
Interest received		<b>0.5</b>	0.1
Acquisition of property, plant and equipment		<b>(210.2)</b>	(222.7)
Acquisition of intangible assets		<b>(31.2)</b>	(13.7)
Proceeds from infrastructure charges and capital contributions		<b>6.6</b>	10.8
<b>Net cash from investing activities</b>		<b>(232.1)</b>	(223.3)
<b>Cash flows from financing activities</b>			
Proceeds from new loans		<b>198.3</b>	170.0
Interest paid		<b>(67.3)</b>	(63.4)
Repayment of borrowings		<b>(30.0)</b>	(140.0)
Payment of lease liabilities		<b>(2.1)</b>	(5.5)
Dividends paid		<b>(88.0)</b>	(90.0)
<b>Net cash from financing activities</b>		<b>10.9</b>	(128.9)
Increase/(decrease) in cash and cash equivalents		<b>62.7</b>	(56.2)
Cash and cash equivalents at 1 April		<b>(20.4)</b>	35.8
<b>Cash and cash equivalents at 31 March</b>	<i>17</i>	<b>42.3</b>	(20.4)

## Notes to the regulatory accounts

### 1. Accounting policies

#### 1.1 Basis of preparation

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

These financial statements do not constitute statutory financial statements as defined in section 434 of the Companies Act 2006. The latest statutory financial statements have been reported on by the Company's auditor for the year ended 30 June 2019 and have been delivered to the Registrar of Companies. The report of the auditor was unqualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

The Company financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs").

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

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

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

#### 1.2 Measurement convention

The financial statements are prepared on the historical cost basis.

#### 1.3 Going concern

The Directors have considered the financial position of the Company and have concluded that they will be able to meet their liabilities as they fall due for the foreseeable future. For these purposes the foreseeable future is taken to mean a period of at least 12 months from the date of approval of these accounts. In coming to this conclusion the directors have evaluated the impact of Covid-19 on revenues and debt collectability and reviewed the short term financing requirements of the company for the 12 month period from the date of the approval of these accounts. In addition the Directors have noted that beyond this period there is a need for refinancing debt falling due in September 2021, which, based on past experience, the Directors are satisfied will be achievable.

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

#### 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. Accounting policies *(continued)*

### 1.5 *Financial instruments*

#### **Cash and cash equivalents**

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

#### **Financial assets**

##### *Initial recognition and measurement*

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

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

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

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

##### *Subsequent measurement*

#### Financial assets at amortised cost

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

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

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

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

## 1. Accounting policies (continued)

### 1.5 Financial instruments (continued)

#### *Derecognition*

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

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

#### **Financial liabilities**

##### *Initial recognition and measurement*

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

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

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

##### *Subsequent measurement - Loans and borrowings*

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

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

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

##### *Derecognition*

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



## 1. Accounting policies (continued)

### 1.6 Property, plant and equipment

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

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

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

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

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

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

- |                                    |                 |
|------------------------------------|-----------------|
| • Buildings and operational assets | 15 to 80 years  |
| • Infrastructure assets            | 60 to 150 years |
| • Plant, machinery and vehicles    | 3 to 30 years   |
| • Office and IT equipment          | 4 to 15 years   |

Infrastructure assets comprise these 8 components:

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

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

### 1.7 Intangible assets

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

#### *Amortisation*

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

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

### 1.8 Inventories

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

## 1. Accounting policies (continued)

### 1.9 Impairment excluding inventories and deferred tax assets

#### *Financial assets (including receivables)*

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

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

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

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

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

#### *Non-financial assets*

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

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

## 1. Accounting policies (continued)

### 1.10 Employee benefits

#### *Defined benefit plans*

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

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

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

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

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

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

#### *Defined contribution plans*

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

#### *Short-term benefits*

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

#### *Share-based payment transactions*

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

## **1. Accounting policies (continued)**

### **1.11 Provisions**

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

### **1.12 Deferred Grants and Contributions**

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

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

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

### **1.13 Revenue**

#### **Supply of water and sewerage services**

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

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

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

#### ***Variable Consideration***

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

## 1. Accounting policies (continued)

### 1.13 Revenue (continued)

#### Developer Services

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

- (i) Connections and meter installation in exchange for payment;
- (ii) Requisitions of water mains in exchange for payment; and
- (iii) Adoptions of water and wastewater mains.

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

#### *Period over which performance obligations are satisfied*

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

#### *Financing Component*

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

### 1.14 Expenses

#### *Operating lease payments*

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

#### *Finance lease payments*

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

#### *Financing income and expenses*

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

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

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

## **1. Accounting policies** *(continued)*

### **1.15 Taxation**

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

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

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

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

### **1.16 Dividends**

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

## 1. Accounting policies *(continued)*

### 1.17 **Contract Balances**

#### *Contract Assets*

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

#### *Contract liabilities*

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

### 1.18 **Leases**

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

#### *Company as a lessee*

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

#### *i) Right-of-use assets*

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

- Land and property 10 to 80 years
- Plant and machinery 3 to 30 years
- Motor vehicles and other equipment 4 to 10 years

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

## 1. Accounting policies (continued)

### ii) Lease liabilities

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

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

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

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

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

### Company as a lessor

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

### 1.19 Adopted IFRS not yet applied

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

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

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



## **2. Changes in accounting policies and disclosures**

### **2.1 New and amended standards and interpretations**

The Company applied IFRS 16 for Leases for the first time. The nature and effect of the changes as a result of adoption of this new accounting standards are described below.

Several other amendments and interpretations apply for the first time in 2019/20, but do not have an impact on the financial statements of the Company. The Company has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

#### **IFRS 16 Leases**

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 does not have an impact for leases where the Company is the lessor.

The Company adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 April 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Company elected to use the transition practical expedient to not reassess whether a contract is or contains a lease at 1 April 2019. Instead, the Company applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

The Company also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option (short-term leases), and lease contracts for which the underlying asset is of low value (low-value assets).

**2. Changes in accounting policies and disclosures** *(continued)***2.1 New and amended standards and interpretations** *(continued)*

The effect of adoption IFRS 16 as at 1 Apr 2019 (increase/(decrease)) is, as follows:

	£m
<b>Assets</b>	
Right-of-use assets	2.2
Property, plant and equipment	-
<b>Total assets</b>	<u>2.2</u>
<b>Liabilities</b>	
Interest bearing loans and borrowings	2.3
Deferred tax liabilities	-
<b>Total liabilities</b>	<u>2.3</u>
<b>Total adjustment on equity</b>	
Retained earnings	<u><u>(0.1)</u></u>

The Company has lease contracts for a variety of land and buildings and items of plant, machinery, vehicles and other equipment. Before the adoption of IFRS 16, the Company classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. Refer to *Note 1.14 Expenses* for the accounting policy prior to 1 April 2019.

Upon adoption of IFRS 16, the Company applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. Refer to *Note 1.18 Leases* for the accounting policy beginning 1 April 2019. The standard provides specific transition requirements and practical expedients, which have been applied by the Company.

**i) Leases previously classified as finance leases**

The Company did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e., the right-of-use assets and lease liabilities equal the lease assets and liabilities recognised under IAS 17). The requirements of IFRS 16 were applied to these leases from 1 April 2019.

**ii) Leases previously accounted for as operating leases**

The Company recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

## 2. Changes in accounting policies and disclosures *(continued)*

### 2.1 New and amended standards and interpretations *(continued)*

The Company also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Relied on its assessment of whether leases are onerous immediately before the date of initial application
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease

Based on the above, as at 1 April 2019:

- Right-of-use assets of £2.2m were recognised and presented in the statement of financial position.
- Additional lease liabilities of £2.3m (included in Interest bearing loans and borrowings) were recognised.
- The net effect of these adjustments had been adjusted to retained earnings (£0.1m).

The lease liabilities as at 1 April 2019 can be reconciled to the operating lease commitments as of 31 March 2019, as follows:

<b>Liabilities</b>	£m
Operating lease commitments as at 31 March 2019	0.1
Leases previously not included	2.9
The effect of discounting using the incremental borrowing rate at 1 April 2019	<u>(0.7)</u>
<b>Lease liability as at 1 April 2019</b>	<b>2.3</b>
These liabilities are further classified as:	
short term	<u>0.7</u>
long term	1.6

## 2.2 Prior Year Restatement – Intangible Assets

During the year the company decided to refine its analysis of non-current assets, in so doing it identified elements of its asset stock that should be reclassified as intangible.

Following this exercise, assets with an original historic cost of £33.0m at 1 April 2018 were transferred from tangible to intangible assets. In addition, a further £13.7m was transferred for the year 2018-19. All the assets transferred were previously within the category for plant, equipment and vehicles within tangible assets.

These transfers and the respective amounts of depreciation are shown on the following table:

	Tangible assets £m	Intangible assets £m
1 April 2018		
Cost brought-forward	(33.0)	33.0
Accumulated depreciation	7.8	(7.8)
Book value at 1 April 2018	(25.2)	25.2
Year to 31 March 2019		
Cost brought-forward	(13.7)	13.7
Accumulated depreciation	4.2	(4.2)
Book value for the year to 31 March 2019	(9.5)	9.5
1 April 2018		
Cost brought-forward	(46.7)	46.7
Accumulated depreciation	12.0	(12.0)
Book value at 1 April 2019	34.7	(34.7)

As shown, the depreciation charges brought-forward at 2018 and in 2019 are the same both before and after the transfer. The useful economic lives of the various asset classes were unchanged. There was no effect on the income statement or the retained earnings in either year.

## 2.3 Income statement presentation

In previous years, operating costs had been presented under four headings on the income statement. For the year ended 31 March 2019 these four headings totalled £319.3m. The company decided this did not offer the end user sufficient detail of the cost base under which it operates and therefore in the current year has combined the headings on the income statement (and represented comparatives accordingly) and increased the level of disclosure in the notes to the accounts. This also results in a consistency with the presentational format with which performance is reported to the water industry Regulator.

Further details for the current year can be found in note 5 together with the relevant comparatives.

### 3. Segmental Information

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

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

	<b>2020</b>	2019
	<b>£m</b>	£m
<i>Turnover</i>		
Regulated	<b>541.3</b>	538.5
Unregulated	<b>11.0</b>	9.2
	<b>552.3</b>	547.7
<i>Operating profit</i>		
Regulated	<b>212.5</b>	228.4
Unregulated	-	-
	<b>212.5</b>	228.4
<i>Net assets</i>		
Regulated	<b>823.9</b>	824.9
Unregulated	-	-
	<b>823.9</b>	824.9

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

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

**4. Revenue from contracts with customers**

<b>Current year</b>	<b>House- hold</b>	<b>Non- house- hold</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Wholesale revenue - Water Supply			
Unmeasured	51.2	1.5	52.7
Measured	75.3	49.0	124.3
	<u>126.5</u>	<u>50.5</u>	<u>177.0</u>
Wholesale revenue - Waste Water			
Unmeasured	105.6	1.9	107.5
Measured	148.6	60.7	209.3
	<u>254.2</u>	<u>62.6</u>	<u>316.8</u>
Retail revenue			
Unmeasured	10.4	-	10.4
Measured	27.4	-	27.4
	<u>37.8</u>	<u>-</u>	<u>37.8</u>
Other revenue			
Regulated			9.7
Unregulated			11.0
<b>Total revenue</b>			<u><u>552.3</u></u>
<b>Prior year</b>	<b>House- hold</b>	<b>Non- house- hold</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Wholesale revenue - Water Supply			
Unmeasured	54.0	1.8	55.8
Measured	72.9	53.1	126.0
	<u>126.9</u>	<u>54.9</u>	<u>181.8</u>
Wholesale revenue - Waste Water			
Unmeasured	109.3	2.2	111.5
Measured	141.1	61.7	202.8
	<u>250.4</u>	<u>63.9</u>	<u>314.3</u>
Retail revenue			
Unmeasured	11.1	-	11.1
Measured	26.4	-	26.4
	<u>37.5</u>	<u>-</u>	<u>37.5</u>
Other revenue			
Regulated			4.9
Unregulated			9.2
<b>Total revenue</b>			<u><u>547.7</u></u>

#### 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 services over time.

Residential retail charges relate solely to the margin applied to the wholesale amounts charged to residential customers. The wholesale charges and retail margin are combined in arriving at the total revenues relating to water and wastewater services provided to household customers.

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

##### *Contract balances*

Contract assets of £1.8m (£1.5m in 2019) 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 £4.9m (£2.7m in 2019).

#### 5. Operating costs and Auditor's Remuneration

	<b>2020</b>	2019
	<b>£m</b>	£m
Employee costs (note 6)	<b>122.0</b>	116.0
Power	<b>34.9</b>	31.0
Raw Materials and other consumables	<b>16.2</b>	16.4
Rates	<b>25.5</b>	26.6
Charge for bad and doubtful debts (note 25)	<b>19.0</b>	11.4
Service charges	<b>5.8</b>	6.1
Depreciation of property, plant and equipment (note 11)	<b>108.5</b>	109.0
Depreciation of right-of-use assets (note 12)	<b>0.5</b>	-
Amortisation of intangible assets (note 13)	<b>7.8</b>	4.2
Profit on disposal of tangible fixed assets	<b>(0.2)</b>	(4.4)
Operating lease rentals (note 12)	<b>4.3</b>	3.5
Hire of plant and machinery	<b>4.6</b>	4.0
Research and development expensed as incurred	<b>1.7</b>	0.2
Infrastructure maintenance expenditure	<b>21.1</b>	23.2
Ofwat licence fee	<b>1.7</b>	1.5
Other operating costs	<b>69.8</b>	65.3
	<b>443.2</b>	414.0
Release from deferred credits (note 21)	<b>(3.1)</b>	(2.7)
Own work capitalised	<b>(100.3)</b>	(92.0)
	<b>339.8</b>	319.3

**5. Operating costs and Auditor's Remuneration (continued)**

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

	<b>2020</b>	2019
	<b>£000</b>	£000
<i>Auditor's remuneration:</i>		
Audit of these financial statements	<b>206</b>	165
Other costs	<b>15</b>	13
PR19 submission	<b>-</b>	180
	<b>221</b>	358

**6. Staff Numbers and Costs**

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

	<b>2020</b>	2019
Average number of employees	<b>2,497</b>	2,371

The aggregate payroll costs of these employees was:

	<b>2020</b>	2019
	<b>£m</b>	£m
Wages and salaries	<b>96.1</b>	92.9
Social security costs	<b>10.2</b>	10.2
Pension costs – defined contribution	<b>5.1</b>	4.6
Pension costs – defined benefit	<b>10.6</b>	8.3
	<b>122.0</b>	116.0

**7. Directors' Remuneration**

	<b>2020</b>	2019
	<b>£000</b>	£000
Total Directors' remuneration including benefits in kind	<b>1,311</b>	2,575
Remuneration of highest paid Director	<b>398</b>	523

Details of Directors' remuneration can be found in the Governance Report. Directors' remuneration is in respect of three Executive Directors, seven Non-Executive Directors and six YTL appointed Directors (2019 - four Executive Directors, six Non-Executive Directors and six YTL appointed Directors).



## 8. Finance Income and Expense

### Recognised in the Income Statement

	2020 £m	2019 £m
<i>Finance income</i>		
Interest receivable on short-term bank deposits	<u>0.5</u>	<u>0.1</u>
Total finance income	<u>0.5</u>	<u>0.1</u>
<i>Finance expense</i>		
To fellow subsidiary undertakings	(78.0)	(81.5)
Net interest on net defined benefit pension plan liability	(3.4)	(4.0)
On bank loans and leases	<u>(10.4)</u>	<u>(8.3)</u>
	<u>(91.8)</u>	<u>(93.8)</u>
Net interest payable	<u>(91.3)</u>	<u>(93.7)</u>

In accordance with IAS 23 borrowing costs of £2.8m (2019 - £1.8m) associated with the funding of eligible capital projects have been capitalised at an interest rate of 4.3% (2019 – 4.4%).

## 9. Taxation

### Recognised in the Income Statement

	2020	2019
	£m	£m
<i>Current tax expense</i>		
Current year	17.3	17.4
Adjustments for prior years	<u>(1.2)</u>	<u>0.3</u>
Current tax expense	<u>16.1</u>	<u>17.7</u>
<i>Deferred tax expense</i>		
Origination and reversal of temporary differences	6.7	7.9
Increase in tax rate	29.5	-
Adjustments for prior years	<u>2.3</u>	<u>(1.1)</u>
Deferred tax expense	<u>38.5</u>	<u>6.8</u>
Total tax expense	<u><u>54.6</u></u>	<u><u>24.5</u></u>

### Taxation recognised in other comprehensive income

	2020	2019
	£m	£m
Remeasurements of defined benefit liability	7.8	(0.9)
Change in tax rate	<u>12.5</u>	<u>-</u>
Tax credit / (debit)	<u><u>20.3</u></u>	<u><u>(0.9)</u></u>

### Reconciliation of effective tax rate

	2020	2019
	£m	£m
Profit for the year	66.6	110.2
Total tax expense	<u>54.6</u>	<u>24.5</u>
Profit excluding taxation:	121.2	134.7
Tax using the UK corporation tax rate of 19% (2019 - 19%)	23.0	25.6
Effect of rate change	29.5	(0.9)
Non-deductible expenses	0.9	0.6
Under / (over) provided in prior years	<u>1.2</u>	<u>(0.8)</u>
Total tax expense	<u><u>54.6</u></u>	<u><u>24.5</u></u>

The statutory rate of corporation tax was 19% for the current and prior year. Following the March 2020 Budget, the statutory rate of corporation tax effective 1 April 2020 was increased from 17% to 19%. As a result, deferred tax balances have been remeasured at 19%. This has resulted in a deferred tax charge of £29.5m in the income statement and £12.5m charge in the other comprehensive income.

## 10. Dividends

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

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

In particular the board takes into account:

- the company's current and projected performance in delivering the level of service customers expect from an efficient water and sewerage company and that where that level of service has not been delivered, that customers have been adequately compensated
- that the company is delivering the required quality and environmental outputs and making sufficient investment in its infrastructure to maintain and, where necessary, increase resilience
- that appropriate payments have been made and can continue to be made into the company's final salary pension scheme as agreed with the scheme's trustees
- that the correct amount of tax has been paid
- that the company has met any unexpected additional expenditure needs that may have arisen during the year to date, as new operational risks emerge
- sufficiency of distributable reserves

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

	<b>2020</b>	2019
	<b>£m</b>	£m
Interim dividends for the current year	<b>66.0</b>	69.0
Final dividend for the current year	<b>22.0</b>	22.0
	<b>88.0</b>	91.0

## 11. Property, Plant and Equipment

	Land & buildings £m	Infra-structure assets £m	Plant, equipment & vehicles £m	Office & IT equipment £m	Company total £m
<b>Cost</b>					
Balance at 1 April 2018 (as previously stated)	872.3	2,120.5	1,824.0	41.1	4,857.9
Assets restated as Intangibles	-	-	(33.0)	-	(33.0)
Balance at 1 April 2018 (restated)	872.3	2,120.5	1,791.0	41.1	4,824.9
Additions (as previously stated)	5.0	74.3	147.9	4.3	231.5
Additions restated as Intangibles	-	-	(13.7)	-	(13.7)
Disposals	(2.8)	5.0	(17.7)	-	(15.5)
Balance at 31 March 2019 (restated)	874.5	2,199.8	1,907.5	45.4	5,027.2
Balance at 1 April 2019 (restated)	874.5	2,199.8	1,907.5	45.4	5,027.2
Cost of ROU assets on adoption of IFRS 16	1.0	-	1.1	-	2.1
Additions	55.7	105.6	71.4	3.7	236.4
Disposals	(1.3)	(0.2)	(30.1)	(5.1)	(36.7)
Balance at 31 March 2020	929.9	2,305.2	1,949.9	44.0	5,229.0
<b>Depreciation and impairment</b>					
Balance at 1 April 2018 (as previously stated)	(295.3)	(82.0)	(905.0)	(20.1)	(1,302.4)
Depreciation restated as Intangibles	-	-	7.8	-	7.8
Balance at 1 April 2018 (restated)	(295.3)	(82.0)	(897.2)	(20.1)	(1,294.6)
Depreciation charge for the year (as previously stated)	(14.0)	(19.2)	(76.9)	(3.1)	(113.2)
Depreciation restated as Intangibles	-	-	4.2	-	4.2
Disposals	1.7	-	16.0	-	17.7
Balance at 31 March 2019	(307.6)	(101.2)	(953.9)	(23.2)	(1,385.9)
Balance at 1 April 2019	(307.6)	(101.2)	(953.9)	(23.2)	(1,385.9)
Depreciation on ROU assets on adoption of IFRS 16	-	-	(0.5)	-	(0.5)
Depreciation charge for the year	(14.3)	(19.9)	(71.0)	(3.3)	(108.5)
Disposals	0.8	-	28.8	5.1	34.7
Balance at 31 March 2020	(321.1)	(121.1)	(996.6)	(21.4)	(1,460.2)

**11. Property, Plant and Equipment** *(continued)***Net Book Value**

At 1 April 2018 (restated)	577.0	2,038.5	919.0	21.0	3,555.5
At 31 March 2019 (restated)	566.9	2,098.6	953.6	22.2	3,641.3
<b>At 31 March 2020</b>	<b>608.8</b>	<b>2,184.1</b>	<b>953.3</b>	<b>22.6</b>	<b>3,768.8</b>

Assets under construction included in the values above were £223.5m (2019 - £413.6m).

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

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

There is no impairment loss recognised in these financial statements (2019 - £nil).

During the year assets costing £33.0m up to 2018 and £13.7m in 2019 (with £7.8m and £4.2m accumulated depreciation, respectively) were restated and transferred to Intangible assets in the accounts. See Notes 2.2 and 13.

Cumulative borrowing costs capitalised and included above were £13.1m (2019 - £10.3m).

Included in freehold land and buildings above is an amount of £15.1m (2019 - £13.4m) in respect of land which is not depreciated.

**12. Leases****Company as a lessee**

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

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

	Land & buildings £m	Plant & machinery £m	Total £m
As at 1 April 2019	1.0	1.2	2.2
Additions	-	-	-
Depreciation expense	(0.1)	(0.6)	(0.7)
As at 31 March 2020	0.9	0.6	1.5

**12. Leases** *(continued)*

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

		£m
As at 1 April 2019		2.3
Additions		-
Accretion of interest		0.1
Payments		<u>(0.7)</u>
As at 31 March 2020		<u>1.7</u>
Current	Note 18	0.2
Non-current	Note 18	1.5

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

The following are the amounts recognised in profit or loss:

	2020	2019
	£m	£m
Depreciation expense of right-of use assets	0.7	-
Interest expense on lease liabilities	0.1	0.1
Expenses relating to short-term leases	<u>4.3</u>	<u>3.5</u>
	<u>5.1</u>	<u>3.6</u>

The Company had total cash outflows for leases of £2.1m in 2020 (£1.4m in 2019). The Company also had non-cash additions to right-of-use assets and lease liabilities of £nil in 2020.

**Company as a lessor**

The Company has entered into operating leases consisting of certain land and buildings. Rental income recognised by the Company during the year is £1.4m (2019: £1.2m).

Future minimum rentals receivable under non-cancellable operating leases as at 31 March 2020 are as follows:

	2020	2019
	£m	£m
Within one year	0.5	0.6
After one year but not more than five years	1.2	1.5
More than five years	<u>2.0</u>	<u>1.6</u>
	<u>3.7</u>	<u>3.7</u>

**13. Intangible Assets**

	<b>Software development £m</b>	<b>Company total £m</b>
<b>Cost</b>		
Balance at 1 April 2018 (as previously stated)	-	-
Restated from PPE	33.0	33.0
Balance at 1 April 2018 (restated)	33.0	33.0
Additions (restated)	13.7	13.7
Disposals	-	-
Balance at 31 March 2019 (restated)	46.7	46.7
Balance at 1 April 2019 (restated)	46.7	46.7
Additions	31.2	31.2
Disposals	-	-
Balance at 31 March 2020	77.9	77.9
<b>Depreciation and impairment</b>		
Balance at 1 April 2018 (as previously stated)	-	-
Restated from PPE	(7.8)	(7.8)
Balance at 1 April 2018 (restated)	(7.8)	(7.8)
Depreciation charge for the year (restated)	(4.2)	(4.2)
Disposals	-	-
Balance at 31 March 2019 (restated)	(12.0)	(12.0)
Balance at 1 April 2019 (restated)	(12.0)	(12.0)
Depreciation charge for the year	(7.8)	(7.8)
Disposals	-	-
Balance at 31 March 2020	(19.8)	(19.8)
<b>Net Book Value</b>		
At 1 April 2018 (restated)	25.2	25.2
At 31 March 2019 (restated)	34.7	34.7
<b>At 31 March 2020</b>	<b>58.1</b>	<b>58.1</b>

During the year assets costing £33.0m up to 2018 and £13.7m in 2019 (with £7.8m and £4.2m accumulated depreciation, respectively) were restated and transferred from tangible assets in the accounts. See notes 2.2 and 11.

#### 14. Investments in Subsidiaries

The Company has an investment of £13,001 (2019 – £13,001) in 100% of the ordinary share capital of a subsidiary company Wessex Water Services Finance Plc, whose registered address is Wessex Water Operations Centre, Claverton Down, Bath, BA2 7WW.

#### 15. Inventories

	<b>2020</b>	2019
	<b>£m</b>	£m
Raw materials and consumables	<b>3.9</b>	3.5
Work in progress	<b>-</b>	1.5
	<b>3.9</b>	5.0

Work in progress is now disclosed under Contract assets as part of trade and other receivables (see Note 16).

Raw materials and consumables as cost of sales in the year amounted to £5.2m (2019 - £3.0m). There was no write-down of inventories to net realisable value in either year.

#### 16. Trade and Other Receivables

	<b>2020</b>	2019
	<b>£m</b>	£m
Amounts receivable from customers	<b>117.0</b>	122.0
Owed by immediate holding company	<b>21.4</b>	24.7
Owed by fellow subsidiary companies	<b>27.4</b>	27.5
Owed by other group companies	<b>0.1</b>	-
Owed by associate companies	<b>1.5</b>	1.1
Prepayments	<b>5.6</b>	3.1
Contract assets	<b>1.8</b>	-
Other debtors	<b>7.9</b>	5.5
	<b>182.7</b>	183.9

All trade receivables are due to be recovered in no more than 12 months.

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



**16. Trade and Other Receivables (continued)****Contract cost assets**

	<b>2020</b>
	<b>£m</b>
Balance at 1 April	1.5
Incurred during the year	5.5
Recognised as costs during the year	(5.2)
<b>Balance at 31 March</b>	<b>1.8</b>

**17. Cash and Cash Equivalents**

	<b>2020</b>	2019
	<b>£m</b>	£m
Short-term bank deposits	<b>27.0</b>	-
Cash at bank	<b>15.3</b>	-
	<b>42.3</b>	-

**18. Other Interest-bearing Loans and Borrowings**

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

	<b>2020</b>	2019
	<b>£m</b>	£m
<b>Non-current liabilities</b>		
Bank loans	<b>408.3</b>	413.7
Finance lease liabilities	<b>1.5</b>	-
Inter-company loans	<b>1,846.0</b>	1,625.9
	<b>2,255.8</b>	2,039.6
<b>Current liabilities</b>		
Bank overdraft	-	20.4
Bank loans	<b>5.6</b>	30.0
Current portion of finance lease liabilities	<b>0.2</b>	1.4
	<b>5.8</b>	51.8

**18. Other Interest-bearing Loans and Borrowings (continued)***Terms and debt repayment schedule:*

	<b>Currency</b>	<b>Nominal interest rate</b>	<b>Year of maturity</b>	<b>Issue Value 2020 £m</b>	<b>Carrying amount 2020 £m</b>	<b>Issue Value 2019 £m</b>	<b>Carrying amount 2019 £m</b>
Bank loans	Sterling	1.42%- 2.16%	2021- 2024	<b>413.9</b>	<b>413.9</b>	413.7	413.7
<i>Inter-company loans</i>							
Bond	Sterling	5.38%	2028	<b>200.0</b>	<b>198.7</b>	200.0	198.6
Bond	Sterling	5.75%	2033	<b>350.0</b>	<b>346.5</b>	350.0	346.3
Bond	Sterling	4.00%	2021	<b>200.0</b>	<b>199.6</b>	200.0	199.3
Bond	Sterling	4.00%	2021	<b>100.0</b>	<b>101.3</b>	100.0	102.3
Bond	Sterling	1.50%	2029	<b>200.0</b>	<b>198.4</b>	-	-
Index Linked Bond	Sterling	3.52%	2023	<b>50.0</b>	<b>82.3</b>	50.0	79.9
Index Linked Bond	Sterling	2.19%	2039	<b>50.0</b>	<b>68.1</b>	50.0	66.7
Index Linked Bond	Sterling	1.75%	2046	<b>75.0</b>	<b>110.7</b>	75.0	107.4
Index Linked Bond	Sterling	1.75%	2051	<b>75.0</b>	<b>110.6</b>	75.0	107.4
Index Linked Bond	Sterling	1.37%	2057	<b>75.0</b>	<b>110.7</b>	75.0	107.4
Index Linked Bond	Sterling	1.37%	2057	<b>75.0</b>	<b>110.7</b>	75.0	107.4
Index Linked Bond	Sterling	1.49%	2058	<b>50.0</b>	<b>69.5</b>	50.0	67.7
Index Linked Bond	Sterling	1.50%	2058	<b>50.0</b>	<b>69.5</b>	50.0	67.7
Index Linked Bond	Sterling	1.50%	2058	<b>50.0</b>	<b>69.4</b>	50.0	67.8
				<b>2,013.9</b>	<b>2,259.9</b>	1,813.7	2,039.6

Note: Bank overdrafts and revolving credit facilities with less than 3 months to mature are excluded from this schedule.

*Finance lease liabilities*

Finance lease liabilities are payable as follows:

	<b>Minimum lease payments 2020 £m</b>	<b>Interest 2020 £m</b>	<b>Principal 2020 £m</b>	<b>Minimum lease payments 2019 £m</b>	<b>Interest 2019 £m</b>	<b>Principal 2019 £m</b>
Less than one year	<b>0.2</b>	-	<b>0.2</b>	1.5	(0.1)	1.4
Between one and five years	<b>0.5</b>	-	<b>0.5</b>	-	-	-
More than five years	<b>1.0</b>	-	<b>1.0</b>	-	-	-
	<b>1.7</b>	-	<b>1.7</b>	1.5	(0.1)	1.4

**18. Other Interest-bearing Loans and Borrowings** (continued)*Changes in liabilities arising from financing activities*

	<b>1st April 2019 £m</b>	<b>Cash flows £m</b>	<b>New leases £m</b>	<b>Other £m</b>	<b>31st March 2020 £m</b>
Current interest bearing loans and borrowings (excluding items listed below)	50.4	(50.4)	-	5.6	5.6
Current obligations under finance leases and hire purchase contracts	1.4	(2.1)	0.9	-	0.2
Non-current interest bearing loans and borrowings (excluding items listed below)	2,039.6	198.2	-	16.5	2,254.3
Non-current obligations under finance leases and hire purchase contracts	-	-	1.5	-	1.5
<b>Total liabilities from financing activities</b>	<b>2,091.4</b>	<b>145.7</b>	<b>2.4</b>	<b>22.1</b>	<b>2,261.6</b>

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

**19. Trade and Other Payables**

	<b>2020</b>	2019
	<b>£m</b>	£m
<b>Current</b>		
Owed to subsidiary company	<b>21.3</b>	19.3
Owed to other group companies	<b>0.6</b>	0.6
Trade payables	<b>11.5</b>	18.7
Dividend	<b>22.0</b>	22.0
Other creditors	<b>4.2</b>	3.2
Corporation tax	<b>2.1</b>	11.9
Taxation and social security	<b>2.9</b>	2.9
Accrued expenses	<b>55.1</b>	49.1
Contract Liabilities	<b>49.0</b>	46.9
	<b>168.7</b>	174.6
<b>Non-current</b>		
Contract liabilities	<b>6.3</b>	6.3
	<b>175.0</b>	180.9

*Analysis of contract liabilities*

	<b>2020</b>	2019
	<b>£m</b>	£m
<b>At 1 April</b>	<b>53.2</b>	45.1
Deferred during the year	<b>143.1</b>	142.1
Recognised as revenue during the year	<b>(141.0)</b>	(134.0)
<b>At 31 March</b>	<b>55.3</b>	53.2

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

**20. Employee Benefits****Pension plans**

	<b>2020</b>	2019
	<b>£m</b>	£m
Fair value of scheme assets	<b>626.2</b>	632.3
Present value of defined benefit obligations	<b>(715.9)</b>	(771.8)
Net liability for defined benefit obligations	<b>(89.7)</b>	(139.5)
Unfunded and compensatory added years pension	<b>(0.9)</b>	(1.1)
Total employee benefits	<b>(90.6)</b>	(140.6)

## 20. Employee Benefits (continued)

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

Under the plan, employees are entitled to annual pensions on retirement using an accrual rate and pensionable salary for each year of service. Benefits are also payable on death and following other events such as withdrawing from active service.

No other post-retirement benefits are provided to these employees.

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

### Profile of the Scheme

The defined benefit obligation includes benefits for current employees, former employees and current pensioners. Broadly, about 31% of the liabilities are attributable to current employees, 18% to former employees and 51% to current pensioners.

The scheme duration is an indicator of the weighted-average time until benefit payments are made.

For the scheme as a whole, the duration is around 20 years reflecting the approximate split of the defined benefit obligation between current employees (duration of 25 years), deferred members (duration of 25 years) and current pensioners (duration of 15 years).

### Funding requirements

UK legislation requires that pension schemes are funded prudently. The previous funding valuation of the scheme was carried out by a qualified actuary as at 30 September 2016 and showed a deficit of £160.9m. The Company is paying deficit contributions of:

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

which, along with investment returns from return-seeking assets, is expected to make good this shortfall by 31 March 2026. The funding valuation as at 30 September 2019 is currently in progress.

The Company also pays contributions of 21.7% of pensionable salaries in respect of current accrual and non-investment related expenses, with active members paying a further 7.3% of pensionable salaries on average.

### Risks associated with the scheme

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

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

**20. Employee Benefits** (continued)

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

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

**Reporting at 31 March 2020**

The results of the latest funding valuation at 30 September 2016 have been adjusted to the balance sheet date taking account of experience over the period since 30 September 2016, changes in market conditions, and differences in the financial and demographic assumptions. The present value of the defined benefit obligation, and the related current service cost, were measured using the Projected Unit Cost Method.

The principal assumptions used to calculate the liabilities under IAS 19 are set out below:

	<b>31.03.20</b>	31.03.19
Rate of increase in salaries – year 1	<b>2.00%</b>	3.20%
Rate of increase in salaries – year 2	<b>n/a</b>	n/a
Rate of increase in salaries – years 2 and 3	<b>n/a</b>	n/a
Rate of increase in salaries – long term	<b>1.60%</b>	1.70%
Rate of increase in pensions		
- WWPS and 1/80ths members	<b>2.40%</b>	3.10%
- MIS members	<b>1.90%</b>	2.20%
- Reduced level members	<b>1.80%</b>	2.20%
- Post 88 GMP	<b>1.70%</b>	1.90%
Discount rate	<b>2.30%</b>	2.40%
Inflation assumption – RPI	<b>2.40%</b>	3.20%
Inflation assumption – CPI	<b>1.90%</b>	2.20%

**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. The assumptions are that a member currently aged 60 will live, on average, for a further 25.9 years (2019 – 26.2 years) if they are male, and for a further 28.3 years (2019 – 28.3 years) if they are female. For a member who retires in 2039 at age 60 the assumptions are that they will live, on average, for a further 27.0 years (2019 – 27.4 years) after retirement if they are male, and a further 29.5 years (2019 – 29.5 years) after retirement if they are female.

The mortality table adopted is based upon 105% of standard tables S3P(M/F)A adjusted to allow for individual years of birth. Future improvements are assumed to be in line with the CMI 2018 Core Projection model (i.e. with smoothing parameter of 7.0 and an A parameter of 0.00%), with a long-term improvement rate of 1.0% p.a. for all members.

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

**20. Employee Benefits** (continued)

## Sensitivity analysis:

The key assumptions used for IAS 19 are: discount rate, inflation and mortality. If different assumptions were 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 discount rate and inflation has no impact on the value of the scheme assets.

A reduction in the discount rate of 0.1% from 2.3% to 2.2% would increase the scheme liabilities by £13.1m from £715.9 to £729.0m, increasing the scheme deficit to £100.9m.

An increase in the inflation assumption of 0.1% (from 2.4% to 2.5% for RPI and 1.9% to 2.0% for CPI) would increase the scheme liabilities by £11.7m from £715.9m to £727.6m, increasing the scheme deficit to £99.5m.

An increase in life expectancy of 1 year would increase the scheme liabilities by £26.6m from £715.9m to £742.5m, increasing the scheme deficit to £114.4m.

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

## The value of the assets:

	<b>2020</b>	2019
	<b>£m</b>	£m
Equities	<b>194.1</b>	239.6
Property	<b>37.5</b>	38.5
Government Bonds	<b>237.4</b>	194.9
Corporate Bonds	<b>120.9</b>	138.2
Other	<b>36.3</b>	21.1
	<b><u>626.2</u></b>	<u>632.3</u>

**20. Employee Benefits** (continued)

The amounts recognised in comprehensive income:

	<b>2020</b>	2019
	<b>£m</b>	£m
<b>Operating cost – service cost</b>		
Current service cost	<b>10.6</b>	11.0
Administration expenses	<b>0.8</b>	0.5
Past service (credit)	-	(2.7)
<b>Financing cost</b>		
Interest on net benefit liability	<b>3.4</b>	4.0
Pension expense recognised in income statement	<b>14.8</b>	12.8
<b>Re-measurements in OCI</b>		
Return on plan assets (in excess of) that recognised in net interest	<b>17.7</b>	(4.8)
Actuarial (gains)/losses due to changes in financial assumptions	<b>(62.7)</b>	29.5
Actuarial (gains) due to changes in demographic assumptions	<b>(10.0)</b>	(28.5)
Actuarial (gains)/losses due to liability experience	<b>14.2</b>	(1.5)
(Gains) recognised in OCI	<b>(40.8)</b>	(5.3)
(Gains) / losses recognised in income statement and OCI	<b>(26.0)</b>	7.5

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

	<b>2020</b>	2019
	<b>£m</b>	£m
Opening defined benefit obligation	<b>771.8</b>	768.5
Current service cost	<b>10.6</b>	11.0
Interest expense on defined benefit obligation	<b>18.6</b>	20.1
Contributions by scheme participants	<b>0.2</b>	0.2
Actuarial (gains)/losses due to changes in demographic assumptions	<b>(62.7)</b>	29.5
Actuarial losses due to changes in financial assumptions	<b>(10.0)</b>	(28.5)
Actuarial losses/(gains) due to liability experience	<b>14.2</b>	(1.5)
Net benefits paid out	<b>(26.8)</b>	(24.8)
Past service (credit)	-	(2.7)
Closing defined benefit obligation	<b>715.9</b>	771.8



**20. Employee Benefits** *(continued)***Changes to the fair value of scheme assets during the year:**

	<b>2020</b>	2019
	<b>£m</b>	£m
Opening fair value of scheme assets	<b>632.3</b>	616.0
Interest income on scheme assets	<b>15.2</b>	16.1
Re-measurement (losses)/gains on scheme assets	<b>(17.7)</b>	4.8
Contributions by employer	<b>23.8</b>	20.5
Contributions by scheme participants	<b>0.2</b>	0.2
Net benefits paid out	<b>(26.8)</b>	(24.8)
Administration costs incurred	<b>(0.8)</b>	(0.5)
Closing fair value of scheme assets	<b><u>626.2</u></b>	<u>632.3</u>

Additional analysis:	<b>2020</b>	2019
	<b>£m</b>	£m

**Actual return on scheme assets**

Interest income on scheme assets	<b>15.2</b>	16.1
Re-measurement gains on scheme assets	<b>(17.7)</b>	4.8
Actual return on scheme assets	<b><u>(2.5)</u></b>	<u>20.9</u>

**Analysis of amounts recognised in Other Comprehensive Income**

Total re-measurement gains	<b><u>40.8</u></b>	<u>5.3</u>
Total gain	<b><u>40.8</u></b>	<u>5.3</u>

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

	<b>31.03.20</b>	31.03.19	31.03.18	31.03.17	31.03.16
	<b>£m</b>	£m	£m	£m	£m
Fair value of scheme assets	<b>628.1</b>	632.3	616.0	595.4	595.4
Defined benefit obligation	<b>(715.9)</b>	(771.8)	(768.5)	(788.9)	(788.9)
(Deficit) in the scheme	<b>(87.8)</b>	(139.5)	(152.5)	(193.5)	(193.5)
Experience (losses) / gains on scheme assets	<b>(15.8)</b>	4.8			
Experience gains / (losses) on scheme liabilities	<b>14.2</b>	(1.5)			

**Defined contribution plans**

The Group also operates a defined contribution pension plan. The total expense relating to this plan in the current year was £5.1m (2019 - £4.6m).

**20. Employee Benefits** (continued)**Share-based payments**

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

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

2011 UK Plan

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

Scheme	Vesting date	Expiry date	Exercise price RM	Fair value RM
01/06/2012 Unapproved	01/06/2015	31/03/2021	1.38	0.22
01/06/2012 Approved	01/06/2015	31/03/2021	1.65	0.16

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

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

The options outstanding were as follows:

Granted – Ordinary shares of RM0.50 each	Outstanding at 31/3/2019	Granted	Forfeited	Exercised	Outstanding at 31/3/2020
01/06/2012 Unapproved	7,396,000	-	(369,000)	-	7,027,000
01/06/2012 Approved	35,991,000	-	(607,000)	-	35,384,000
Total	43,387,000	-	(976,000)	-	42,411,000

The share price at 31 March 2020 was RM0.61 or £0.11.

**21. Deferred grants and contributions**

	Requisitions £m	Other contributions £m	Adopted sewers £m	Infra charges £m	Total £m
Balance at 1 April 2018	29.7	34.3	76.6	119.1	259.7
Received during the year	0.2	(1.1)	8.6	4.6	12.3
Amortised in year	(0.2)	(0.4)	(0.9)	(1.2)	(2.7)
Balance at 31 March 2019	<u>29.7</u>	<u>32.8</u>	<u>84.3</u>	<u>122.5</u>	<u>269.3</u>
Balance at 1 April 2019	29.7	32.8	84.3	122.5	269.3
Reclassifications	(0.5)	(5.0)	-	5.5	-
Received during the year	3.5	0.3	16.3	2.8	22.9
Amortised in year	(0.3)	(0.5)	(1.0)	(1.3)	(3.1)
<b>Balance at 31 March 2020</b>	<b><u>32.4</u></b>	<b><u>27.6</u></b>	<b><u>99.6</u></b>	<b><u>129.5</u></b>	<b><u>289.1</u></b>

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

**22. Provisions**

	Restructuring costs £m	Total £m
Balance at 1 April 2019	1.2	1.2
Provisions made during the year	-	-
Provisions used during the year	(1.0)	(1.0)
<b>Balance at 31 March 2020</b>	<b><u>0.2</u></b>	<b><u>0.2</u></b>
Non-current	-	-
Current	0.2	0.2
	<b><u>0.2</u></b>	<b><u>0.2</u></b>

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

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

## 23. Deferred Tax Assets and Liabilities

### Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Liabilities		Assets		Net	
	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m
Property, plant and equipment	463.2	405.0	(30.7)	(24.6)	432.5	380.4
Employee benefits	-	-	(17.0)	(23.7)	(17.0)	(23.7)
Provisions	-	-	(0.1)	(0.1)	(0.1)	(0.1)
Other	-	-	-	-	-	-
<b>Tax (assets) / liabilities</b>	<b>463.2</b>	<b>405.0</b>	<b>(47.8)</b>	<b>(48.4)</b>	<b>415.4</b>	<b>356.6</b>
<b>Net of tax liabilities/(assets)</b>	<b>(47.8)</b>	<b>(48.4)</b>	<b>47.8</b>	<b>48.4</b>	<b>-</b>	<b>-</b>
<b>Net tax (assets) / liabilities</b>	<b>415.4</b>	<b>356.6</b>	<b>-</b>	<b>-</b>	<b>415.4</b>	<b>356.6</b>

Movement in deferred tax during the year

	1 April 2019 £m	Recognised in income £m	Recognised in equity £m	31 March 2020 £m
Property, plant and equipment	380.4	38.8	13.3	432.5
Employee benefits	(23.7)	(0.3)	7.0	(17.0)
Provisions	(0.1)	-	-	(0.1)
Other	-	-	-	-
	<b>356.6</b>	<b>38.5</b>	<b>20.3</b>	<b>415.4</b>

Movement in deferred tax during the prior year

	1 April 2018 £m	Recognised in income £m	Recognised in equity £m	31 March 2019 £m
Property, plant and equipment	375.1	5.3	-	380.4
Employee benefits	(26.1)	1.5	0.9	(23.7)
Provisions	(0.1)	-	-	(0.1)
Other	-	-	-	-
	<b>348.9</b>	<b>6.8</b>	<b>0.9</b>	<b>356.6</b>

## 24. Capital and Reserves

	2020 £	2019 £
<b><i>Issued, Allotted, Called Up and Fully Paid</i></b>		
Ordinary shares of £1 each	1	1
	<hr/> 1	<hr/> 1
Shares classified as liabilities	-	-
Shares classified in shareholders' funds	1	1
	<hr/> 1	<hr/> 1

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

## 25. Financial Instruments

### ***(a) Fair values of financial instruments***

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

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

The fair values of long term fixed-rate inter-company borrowings are classified as level 1 in the IFRS 13 fair value hierarchy and have a carrying value of £1,846.0m and a fair value of £2,361.2m. Bank loans and overdrafts are classified as level 2 and have a carrying value of £413.9m and fair value of £415.3m. All other loans and leases are classified as level 2 and have a carrying value and fair value of £1.7m.

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

**25. Financial Instruments (continued)****(a) Fair values of financial instruments**

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

	Carrying amount	Fair value	Level 1	Level 2	Carrying amount	Fair value	Level 1	Level 2
	2020	2020	2020	2020	2019	2019	2019	2019
	£m	£m	£m	£m	£m	£m	£m	£m
<b>Loans and receivables</b>								
Cash and cash equivalents (note 17)	(42.3)	(42.3)	-	(42.3)	-	-	-	-
<b>Total financial assets</b>	<b>(42.3)</b>	<b>(42.3)</b>	<b>-</b>	<b>(42.3)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Bank overdraft (note 18)	-	-	-	-	20.4	20.4	-	20.4
Other interest-bearing loans and borrowings (note 18 current)	5.8	5.8	-	5.8	31.4	31.4	-	31.4
Other financial liabilities measured at amortised cost (note 18 non-current)	2,255.8	2,772.4	2,361.2	411.2	2,039.6	2,599.9	2,186.2	413.7
<b>Total financial liabilities</b>	<b>2,261.6</b>	<b>2,778.2</b>	<b>2,361.2</b>	<b>417.0</b>	<b>2,091.4</b>	<b>2,651.7</b>	<b>2,186.2</b>	<b>465.5</b>
<b>Total financial instruments</b>	<b>2,219.3</b>	<b>2,735.9</b>	<b>2,361.2</b>	<b>374.7</b>	<b>2,091.4</b>	<b>2,651.7</b>	<b>2,186.2</b>	<b>465.5</b>

**(b) Credit risk**

Financial risk management;

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

Short term deposits with counterparties have a credit rating of A1+/P1 or A1/P1, and hence there would be no exposure to credit risk for these values.

	2020	2019
	£m	£m
Cash and cash equivalents	42.3	-
	<b>42.3</b>	<b>-</b>

**25. Financial Instruments (continued)**

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

	<b>2020</b>	2019
	<b>£m</b>	£m
South West England	<u>117.0</u>	<u>122.0</u>
	<u><b>117.0</b></u>	<u><b>122.0</b></u>

**(b) Credit risk (continued)**

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

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

	<b>2020</b>	2019
	<b>£m</b>	£m
Billed receivables	<b>94.7</b>	90.4
Unbilled receivables	<b>64.8</b>	67.2
Expected credit losses	<u><b>(42.5)</b></u>	<u>(35.6)</u>
	<u><b>117.0</b></u>	<u><b>122.0</b></u>

	<b>Gross</b>	<b>ECL rate</b>	<b>ECL</b>
	<b>2020</b>	<b>2020</b>	<b>2020</b>
	<b>£m</b>	<b>%</b>	<b>£m</b>
Less than 1 year	<b>97.4</b>	<b>10.0%</b>	<b>(9.8)</b>
1 to 2 years	<b>19.4</b>	<b>35.1%</b>	<b>(6.8)</b>
2 to 3 years	<b>14.6</b>	<b>52.1%</b>	<b>(7.6)</b>
3 to 4 years	<b>13.1</b>	<b>57.3%</b>	<b>(7.5)</b>
More than 4 years	<u><b>15.0</b></u>	<u><b>72.0%</b></u>	<u><b>(10.8)</b></u>
	<u><b>159.5</b></u>	<u><b>26.6%</b></u>	<u><b>(42.5)</b></u>

	<b>Gross</b>	<b>ECL rate</b>	<b>ECL</b>
	<b>2019</b>	<b>2019</b>	<b>2019</b>
	<b>£m</b>	<b>%</b>	<b>£m</b>
Less than 1 year	96.1	4.2%	(4.0)
1 to 2 years	18.5	33.5%	(6.2)
2 to 3 years	15.1	51.7%	(7.8)
3 to 4 years	12.7	66.9%	(8.5)
More than 4 years	<u>15.2</u>	<u>59.9%</u>	<u>(9.1)</u>
	<u><b>157.6</b></u>	<u><b>22.6%</b></u>	<u><b>(35.6)</b></u>

**25. Financial Instruments (continued)**

Payment Method	Measured Billing			Unmeasured Billing		
	Direct Debit %	Normal %	Other %	Direct Debit %	Normal %	Other %
Less than 1 year	3.3%	9.9%	16.9%	6.7%	14.9%	28.1%
1 to 2 years	5.8%	27.6%	24.7%	2.5%	26.9%	51.2%
2 to 3 years	0.8%	37.7%	36.3%	0.0%	35.2%	67.0%
3 to 4 years	9.7%	51.5%	50.3%	0.0%	52.9%	68.2%
More than 4 years	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

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

	2020 £m	2019 £m
Balance at 1 July	<b>(35.6)</b>	(42.4)
Written off	<b>13.7</b>	14.9
Adjustment for non-paying customers	<b>(1.4)</b>	4.2
Non-payers subsequently becoming payers	<b>(0.2)</b>	(0.9)
Charge to income statement	<b>(19.0)</b>	(11.4)
Balance at 30 June	<b>(42.5)</b>	(35.6)

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

**(c) Cash flow hedges**

The Company does not have any cash flow hedges (2019 – none).

**(d) Liquidity risk**

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



**25. Financial Instruments (continued)**

## (d) Liquidity risk (continued)

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

	<b>Carrying amount</b>	<b>Contractual cash flows</b>	<b>Year 1</b>	<b>Years 2 to 5</b>	<b>Over 5 years</b>
	<b>2020 £m</b>	<b>2020 £m</b>	<b>2020 £m</b>	<b>2020 £m</b>	<b>2020 £m</b>
<b>Non derivative financial instruments</b>					
Finance lease liabilities	1.7	1.7	0.2	0.5	1.0
Unsecured bank loans	-	-	-	-	-
Secured bank loans	413.9	442.0	12.4	289.4	140.2
Inter-company loans	1,846.0	3,742.2	60.9	595.2	3,086.1
Total financial instruments	<u>2,261.6</u>	<u>4,185.9</u>	<u>73.5</u>	<u>885.1</u>	<u>3,227.3</u>

	<b>Carrying amount</b>	<b>Contractual cash flows</b>	<b>Year 1</b>	<b>Years 2 to 5</b>	<b>Over 5 years</b>
	<b>2019 £m</b>	<b>2019 £m</b>	<b>2019 £m</b>	<b>2019 £m</b>	<b>2019 £m</b>
<b>Non derivative financial instruments</b>					
Finance lease liabilities	1.4	1.4	1.4	-	-
Unsecured bank loans	20.4	20.4	20.4	-	-
Secured bank loans	443.7	485.3	38.0	202.3	245.0
Inter-company loans	1,625.9	4,292.4	57.8	602.6	3,632.0
Total financial instruments	<u>2,091.4</u>	<u>4,799.5</u>	<u>117.6</u>	<u>804.9</u>	<u>3,877.0</u>

## 25. Financial Instruments (continued)

### (e) Market risk

There is no exposure to equity or foreign currency risk.

#### *Interest rate risk;*

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

	<b>2020</b>	2019
	<b>£m</b>	£m
Fixed rate instruments	<b>1,144.5</b>	946.5
Floating rate instruments	<b>315.6</b>	365.5
Index linked instruments	<b>801.5</b>	779.4
	<b><u>2,261.6</u></b>	<u>2,091.4</u>

The Company policy is to keep a significant proportion of total financial instruments in each of the three categories.

#### *Sensitivity;*

The floating rate instruments are sensitive to interest rate movements. If there was a 1% increase in interest rates on those floating rate instruments at the balance sheet date, there would be an additional interest charge to the income statement of £3.2m.

#### *Inflation sensitivity*

Index linked bonds are sensitive to movements in the inflation rate. A 1% increase in the inflation rate at the balance sheet date would result in an additional interest charge to the income statement of £8.0m.

## 26. Capital Management

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

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

## 26. Capital Management

	2020	2019
	£m	£m
Cash at bank	(15.3)	-
Short term deposits	(27.0)	-
Bank overdraft	-	20.4
Bank Loans	413.9	443.7
Finance leases	1.7	1.4
Bonds	1,846.0	1,625.9
<b>Total Net Debt</b>	<b>2,219.3</b>	<b>2,091.4</b>
<b>RCV at 31 March</b>	<b>3,350.0</b>	<b>3,232.8</b>
<b>Gearing</b>	<b>66.2%</b>	<b>64.7%</b>

The RCV for each Regulated Water and Sewerage Company is published by Ofwat [here](#).

In order to achieve this overall objective, the Company's capital management, among other things, aims to ensure that it meets financial covenants attached to the interest-bearing loans and borrowings that define capital structure requirements. Breaches in meeting the financial covenants would permit the bank to immediately call loans and borrowings. There have been no breaches of the financial covenants of any interest-bearing loans and borrowing in the current period.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 March 2020 and 2019.

## 27. Commitments

Capital expenditure contracted but not provided at 31 March 2020 was £95.6m (2019 - £61.0m).

The Company has guaranteed Bonds of £1,846.0m (2019 - £1,625.9m) issued by its wholly owned subsidiary company Wessex Water Services Finance Plc.

The Company has provided performance guarantees on its own behalf of £0.2m (2019 – £0.2m).

## 28. Contingencies

*Claims under the Environmental Information Regulations 2001 (EIR)*

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

## 29. Significant Transactions with Related Parties

There were no transactions with key management personnel.

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

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

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

	<b>2020</b>	2019
	<b>£m</b>	£m
<b>Sales of goods and services:</b>		
Fellow subsidiaries	<b>109.6</b>	111.7
Other group companies	<b>0.2</b>	0.4
Immediate holding company	<b>4.5</b>	4.5
Associate companies	<b>0.7</b>	0.7
<b>Purchase of goods and services:</b>		
Fellow subsidiaries	<b>5.0</b>	3.2
Other group companies	<b>2.2</b>	2.4
Immediate holding company	<b>1.0</b>	-
Associate companies	<b>10.3</b>	10.6
<b>Interest expense:</b>		
Subsidiary	<b>80.8</b>	81.5
<b>Year-end balances owing by:</b>		
Fellow subsidiaries	<b>27.4</b>	27.5
Other group companies	<b>0.1</b>	-
Immediate holding company	<b>21.4</b>	24.7
Associate companies	<b>1.5</b>	1.1
<b>Year-end balances owing to:</b>		
Subsidiary	<b>21.3</b>	19.3
Other group companies	<b>0.6</b>	0.6

### *Terms and conditions of transactions with related parties*

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

At present the Company has no expected credit loss on intercompany receivables. The Company has assessed the amounts of future cash flows and probability of default and there is sufficient headroom that no material provision is required.

### **30. Ultimate Parent Company and Parent Company of Larger Group**

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

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

The largest group in which the results of the Company are consolidated is that headed by YTL Corporation Berhad incorporated in Malaysia. The consolidated financial statements of these groups are available to the public and can be obtained from Yeoh Tiong Lay Plaza, 55 Jalan Bukit Bintang, 55100 Kuala Lumpur, Malaysia.

### **31. Subsequent Events**

During June 2020, Wessex Water Services Finance Plc issued a £50m fixed rate bond maturing in 2029 which was on lent to the company on the equivalent terms. In addition, the company also drew a further £60m from its loan facilities.

The final dividend for the year was declared in March 2020 and paid in April 2020.

### **32. Accounting Estimates and Judgements**

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

#### **a) Defined benefit pension scheme deficit**

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

#### **b) Expected credit loss provision**

The expected credit loss on outstanding receivables is a key estimate under IFRS 9. We base our estimate of recoverability by grouping customers into similar economic profiles and applying a percentage loss rate based on forward looking judgements on the future collection rates that are likely to be achieved. In particular for the year ended 31 March 2020 this has included additional considerations of the possible impact of the COVID-19 pandemic on the expected collection rates of outstanding receivables at the balance sheet date. These assumptions are discussed in note 25.

**32. Accounting Estimates and Judgements (continued)****c) Revenue recognition**

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

**d) Asset lives**

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

**e) Classification of capital expenditure**

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

**f) Leases – Estimating the incremental borrowing rate**

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