

Wessex Water's

# Annual Report and Accounts 2023-24



**Wessex Water**  
YTL GROUP

FOR YOU. FOR LIFE.

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# Strategic Report

## Chairman's Foreword

These are challenging times for the water sector. The need for environmental performance and resilience is increasing as cost-of-living pressures continue to squeeze household budgets. Meanwhile, global warming is associated with more extreme weather and, in the UK, will lead to drier summers and wetter winters. It is essential that we provide resilient water and wastewater services throughout these changes. We are proud to play our part in taking these challenges on.

It is a significant time of change for Wessex Water and the wider YTL UK group. The next few months will feature leadership changes and the launch of a major new cross-sector delivery business, which underline YTL's long-term commitment to infrastructure in the UK.

After 36 years of service as Chief Executive, Colin Skellett will hand over the reins at Wessex Water to our Chief Compliance Officer Ruth Jefferson. Colin leaves the most incredible legacy. Colin took the business through the early years of privatisation, steered it through the turbulent times of Enron ownership and, under his leadership, has built Wessex Water in to a top performer that YTL has been proud to own for the past 22 years. Colin has the greatest admiration and standing in the sector and, together with the whole Board, I extend my sincere thanks for all he has done.

We look forward to Ruth picking up the baton. She brings a strong focus on performance and compliance, which is of ever-increasing importance and has played an instrumental role in building wide stakeholder engagement and support to a new approach to environmental regulation. The Wessex Water Board and the whole team are looking forward to working with her to build on our strong base and realise our future ambitions.

The Wessex Water team has made promising progress in championing a new approach to environmental regulation with the Sustainable Solutions for Water and Nature (SSWAN) partnership. The partnership proposes a different model that can deliver better outcomes for customers, the environment and water users across whole catchments. Colin explains more about this and the use of catchment and nature-based solutions to deliver more efficiently in his review on page 5 and the case study on page 7. In view of the multiplicity of challenges ahead for water, we need this kind of collaborative, creative approach – and I urge all interested parties to get involved with SSWAN's ongoing programme.

River health is a priority and we are taking action to improve our performance. In common with other English water companies, every storm overflow on the Wessex Water network is now monitored – a world-leading position for the English water industry – and we are using Artificial Intelligence (AI) to survey our sewerage network. These technologies are providing better visibility, data and alerts which will enable faster responses, allow for preventative action and guide our capital investment choices.

We understand that the demands of the public, media and politicians for healthier water courses has rightly grown stronger. Within this context, we are painfully aware that our storm overflows spilled for longer than they did in the previous year. This was driven by exceptional rainfall, with 2023 being one of the wettest on record in our region. Despite this, we are encouraged by the reduction in our serious pollution numbers reported in the year and we are hopeful that Wessex Water will be recognised with a four-star rating on environmental performance, the highest rating possible. We are now working with government and regulators

to explore the significant opportunity to deliver nature-based solutions to reduce spill frequency and duration in future as part of the overall solution.

The cost of living remained high in 2023 and many of our customers continued to experience economic hardship. We responded by making our support packages for vulnerable customers and those struggling to pay their bills more visible and easier to access. This included auto-enrolling just under 5,000 eligible customers on to our schemes data shares with government. We beat our target of securing 2,300 successful applications for financial assistance, by more than 400 applications.

More broadly, our customer service continues to lead the industry.

Our capital investment increased by 44% in the year from £292m to £421m, driven by the profiling of the WINEP delivery programme, the impact of delays to work arising from the Covid-19 period, strategic maintenance projects and increased cost of inputs to construction. Dividends declared by the Board were reflective of our performance and represented a 5.0% return on investment. We are soundly financed and, as responsible investors, YTL stands ready to invest in Wessex Water's future, for a fair return. We would, however, like to see regulation evolve in line with the SSWAN proposals to allow for much better use of nature-based solutions alongside traditional approaches; this will ensure the solutions we deliver are truly sustainable for water and nature and best value for all.

YTL Construction UK is a new venture which will bring together YTL's global expertise and supply chains with Wessex Water's capabilities to create a new construction business. The new business will work across all major construction areas, including opportunities within the wider UK water industry which has proposed a £100 billion expenditure programme over the next five years. I am delighted that Colin will continue as Group Chief Executive of YTL UK and John Thompson, Chief Operating Officer of Wessex Water, will lead the construction business.

These changes further strengthen our ability to take on the coming challenges. At the time of writing, Wessex Water's business plan for 2025-30 remains subject to regulatory approval. However, we are committed to delivering record levels of investment and working towards a future where: rivers are healthier and no longer blighted by regular storm overflow spills and excess nutrients; everyone is confident water supplies remain safe, clean and sustainable; our carbon footprint is going down not up; as well as working to support nature and biodiversity every day as we deliver our services.

As always, I am very grateful for the dedication of all our Wessex Water colleagues and business partners; they have shown great service and resilience in the face of significant pressure. There are many years of investment, delivery and improvement ahead and I look forward to Wessex Water realising our ambitious plan with YTL's strong support.

I thank the Lord Jesus for His constant grace and guidance and pray that we continue to rise up to the challenges we face



Tan Sri (Sir) Francis Yeoh KBE  
Chairman

## Chief Executive's Review

This is my final Annual Report as Wessex Water's Chief Executive. It has been a privilege to lead the company from its formative years, to oversee the delivery of so much improvement for customers and the environment and to help build the industry-leading organisation we have today.

But the work is far from done. We are at a crucial point for the water industry to meet the challenges of climate change, low carbon, customer expectations and restoring trust. Dealing with storm overflow discharges and doing more to support river health is at the top of the public agenda and therefore ours. We also need to decarbonise and supply a growing population, whilst reducing the amount of water we abstract and help to improve the natural environment. This all comes at a time of climatic, technological and societal change, and when people can least afford to pay for expensive single-problem fixes.

For all these reasons, I want to look to the future rather than the past as I step back from leading the company. A key feature of our work this year has been as part of the Sustainable Solutions for Water and Nature (SSWAN) coalition, which has crafted a new vision for the water environment. Together with Green Alliance, The Rivers Trust, RSPB, The Wildlife Trusts, Sustainability First, CIWEM and Water UK, we propose replacing today's fragmented regulatory model with a catchment-wide approach which works across sectors and prioritises efficient, nature-based and low carbon solutions. Alignment of the regulatory functions that govern water, farming, planning and housing development within a common overall framework, focused on achieving better environmental, social and economic outcomes, will ensure we have clean, healthy rivers, delivered and paid for in the most efficient way.

The SSWAN project envisages refreshed roles for Government, regulators and regulated companies and the creation of new Catchment Advisory Boards (CABs) which would advise regulators on desired outcomes based on local priorities, taking account of what is achievable and at what cost. The CABs would also provide an ongoing monitoring role; non-compliance would have strong consequences, with penalties consistent with the 'polluter pays' principle. More information on the thinking can be found at [www.sswan.co.uk](http://www.sswan.co.uk).

We now need to bring the ideas to life. Project SSWAN has some specific asks of the government, as shown in the box. My successor, Ruth Jefferson, has been heavily involved in the work and I know will continue to champion it with our partners.

To have the legitimacy to advocate for change, our day-to-day performance has to be good. In 2022, we were not content with our performance and have been determined to improve. Whilst we have performed well in some areas, such as customer satisfaction, we have missed key targets, notably sewer flooding, where there remains more to do. I am however, particularly pleased that Wessex Water looks set to recover our four-star environmental rating from the Environment Agency. I thank all our teams, whose focus and vigilance contributed to us recovering our position.

Let me also highlight a broader point, given the media coverage of the financial fragility of some water companies. Wessex Water is not in that position. YTL has been our sole owner for 22 years and has maintained a simple structure, with a straightforward and ethical approach to financing. Our financial foundations are strong and we are committed to the long-term sustainable stewardship of our business.

We need to continue to build our resilience to the rapidly changing climate, as 2023 demonstrated. It was one of the wettest years on record and inevitably this affected many of our operations. The high rainfall resulted in a significant increase in storm overflow discharges, as well as more sewer flooding and minor pollution incidents. We take this deterioration in our performance very seriously.

We are investing £3 million each month on storm overflows – rising to over £6 million a month after 2025, subject to regulatory approval. We have deployed monitors on every overflow in our region to guide our priorities and we are working at pace to deliver both asset and nature-based solutions to protect properties and waterways, as well as to provide better information to users of our coastal and inland waters.

The wet weather means we can be certain that there will be no need for any restrictions on water use – maintaining our 48-year record of no restrictions. However, the climate change effect of greater variation in temperature and rainfall does impact on ground movements that can cause damage to our pipes. Even so, in 2023, we reduced our annual average level of leakage by 1.4 MI/d (2.0%) from 71.2MI/d to 69.8MI/d. This result was achieved by pressure management and leakage control improvements, which included installing over 6,000 permanent acoustic loggers in our network to aid leak detection.

We also had a successful year in other ways. The quality of drinking water we supplied looks set to be recognised as industry leading. We had the fewest customer complaints of all water companies and maintained our long-standing top performance on customer service and community engagement, reflected in our leading C-MeX score and excellent TrustPilot rating. Our campaign to raise awareness of the help available to customers struggling to pay their bills and making it easier to access this help, resulted in even more customers getting the help they needed from our tailored assistance programme. In addition, we provided over £500,000 of grants through our charitable Wessex Water Foundation.

Alongside business-as-usual, in October 2023 we submitted our business plan to Ofwat for 2025-30. This was the product of many months of dedicated focus to strike the right balance within the current regulatory framework and in light of so many competing pressures.

In the immediate term, we need the plan to be approved so we can get on with transforming water and wastewater services to meet modern expectations – particularly getting sewage, nutrients and other pollution out of rivers. But this will be a long journey in which there are no quick fixes, despite the urgency of the call for change.

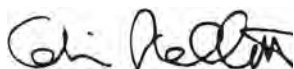
For that reason, we need government, regulators, water companies, campaigners, customers, communities and delivery bodies across the water, agriculture, industry and development sectors to back SSWAN's vision for more sustainable solutions for water and nature. We are passionate about the multiple benefits of nature-based solutions and want to deliver the outcomes our customers demand in the cleanest, greenest and most cost-effective ways possible. We need to pivot away from short-term five year price settlements to unlock this potential.

**Sustainable Solutions for Water and Nature:**

asks of the next Parliament

1. Set water health targets at a national and catchment scale, ensuring policy levers and incentives are in place to reduce pollutants and deliver targets locally
2. Link investment and targets across water quality, flooding, nature recovery, carbon, and climate to create new sources of funding
3. Ensure pollution is accurately apportioned to those responsible, with detailed and transparent monitoring carried out by public bodies
4. Establish independent Catchment Advisory Boards to facilitate local decision making and deliver targets efficiently
5. Resource the regulators to drive compliance and sufficient investment in the water system, using existing enforcement tools
6. Set a framework to deliver long-term resilience, established by an independent body, and requiring water companies and regulators to deliver against the framework.

We owe it to the thousands who work in this industry, those just coming in such as the 92 apprentices and graduates we took on this year, and the millions who depend on its essential services to get this right. I know Wessex Water, under its new leadership, will play a leading role.



Colin Skellett  
Chief Executive



## CASE STUDY SUSTAINABLE SOLUTIONS FOR WATER AND NATURE (SSWAN)

Nature and the recovery of our rivers, lakes and coastal waters are at the heart of a pioneering call to action for policymakers, regulators and the wider industry.

Alongside other organisations, including Water UK and environmental groups, we have shared groundbreaking proposals for regulatory reform of the water industry. The new approach we are collectively suggesting focuses on whole catchment areas working together and using nature-based and low carbon solutions.

The SSWAN (Sustainable Solutions for Water and Nature) coalition has issued a call to action for policymakers and regulators, alongside a discussion paper that explains how we could all be working differently to achieve better outcomes for nature. This would see environmental targets set at a catchment level and include all stakeholders, such as water companies, farmers, industry and housing developers in the local area.

The new approach was formed after months of engagement and discussion led by us, between different groups across the sector including CIWEM, RSPB England, The Rivers Trust and The Wildlife Trusts.

Group Sustainability Director Guy Thompson said:

“If implemented, SSWAN will make it much easier for water companies to work in partnership to find the right solution for each river, coast and lake in their region. And it will mean we can make the best use of the significant investment going into our water systems and communities.

“I’m really proud to see us leading the charge with the SSWAN initiative. We have a long way to go, but hopefully in the future, this proposed new regulatory approach will help accelerate the recovery of our rivers, coasts and nature in our catchments.”

You can read full details about the SSWAN project at

[www.sswan.co.uk](http://www.sswan.co.uk)





## About us

Wessex Water is a regional water and sewerage business serving 2.9 million customers across the south west of England. At a time when the water industry faces a crisis of public confidence, we are judged by our regulators on our performance as one of the leading group of water and sewerage companies in England and Wales.

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

Our long-term plan for delivery is set out in our Strategic Direction Statement, published on our website here. The statement, which was developed in partnership with customers, businesses, employees and stakeholders, sets out our vision and ambitions through to 2050. It is structured around eight 'outcomes' – eight fundamental results we plan to achieve through our actions. These are:

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

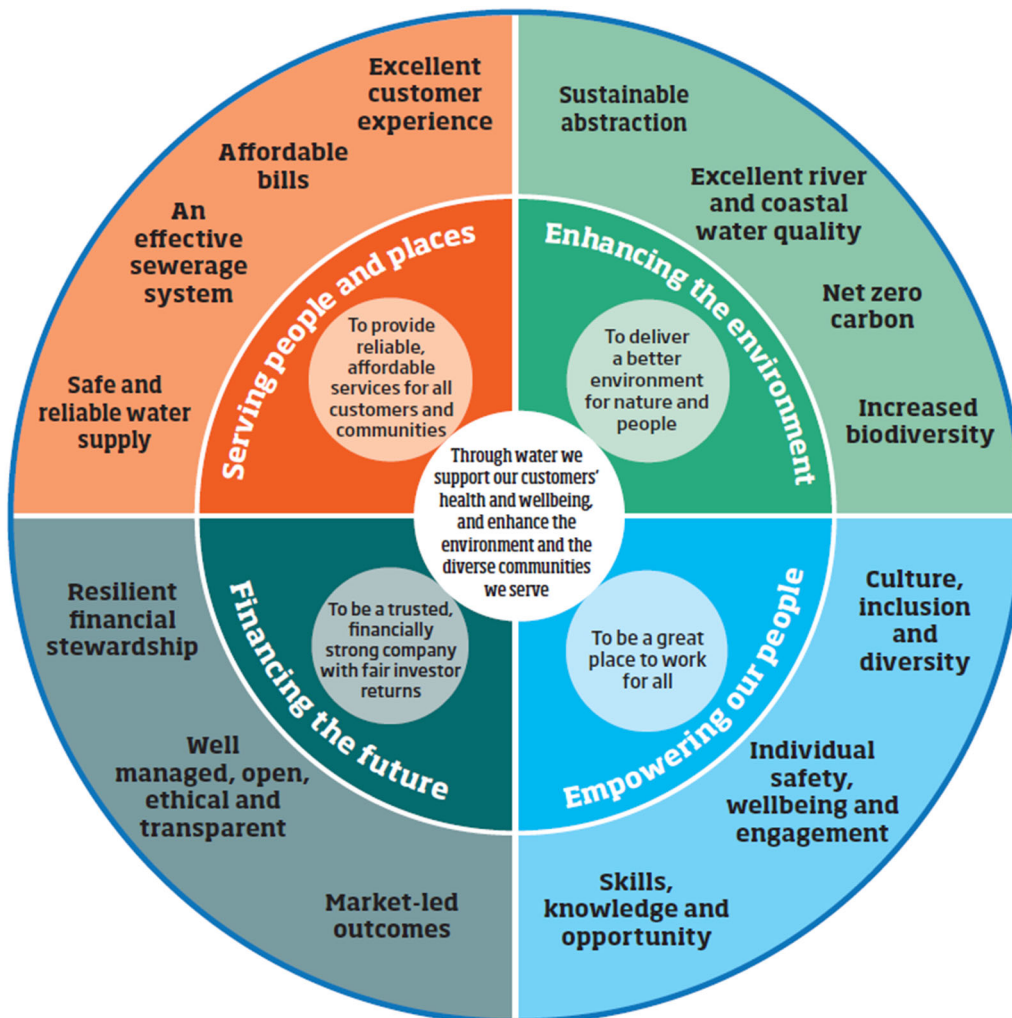
These outcomes are underpinned by six enablers that will help us achieve the results we strive for:

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

The graphic below is our 'strategy wheel' which brings everything together. It shows how the eight outcomes we are targeting are underpinned by the six enablers. The wheel is also divided into quarters to group the factors by area:

- serving people and places
- enhancing the environment
- empowering our people
- financing the future

These form the basis of the four main chapters in the strategic report. At the centre of the wheel is our purpose, which is at the heart of everything we do.



# Serving people and places

To provide reliable, affordable services for all customers and communities



OUTCOMES	Target 2050	Actual 23/24	Previous year	Progress
<b>Safe and reliable water supply</b>				
Water supply interruptions (mm:ss)	0:00	00:05:35	00:04:10	↘
Compliance risk index score	0:00	0.93	1.04	↗
<b>An effective sewerage system</b>				
Internal sewer flooding	-	1.56	1.31	↘
<b>Affordable bills</b>				
Percentage of customers spending more than 5% of their disposable income on their water bill*	0%	6.3%	6.5%	↗
<b>Excellent customer experience</b>				
Position in the UK Customer Satisfaction Index	Top 10	236th	93rd	↘
C-Mex	upper quartile	second overall	third overall	↗

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

# Overview

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

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

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

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

However, our wastewater network struggled under the persistent heavy rain and the number of sewer floods that happened both inside and outside of people's properties regrettably increased. With more extreme weather likely to be a feature of the future, we are now using AI technology to detect defects, such as collapses and obstructions caused by wet wipes, along our many miles of sewer network. This will help us to speed up our response times - see case study, AI insight helping to protect rivers, seas and homes on page 19.

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

## Our journey

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

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

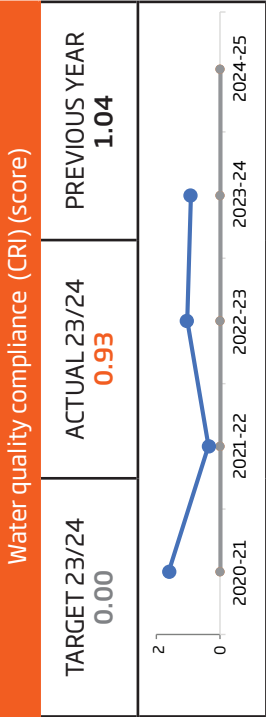
In the following pages, we set out how we have performed against our regulatory performance commitments for serving people and places.



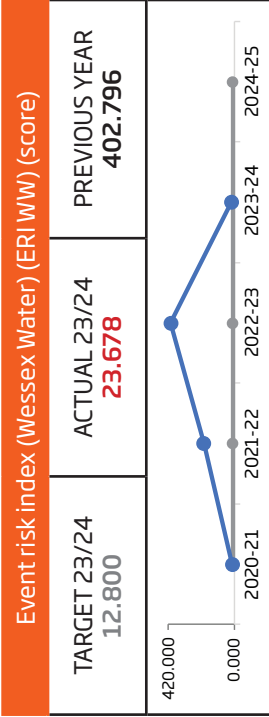
## Safe and reliable water supply

### Drinking water quality

High quality drinking water is a fundamental requirement for customers. We are pleased to report improvements across all relevant metrics in 2023 from an already high base and expect to be industry-leading among water and sewerage companies on the Compliance Risk Index (CRI), which is one of two measures used by the Drinking Water Inspectorate (DWI) to measure drinking water quality compliance.



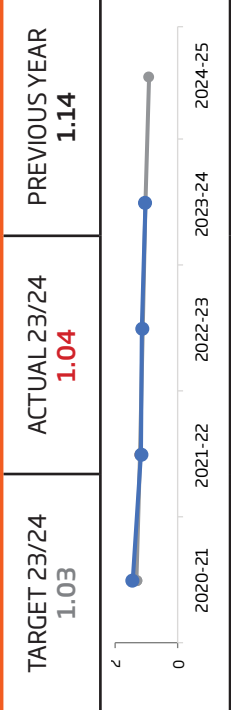
The Drinking Water Inspectorate (DWI) measures drinking water quality compliance using two main metrics: the Compliance Risk Index (CRI) and the Event Risk Index (ERI). We will not receive our confirmed CRI score from the DWI until July but anticipate an industry-leading score of 0.93 - which is also an improvement on our 2022 score of 1.04.



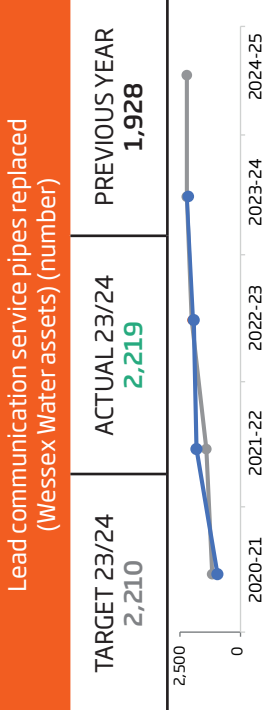
The other measure used by the DWI is the Event Risk Index (ERI). Our provisional ERI score of 24 is a considerable improvement on last year's very disappointing score of 403 - although even then we outperformed the industry average. We reported 22 events to the DWI in 2023. We capture learnings from each event and put in place preventative measures to increase resilience.

Note: ERI score to be confirmed by the Drinking Water Inspectorate

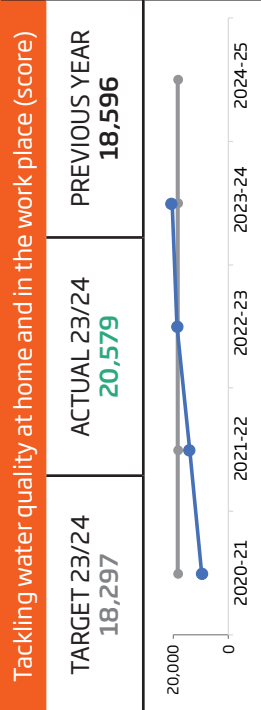
### Water quality customer contacts (number per 1,000 population)



We registered fewer complaints from customers about the taste, odour or appearance of their water in 2023: 1,404 contacts from the 1.4 million customers we supply, the lowest level ever and continuing a five-year downwards trend. Our success here is in part because we investigate the source of every contact and target our actions accordingly.



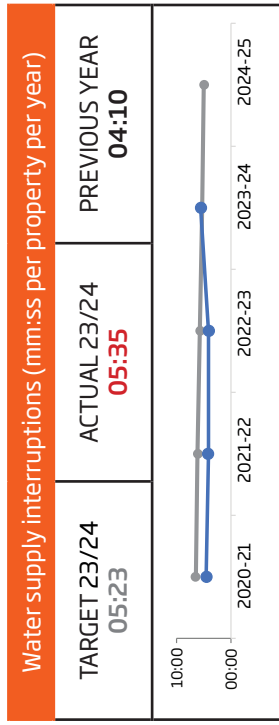
This year we just beat our annual target for lead pipe replacement - an improvement on last year when we were slightly below our annual target. We also continue to outperform our cumulative target, having exceeded our four-year goal by just over 100 replacements.



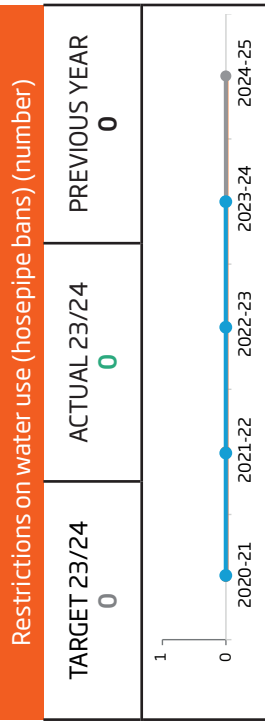
We undertook 20,579 water quality home and workplace checks, against a target of 18,297 and last year's 18,596. This was achieved through additional resourcing and working more efficiently, including by collaborating with our high-risk site wastewater audit team. However, we remain unlikely to meet our March 2025 target, as we work to catch-up from the reduced checks achieved during the Covid-19 period.



## Supply interruptions



Having delivered industry-leading performance in the previous three years, a major incident in Chippenham in February this year regrettably resulted in a significant increase in minutes lost - from an average of 4 minutes 10 seconds in 2022 to an average of 5 minutes 35 seconds in 2023. A burst on a trunk main just downstream of the service reservoir in Chippenham left 3,000 customers off supply until a repair was carried out. Where it was feasible to do so, we prevented the burst from affecting even more customers by re-routing water from other supply zones.



No supply restrictions were needed in 2023-24, continuing a decades-long pattern, since the major drought of 1976.

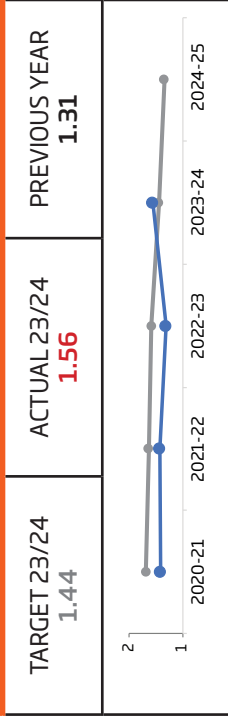
## An effective sewerage system

### Sewer flooding

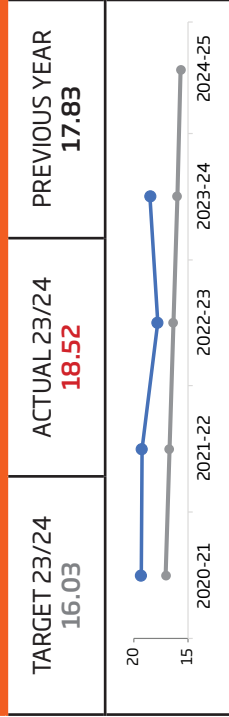
In contrast to our drinking water quality performance, we are disappointed that we have not met our sewer flooding targets. We accept that this is a significant shortcoming, given the devastating impacts sewer flooding can have for customers. Whilst this is the result of extremely wet weather that has characterised 2023, we will build more resilience into our system.

There were 202 sewer floods inside properties (internal) in the year, up from 168 in 2022. This is a rate of 1.56 incidents per 10,000 sewer connections, above our target of 1.44.

### Internal sewer flooding (incidents per 10,000 sewer connections)



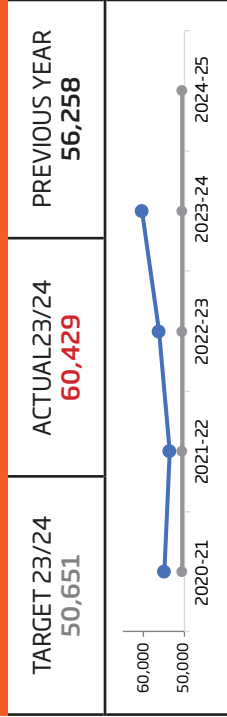
### Customer property sewer flooding (external) (incidents per 10,000 connections)



The number of sewer floods outside of properties (external) rose from 2,295 in 2022 to 2,397 in 2023; this is a rate of 18.52 incidents per 10,000 sewer connections, above our target of 16.03. Any flooding incident is one too many and we are determined to reduce the number next year.

In last year's annual review summary, we welcomed news that the government intended to ban plastics in wet wipes, given 90% of external and 85% of internal sewer flooding incidents are a result of sewer blockages, with wipes the single largest cause of those blockages. In April 2024, the government confirmed legislation would be introduced to implement the ban by the end of the year. We hope the incoming government remains similarly committed. We believe this will significantly reduce the number of customers blighted by sewer flooding.

### Sewer flooding risk (score)



The persistent rain meant that our target on the sewer flooding risk measure, which assesses the probability and impact of flooding incidents, proved elusive.

North Bristol Sewer Scheme - Trym catchment (months)		
TARGET 23/24	ACTUAL 23/24	PREVIOUS YEAR
0	0	0

On a more positive note, we met our target for there to be no delays to the delivery of our North Bristol Sewer Scheme, which will reduce flooding, overflows and pollution risk whilst building capacity to support growth and cope with climate change. In fact, although we had intended to complete the scheme in March 2023, we actually finished it early, in December 2022.

### Affordable bills

#### Financial vulnerability

Our commitment to supporting every customer to be able to afford their water bill is long established. We provide extensive financial and debt support through a range of schemes and low-rate tariffs under our tailored assistance programme (**tap**) and each year we build on past progress.

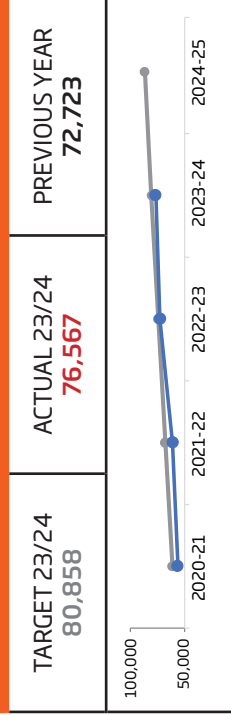
Our commitment remains, even as the context changes. Importantly, we remain resolved to achieve zero water poverty by 2030 (defined as no one spending more than 5% of their disposable income on water) despite average bills rising for the second consecutive year this year and customers continuing to battle with the wider cost of living crisis.

In 2023, we focused on making help easier and quicker to access and improving the customer journey. We made the following changes in the year:

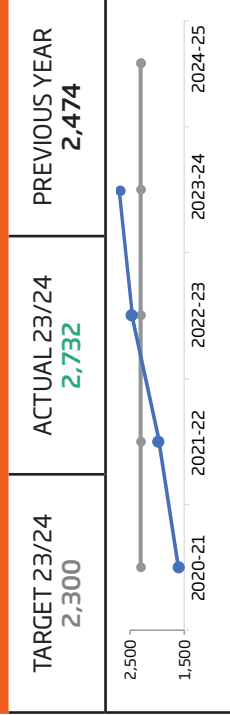
- auto-enrolled just under 5,000 customers to schemes via data shares with councils and the Department for Work and Pensions
- continued to fast-track customers to our Assist scheme (which provides bill discounts) at first point of contact
- introduced a new care leavers scheme pilot, enabling those leaving care to automatically access Assist up to the age of 21
- promoted our schemes using a variety of communication channels, using imagery and wording customers have said will best encourage them to get in touch. Our activities included: placing adverts in specialist publications (such as hospital magazines and with Kidney Care UK) as well as in more general publications and locations; distributing leaflets through

- schools and in 'new parent packs' in Chippenham; and posting on social media, including during 'Stop Loan Shark Week'
- committed to working with debt advice organisation Money Wellness to refer our customers to them directly through a web portal. With consent, we are also able to receive data back to support customers to access the right help for them
- provided 20+ training and awareness-raising sessions with partners about what **tap** has to offer
- launched a new online eligibility calculator to enable customers to find the right affordability scheme for them.

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



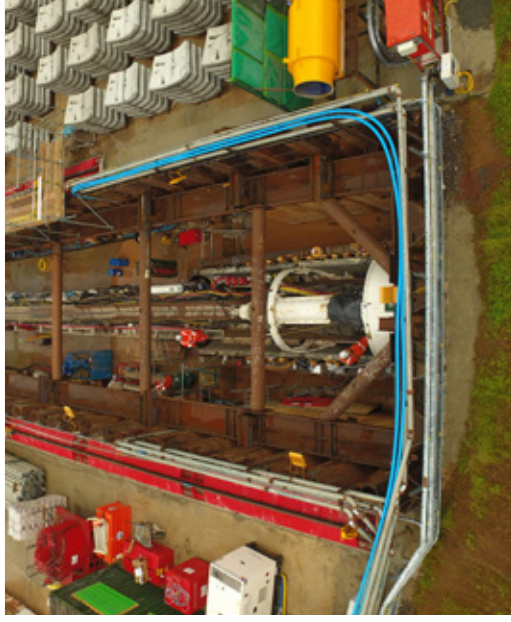
Successful applications for assistance received by the independent advice sector/third parties (number)



The total bill reduction to customers on social tariffs per 10,000 households rose this year from £72,723 to £76,567. However, we missed our target for the year of £80,858.

We finished the year with a reconciled figure of 2,732 successful applications for assistance for financial support. This is an increase of 258 compared to 2022-23 and 432 above our regulatory target of 2,300.

We also met our target for the number of applications to our financial support schemes from funded advice agencies. As the cost of living crisis persists, most agencies are close to capacity and are dealing with both more complex cases and a new type of client: customers in full-time work who now need affordability help.



The North Bristol Sewer Scheme is designed to reduce overflows and flooding incidents.

## Wider vulnerability

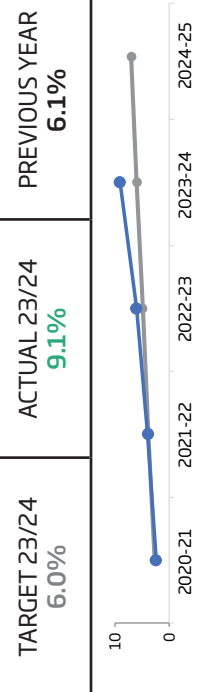
Our strategy to help vulnerable customers, Every Customer Matters, continues to guide our work on providing inclusive services, including Priority Services. Mirroring our focus on fast and easy access to financial help, we also focused on raising awareness and take-up of the support we offer, to those in other types of vulnerable circumstances.

With over 100,000 customers on our register, we achieved a reach of 9.1%, exceeding our 2024-25 target of 6.0%. However, we continue to work to build on this. We have extended our performance in successfully contacting customers every two years to update their Priority Services Register (PSR) details to 58.5% against a target of 35%.

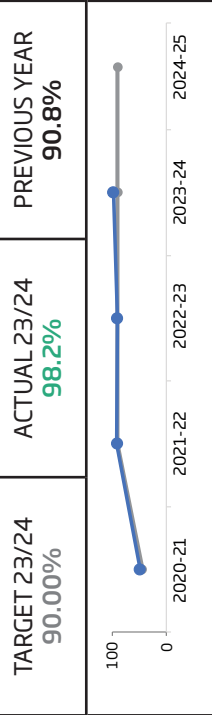
Among our activities in the year, we:

- introduced SignLive, a service for customers who use British Sign Language (BSL) as their first language
- launched a two-way data share with power distribution companies National Grid Electricity Distribution and Scottish and Southern Electricity Network, and the Dorset and Wiltshire Fire Service, to build a shared understanding of who may be in vulnerable circumstances
- worked with Kidney Care UK to set up drop-in clinics to support those living with chronic kidney disease to access our help to pay schemes and our Priority Services Register (PSR)
- hosted our first Vulnerability Awareness Week, to support staff working with customers who need extra help and to promote the tools and training opportunities we provide to help them deal with difficult situations
- launched a new partnership tiers scheme to help us track how we work with partners
- introduced a new online form for those who have experienced bereavement and need to contact us and updated our web page to signpost further assistance.

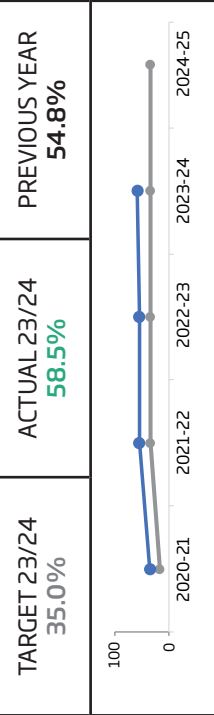
### Priority Services for customers in vulnerable circumstances: reach (%)



### Priority Services for customers in vulnerable circumstances: attempted contact (%)



### Priority Services for customers in vulnerable circumstances: actual contact (%)



### Delivering for customers in vulnerable circumstances (certification status)

TARGET 23/24	ACTUAL 23/24	PREVIOUS YEAR
Maintained	Maintained	Maintained

We have once again retained the British Standard for Inclusive Service Provision.

We continue to develop the support we provide, with more initiatives planned for 2024-25, including:

- exploring data sharing with more councils and fire services to auto-enrol customers on to help schemes
- working with fintech company I&E Hub to improve our digital sign-up journey
- participating in the national PSR project which will see us share data with energy suppliers two-way
- developing a partnership with Marie Curie to support customers living with cancer
- working towards the new ISO 22458 standard for consumer vulnerability.





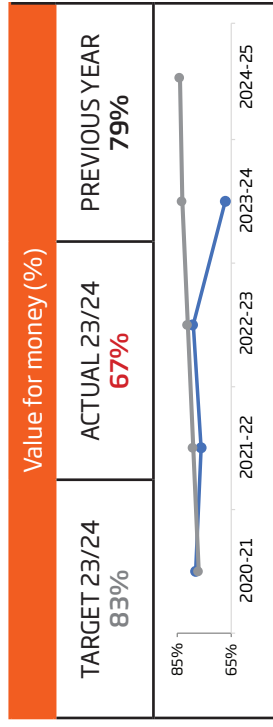
## Excellent customer experience

### Service and satisfaction

Providing the highest levels of customer experience is one of the things that differentiates Wessex Water from the wider water industry; we want to provide an excellent experience for every customer, every time, and we achieve high standards of success in this area. We set ourselves the high bar of being a top 10 company in the all-sector UK Customer Satisfaction Index (UKCSI) by 2050. As we work towards that, we measure our performance using a range of metrics.

C-Mex (score)		
TARGET 23/24	ACTUAL 23/24	PREVIOUS YEAR
-	81.77	82.99

For our household customers, we target always being an upper quartile performer in the main water industry customer experience measure, C-MeX. In 2023, we maintained our high performance, coming first of the water and sewerage companies and second overall.



However, when looking at some of the other measures, we were disappointed that 67% of our customers said our service was good or very good value for money in 2023, compared to 79% last year and our target of 83%. 87% said they were satisfied with our service, unchanged from 2022. Both can be affected by weather-related challenges, as well as the public narrative about the wider water sector, which remains negative.

Our average Trustpilot rating was 4.6 stars out of 5, and 83% of reviewers gave us the top possible rating of five stars. Finally, we underwent full reaccreditation for the highly prized accolade we have held since 1996, the Customer Service Excellence award. We increased our score from eight to 22 compliance plus,

which means we exceeded requirements and demonstrated exemplary practices. The Centre for Assessment praised our team approach, depth of customer understanding, inclusivity and culture of seeing challenges as learning opportunities. The report said: "Quality and continuous improvement are of the highest importance to Wessex Water and the organisational culture is one of prioritising the customer experience."

We continue to provide a variety of ways for customers to get in touch with us. The number opting for self-service, text messaging and web chat continues to grow and 223k are now signed-up to eBilling.

D-Mex (score)		
TARGET 23/24	ACTUAL 23/24	PREVIOUS YEAR
-	90.21	89.89

We also aim to provide great service for our developer customers, targeting upper quartile performance in the industry's developer experience measure, D-MeX. In 2023, we were placed fourth of the water and sewerage companies and sixth overall. Our score of 90.21 is the highest level we have achieved since the measure was first introduced, but our peers have also improved, making an upper quartile placing something of a moving target. Only 1.51 points now separate the top six performers.

### Complaints and feedback

According to the latest data from the Consumer Council for Water, we have the lowest rate of complaints in the water and sewerage industry, at 21.57 per 10,000 connections; this was significantly better than the next best performer (29.91) and leagues away from the worst performer (227.52). We also performed better than average on complaint handling in the watchdog's league table and were given a special mention for our "sustained lead" on complaints.

In 2023, we registered 3,278 complaints, a 19% increase on last year. However, we remain committed to implementing all the improvements outlined in our best practice Complaints Action Plan, which should result in a decrease in complaints next year.

Across our business, we treat feedback as a learning opportunity. Our Customer Experience Group keeps our feedback strategy under constant review. Key areas of focus and activity in 2023 included establishing a dedicated case management team



*Our people go the extra mile for customers. Our average Trustpilot rating was 4.6 stars out of 5, and 83% of reviewers gave us the top possible rating of five stars.*

to support customers who experience repeat problems (as recommended by the Ofwat/CCW Ending Sewer Flooding Misery work) and improving how we manage incidents and major events.

### Business customers

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

This year we scored 93.6% in the operational performance standards, the market measure of customer service, an increase from last year but behind our target of 96%.

We have supported work to introduce a similar measure of experience for business customers, B-MeX, and will participate in shadow implementation of the measure in 2024-25.

### Cyber security

#### Security non-SEMD outputs (months)



Two water companies have experienced cyber attacks in recent years and cyber security is a pressing issue for all critical infrastructure providers. We are making good progress across a range of areas that are collectively increasing our cyber defences to safeguard our customers and the operation of the business.

### Building stronger communities

We have an extensive community engagement programme and we nurture a wide range of local groups, projects and initiatives as part of our responsible business ethos. Our focus in working with our communities is to make a valued contribution to people and places, be it through funding, volunteering, the provision of amenities, or other ways of helping communities achieve their goals. As part of this, we try to increase understanding of how the water system works and develop stronger relationships so we can work with communities on shared challenges and priorities.

### Community Connectors

We are now approaching the end of an innovative, two-year, place-based engagement pilot, Community Connectors, which we launched in April 2022. We selected the areas of Chippenham and Bridport and worked with residents to identify shared goals that we could work together to achieve.

Two stand-out themes emerged: climate change and the cost of living. Throughout 2023, the Community Connectors team pursued ways to support the shared goals through funding relevant grass roots projects and leading on initiatives such as Rainsavers, which involved installing water butts, rain gardens and soaker hoses for customers.

### CASE STUDY: RAINSAVERS IN CHIPPENHAM

In Chippenham, we expanded our regular Home Check water efficiency visits to offer free water butts and trial the use of 'soaker hoses' to keep rainfall in gardens and out of the sewer system. The service was popular with customers with nearly 300 households having water butts fitted. The soaker hoses allow the captured rainwater to be automatically drained down into borders and vegetable beds but unfortunately only 11% of the properties had gardens and pathways suitable for their installation. Whilst this trial therefore had only a modest impact on reducing rainfall into sewers it has helped to further our understanding of customers' appetite, motivations and the practical barriers for such interventions.

Our engagement work of this kind continues and we are currently trialling alternatives to water butts and soaker hoses with residents in Chard and a coastal village in Dorset. These pilots are also seeking to encourage customer participation in better rainwater management at a household level as part of a portfolio of local solutions to reduce the operation of storm overflows and flooding incidents.

The project concluded at the end of April 2024. We intend to produce a final report on the trial in mid 2024 and award 'Watermark' accreditation to recognise environmental and water saving achievements where agreed goals are reached.



Chippenham Refill Point launch  
with the Mayor

## Charity and volunteering

Our volunteering programme, Water Force, is thriving. In 2023, 760 colleagues - 30% of the Wessex Water workforce - took part, donating over 4,000 hours with 33 different organisations.

The charitable Wessex Water Foundation, set up in 2020, continued to provide much-needed financial support to south-west social and environmental initiatives, in partnership with the Somerset, Wiltshire, Dorset and Quartet Community Foundations.

In 2023-24, grants totalling £567,898 were distributed through the Foundation to support core debt advice services provided by Citizens Advice and our five key environmental partner programmes, as well as through two community funding rounds supporting grassroots environmental and community activities.

## Wellbeing and recreation

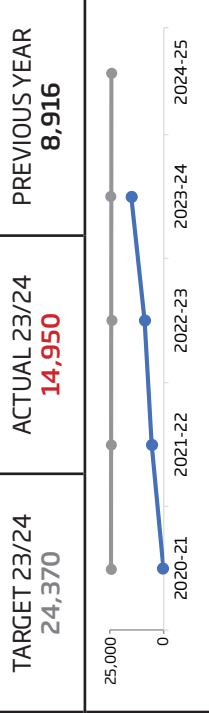
We completed our refill point programme - providing free drinking water for people on the go - with the installation of the 24th and final refill unit in Chippenham High Street. In partnership with local councils, we maintain and promote these refill points, saving around 350,000 500ml single-use plastic bottles every year.

We also promoted the 'refill not landfill' message at events throughout the year, providing water stations and refill points at two Bath half marathons, the Corsham 10K and Cancer Research UK's Race for Life. We eliminated the equivalent of 52,800 single-use plastic bottles from landfill, engaged with more than 3,400 customers and supported over 27,600 runners and attendees.

We are also keen to provide access, information and a great experience at our own reservoir and recreation sites. We host thousands of visitors every year, including many educational events during school holidays. We have also recently completed work to improve signage and information for visitors.

## Spreading the word

Number of children/students engaged (number)



We continue to build understanding of water by working with children and young people every year through school and operational site visits; these are curriculum-aligned and delivered in person. This year we reached 14,950 children and young people, up from 8,916 in 2022. Our school bookings are now close to capacity.

Throughout August and September 2023, we attended summer shows across the region and talked to customers about sewer misuse and water efficiency in their homes and gardens, as well as sustainable drainage systems and rainwater management.

Our 'Around the Bend' tours of our water recycling centres continued to be popular, providing both entertainment and education to the public about sewage treatment processes and what not to flush.



*We help fund important community projects through the Wessex Water Foundation like the Westbury and Warminster Youth Club.*



## CASE STUDY

# AI insight helping to protect rivers, seas and homes



Smart systems link to our network intelligence such as Storm Harvester and CCTV.



Real-time monitoring at Warleigh Weir, near Bath

**Hi wild swimmers!**  
Want to know what the current water quality, temperature and flowrate over the weir is?  
Scan this QR code to find out



### Artificial Intelligence (AI) is helping us monitor and protect the waterways in our region.

Coastal and river water quality is affected by numerous sources – including wildlife, agriculture, regulated storm overflows and treated sewage discharges – so we developed an AI app with UnifAI Technology which uses algorithms to give half-hourly predictions on bacteria levels.

As well as bacteria, the app shows the temperature, water level and water flow along with the amount of rainfall.

At Warleigh Weir, a popular wild swimming location near Bath, data has been collected from sensors since 2021 and swimmers now have better information before they enter the water.

In Dorset, real-time monitoring at Bournemouth and Boscombe beaches will provide a better understanding of water quality status. The area's bathing waters are already assessed by the Environment Agency and most are rated 'Excellent', including Bournemouth Pier, Durley Chine and Alum Chine.

UnifAI has also developed an AI system in Poole Harbour, with real-time water quality notifications informing local fishery and recreational businesses.

And we have worked with Othniel Oysters and Bangor University to provide weekly water and oyster samples for analysis.

### Sewer detectives

Below ground, we have been harnessing the power of AI to help spot problems in our 35,000km network of sewer pipes in partnership with research and development firm Molifar.

We previously surveyed around 400km of sewer a year using CCTV equipment relying on colleagues manually recording any defects they spot while watching the footage live. AI technology automatically detects and classifies defects from survey footage to help us improve efficiency and reduce business costs.

We are also using AI monitoring devices to detect levels in sewer pipes and trigger an alarm when storm overflows are in use. High sewer levels can be caused by blockages like flushed wet wipes, so we partnered with AI service StormHarvester to identify these early before the network becomes overwhelmed. StormHarvester uses machine learning and hyperlocal rainfall forecasts to predict sewer levels and detect early blockage formations.

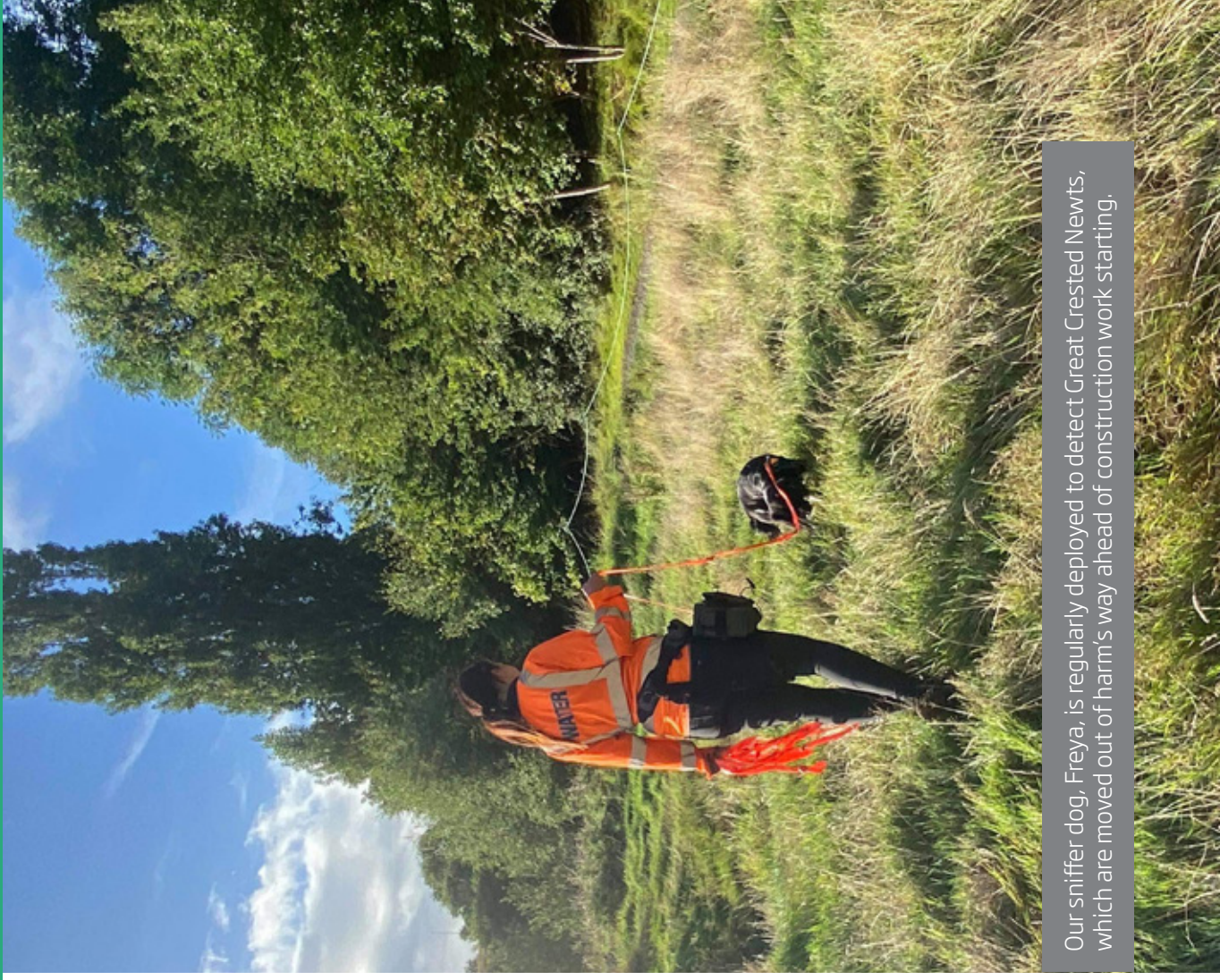
# Enhancing the environment

To deliver a better environment for nature and people

OUTCOMES	Target 2050	Actual 23/24	Previous year	Progress
<b>Sustainable abstraction</b> Compliance with abstraction licences	100%	98%	98%	↔
<b>Excellent river and coastal water quality</b> Number of pollution incidents	0	126	110	↓
Total tonnes of phosphorus removed from rivers and coastal waters per day	*	5.02	3.76	↑
Total tonnes of nitrogen removed from rivers and coastal waters per day	*	12.91	9.92	↑
<b>Net zero carbon</b> Total kktCO <sub>2</sub> e per year (operational)	0	105	104	↓
<b>Increased biodiversity</b> Number of biodiversity units	Double our contribution	613	613	↔

\*Target will depend on what is required, which we cannot forecast.

\*\*Zero target is 2040 for net zero carbon



Our sniffer dog, Freya, is regularly deployed to detect Great Crested Newts, which are moved out of harm's way ahead of construction work starting.

# Overview

We are playing a key role in shaping thinking on how to ensure that investment targeted at improving the environment in the widest sense represents optimal value for money in future. We have formed a coalition with environmental groups and stakeholders that interact with or otherwise have an interest in the water environment, to champion catchment level solutions to deliver better outcomes for nature. This promises to be an important and exciting strand of work – see case study: Sustainable Solutions for Water And Nature (SSWAN) on page 7.

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

We head into summer 2024 with our reservoirs and aquifers in very healthy condition and do not anticipate any supply challenges in the year ahead. However, our storm overflow discharge performance deteriorated significantly and we registered a rise in minor pollutions. All our storm overflows are now monitored and the data will inform how we work to eliminate spills. Our immediate priority is to tackle the most frequent spillers, as in the case of one near Bath RFC's ground – see Protecting the River Avon in Bath on page 29.

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

## **Our journey**

In our Strategic Direction Statement, which sets out our aims for 2050, we are targeting:

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

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

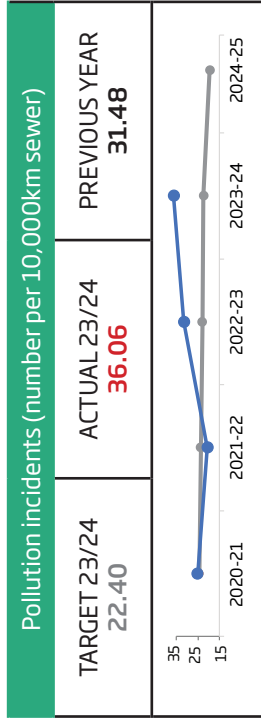


*Safeguarding homes and businesses from flooding at Lambridge, Bath*

## Excellent river and coastal water quality

### Pollution incidents

We are now using smart systems to provide intelligence on the health of our network; we use this to inform our maintenance programmes, see case study.



In 2022, we recorded five serious pollution incidents, but in 2023 this fell to one. We are delighted to be back on track to receive the four-star rating in the Environment Agency's Environmental Performance Assessment (EPA) this year.

However, our total number of pollutions rose again, from 110 in 2022 to 126. Normalised by the agreed Environment Agency sewer length of 34,944 kms, the performance level is 36.06 incidents per 10,000 km. There was an increase in events at monitored assets: water recycling centres and strategic pumping stations. Most of these pollution events were very minor or had a short-lived impact.

The wet weather was one causal factor for the higher number; another was increased monitoring. Most notably, we completed the roll-out of Event Duration Monitors (EDM) across all our 1,300 storm overflows, so 100% are now monitored, up from 91% in 2022.

We remain committed to reducing pollution incidents, following our Pollution Incident Reduction Plan (PIRP) and have bolstered our focus on monitored assets considering increased incident numbers. However, we do not expect numbers to return to historical performance levels without further investment.

We prioritise transparency and take ownership of events when they occur. This is clear from the fact that we self-reported 100% of pollutions at monitored assets and 94% overall, up on 97% and 92% respectively. We anticipate achieving green status in the EPA in this area.

### Storm overflows

In common with the whole water industry, the number of hours our storm overflows discharged in 2023 was high compared to previous years. In reporting EDM data nationally, the Environment Agency noted that 2023 was an exceptionally wet year.

The monitoring data from the Environment Agency's [Catchment Data Explorer](#) shows storm overflows contribute just 0.8% – nine out of 1,160 – of the reasons why rivers in our area are not achieving good ecological status. Nonetheless, in response to public concern and political guidance, we have committed to eliminating all ecological harm from storm overflow discharges by 2050.

Under the Water Industry National Environmental Programme (WINEP) we are improving 13 frequently spilling storm overflows by 2025.

Our storm overflow performance commitment relates to additional schemes outside of WINEP commitments. We did not deliver any extra outputs in 2023-24, but are aiming to deliver two significant additional schemes by 2025. We have also submitted a business plan to improve a further 128 (the most frequently spilling or highest impact) storm overflows by 2030 in line with new government requirements, as shown on this map: [ArcGIS Storm overflow dashboards](#). Planned investment to 2050 can be viewed on this nationally collated plan [National Storm Overflows Plan](#).

In terms of solutions, our preference is to prevent rainwater from entering combined sewers, but often storage solutions have the highest cost benefit and are more certain to achieve the required reduction in discharges. We are also eager to use nature-based solutions to treat highly diluted discharges caused by groundwater infiltration into our sewer network.



*Real-time data from our water recycling centres allows us to make earlier interventions.*

## CASE STUDY: WETLAND TREATMENT SOLUTIONS FOR GROUNDWATER-INDUCED STORM OVER-FLOWS

Many of our most frequent spilling and longest lasting storm overflows are found in groundwater catchments.

When groundwater levels are high, hydraulic pressure can cause water to enter through tiny cracks in the network, overwhelming its capacity and causing it to overflow. The discharge, largely groundwater, is often cleaner than the river that receives it, but this is still counted as a spill.

We can use innovative relining techniques to help prevent infiltration on the c30% of pipes that we own, but we have no power over the remaining 70% of the network, owned by householders and businesses.

It would be inappropriate in terms of impact on bills and environmental consequences to build expensive, carbon-intensive storage and treatment solutions for such highly diluted wastewater. Our approach, which we will deliver at 36 of our 128 overflow schemes targeted for the next price review period, is to build wetlands to treat discharges from groundwater-induced overflows before they reach the watercourse.

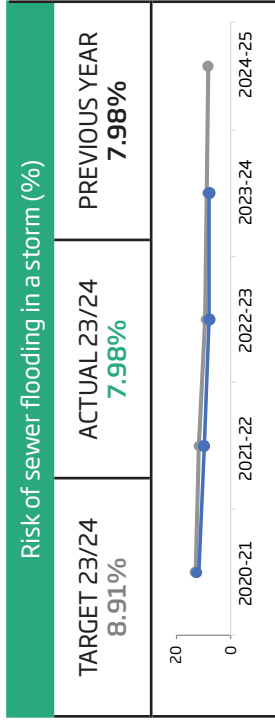
This is a much cheaper, low impact option that also has many positive benefits for biodiversity and, potentially, for community amenity and wellbeing.

Groundwater-induced storm overflows should be reclassified as permitted treated discharges. That would eliminate untreated discharges and reduce our overall numbers by around 25%.

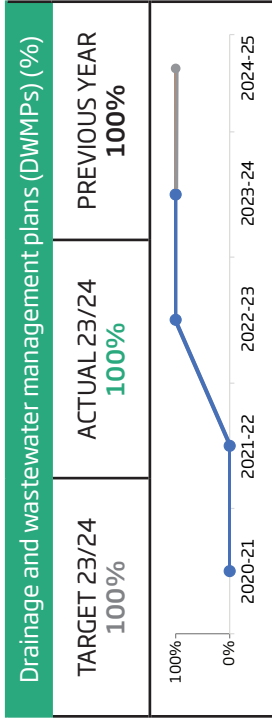
As noted above, all our storm overflows are now monitored in [Storm Overflows Improvement Plan](#). In addition, we have started to provide near real-time data on when our overflows operate; currently this is available at 79 sites near bathing, shellfish and amenity waters.

## Planning for the future

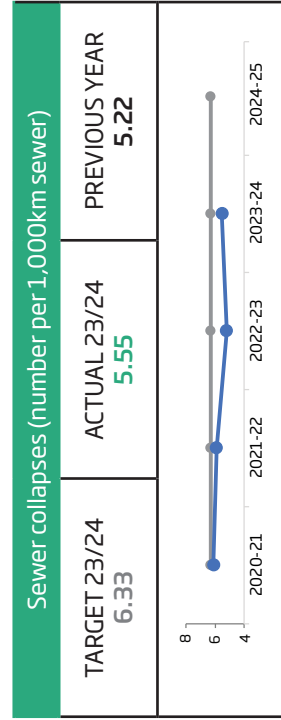
We have a number of measures that will deliver benefits over the long term.



The risk of sewer flooding in a storm measure relates to our understanding of flood risk in our region. We can use this knowledge to develop strategies to reduce the risk of sewer flooding over the long term. As in 2022, the percentage of the population at risk in 2023 was lower than our target, reflecting improvements in our understanding of where the risk is greatest. This understanding helps us target action where it is most needed.



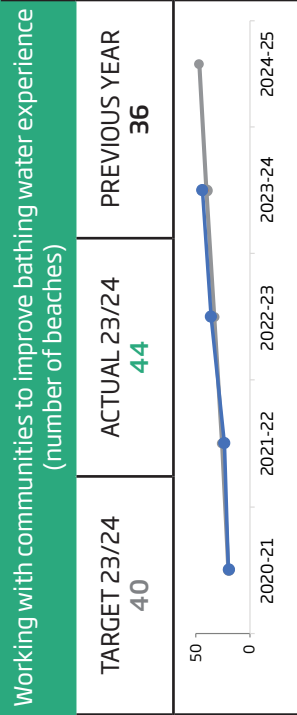
In May 2023, we published our Drainage and Wastewater Management Plan on our website, providing a strategic long-term plan for our network - [Drainage and Wastewater Management Plan](#)



Wetlands at Cromhall, South Gloucestershire.

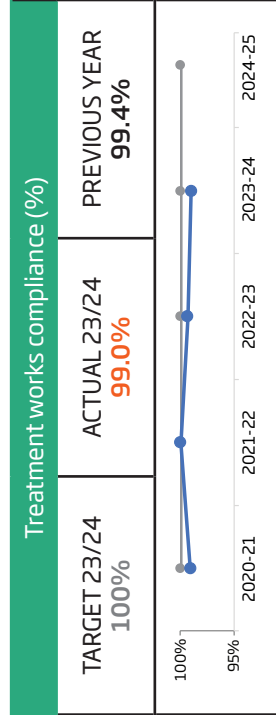


We met our target on reducing sewer collapses for the fourth year in a row. The measure is designed to ensure that the overall asset health of below-ground wastewater assets is maintained and improved for the benefit of current and future generations.



Under this measure, we are incentivised to work with local communities and stakeholders to deliver projects which will enhance the enjoyment of beaches and amenity waters. This includes designated bathing waters but also popular coastal and river sites which are not currently designated. To date, we have delivered projects at 44 locations, including three river/inland sites and 41 beaches, exceeding the target of 40.

### Discharge compliance



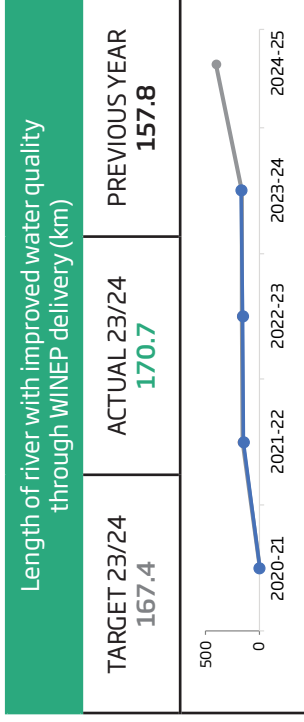
Water discharge compliance from our 18 water treatment and 290 water recycling centres remained very high at 99%. But because three sites failed, we narrowly missed our 100% target. We have implemented process improvements to restore and maintain compliance at the specific sites. We continue to roll out flow meters across our sites and will report on our flow compliance in future years.

### Water quality

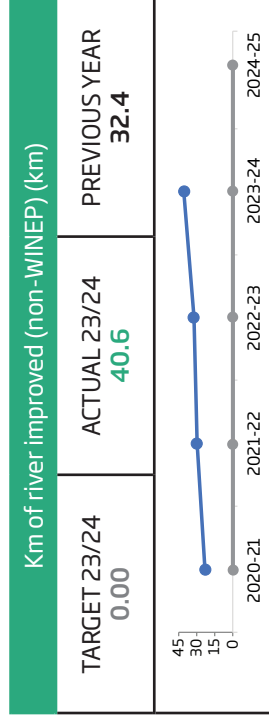
**Delivery of water industry national environment programme requirements (status of obligations)**

TARGET 23/24	ACTUAL 23/24	PREVIOUS YEAR
met	met	met

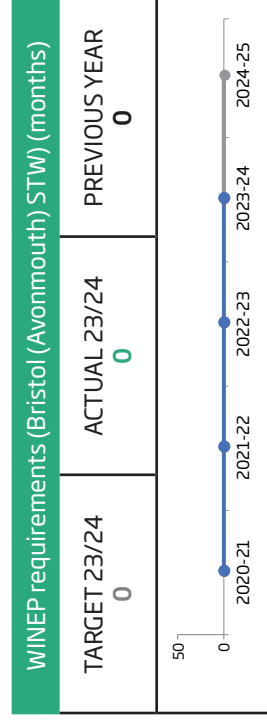
We met all our statutory obligations under the Water Industry National Environment Programme (WINEP).



We also exceeded (170.7km) our cumulative target (167.4km) for the length of river with improved water quality, after delivering a project early.



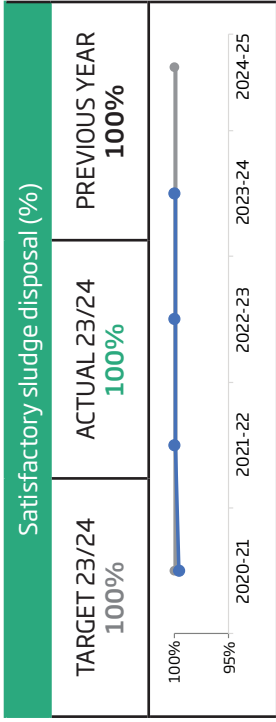
This target relates to the removal of nitrogen and phosphorus.



*We are working with local communities to improve the bathing water experience.*

This measure relates to a scheme to increase treatment capacity at our largest works in Bristol, which is due to be completed in March 2028. [Bristol's water recycling centre](#). The target is expressed in terms of the number of months the scheme is delayed, where zero indicates no delay. We remain on schedule.

**Bioresources**

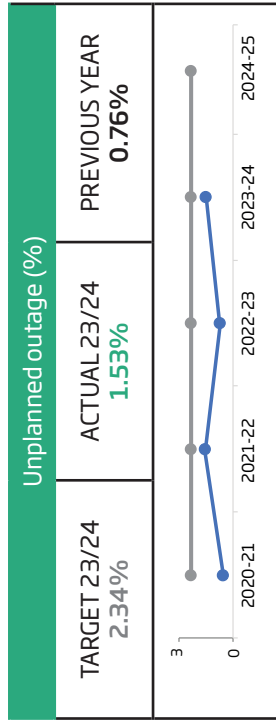


We have maintained our performance on disposal of sludge to land with 100% compliance. However, we continue to expect the availability of the landbank to reduce over the coming years due to changes in environmental regulations and other pressures. As part of our long-term delivery strategy, we are exploring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

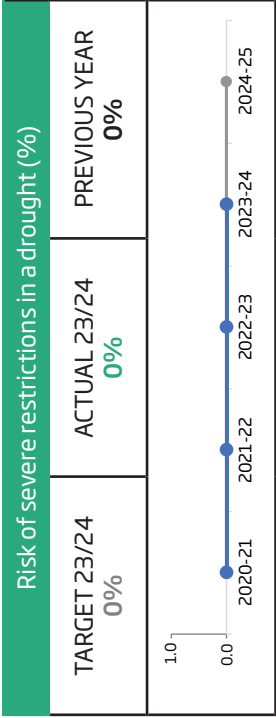
**Sustainable abstraction**

**Water supply**

Peak temperatures in 2023 occurred in the middle of June, with a corresponding spike in demand. However, the rest of the summer saw a return to wetter conditions and we comfortably maintained supplies to all customers, avoided any usage restrictions and provided flow support to several vulnerable streams and rivers.

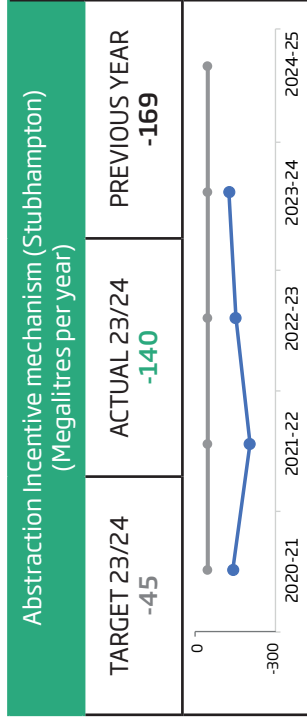
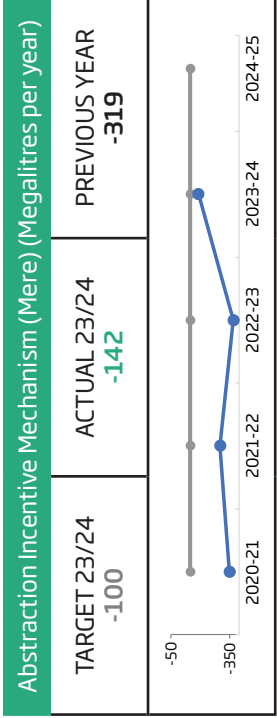


Our unplanned supply interruptions, or 'outages', grew compared to 2022, but remained well within our target.



None of the population we serve was at risk of severe restrictions in a drought, consistent with our target.

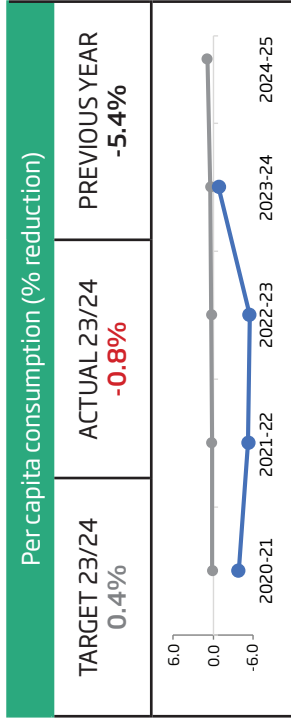
Heading into summer 2024, we are in a very good position and do not expect to experience water shortages. Groundwater levels have remained above average since April 2023. Reservoir and groundwater recharge was rapid at the end of the summer and by the end of October our reservoirs were full and soil moisture deficit reduced to zero. Groundwater levels peaked in the chalk aquifer during the wettest February on record for more than 100 years. Groundwater levels in the Great Oolite aquifer continue to rise and are well above the long-term average level for this time of year.



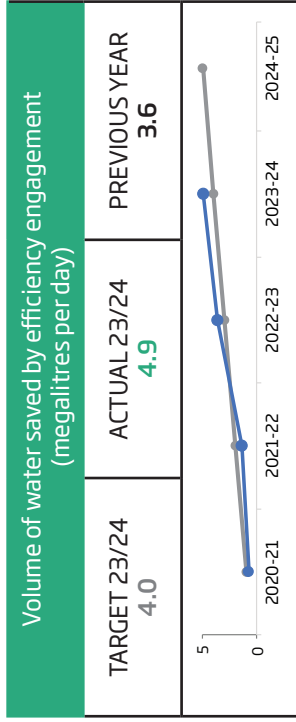
Our hydrologists use innovative techniques looking after groundwater.

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

### Demand management



Overall average in-year per capita consumption was 132.9 litres/person/day in 2023-24, the third consecutive yearly decrease and is now at the lowest level since 2017-18. The Covid-19 pandemic significantly affected household water use in 2020-21 and 2021-22. The three-year average per capita consumption, which still includes part of the Covid-19 pandemic effect and more recently partly offset by reduced energy usage arising from the cost of living crisis, is now just 0.8% higher than the 2019-20 baseline at 138.9 litres/person/day.



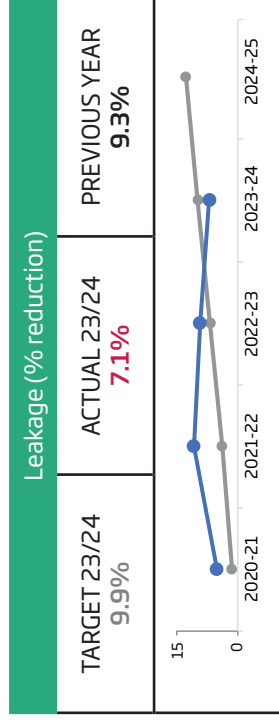
We exceeded our performance commitment target for the volume of water saved through water efficiency activities, delivering savings of 4.9 MI/d compared to an end of year target of 4.0 MI/d.

This year we focused our demand management strategy on the delivery of household (known as Home Check) and non-household visits as they deliver high confidence savings. We visited 4,127 household customers offering advice and water efficient products, and plumbers returned to 794 of these to

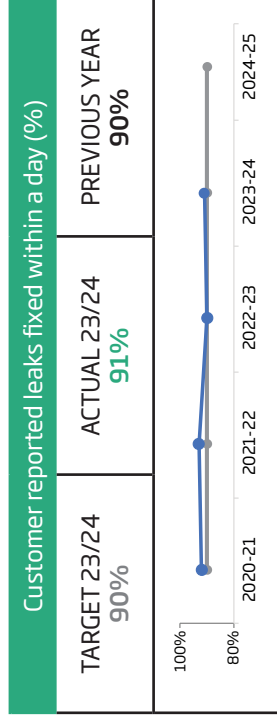
fix leaking toilets and taps. We also visited 121 non-household customers (primarily schools).

Alongside this we continued to run our summer campaign messages and distributed 3,000 free water saving packs and 5,500 water butts. Nearly 6,500 households signed up to use our online GetWaterFit water use calculator and we engaged with over 9,000 school children on water efficiency. We also saw a slightly higher number of people opting to move on to a meter; customers remain motivated to save money and be in control of their utility bills.

### Leakage



On leakage, we made a significant recovery from 2022, when we struggled with both dry ground during the drought and a winter freeze-thaw event. In 2023, we reduced our annual average level of leakage by 1.4 MI/d. However, the rolling three year average has increased following the significant leakage breakout last year. As a result, the leakage target has not been achieved this year.



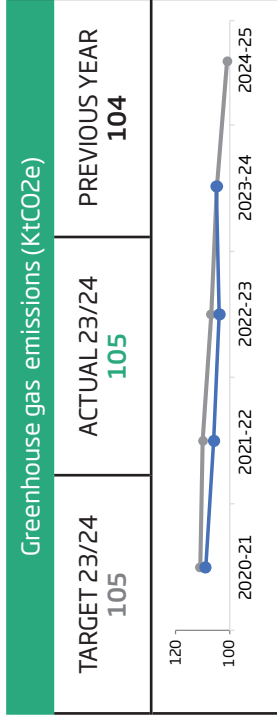
We continue to enhance and improve our pressure management and leakage control activities, including installing over 6,000 permanent acoustic loggers on our network to aid and inform leak detection.

We exceeded our target to fix customer reported leaks within a day. This was helped by a 27% reduction in customer reported leaks.



## Net zero carbon

### Emissions and energy performance



We report two sets of greenhouse gas emissions data. For our performance commitment, we use a bespoke method agreed with Ofwat at the 2019 Price Review. For other annual reporting, including the annual performance review, we include a larger inventory of items, in common with other water companies.

Regarding our performance commitment, although our gross greenhouse gas emissions were up slightly on the year at 105 KtCO2e, due to increased power usage, we met Ofwat's 2023-24 target. We expect emissions to resume its downwards trajectory. A combination of energy efficiency improvements, renewable energy generation and the rapidly falling carbon dioxide intensity of UK grid electricity has led to steadily falling emissions over the last eight years.

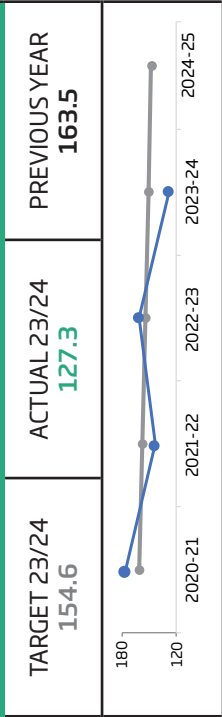
Our electricity use, at 268 gigawatt hours, was high in the context of the last five years, in part due to the very wet weather experienced from July onwards. We continue to pursue energy efficiency opportunities to offset rising energy use. This is driven by tighter water and sewage treatment standards and the operation of our regional water supply grid.

This year we generated 17GWh of renewable energy and exported 9 million cubic metres of biomethane to the gas grid, double the volume of natural gas we consumed ourselves.

### Decarbonisation plans: 2030 and 2040

In 2019, the water industry collectively committed to achieve net zero operational emissions by 2030. Whilst some companies have backed away from this pledge considering developments since, we remain steadfast in our determination to decarbonise our

### Mains repairs (number per km mains)



We kept the number of mains repairs needed below our target.

### Water resources planning

Following consultation with the public and Defra, we published an ambitious revised draft Water Resources Management Plan in spring 2024. This targets cutting demand sufficiently to reduce abstraction from the environment by 20% by 2037-38 in our most vulnerable catchments, including the Hampshire Avon. We intend to use a combination of water efficiency visits, smart metering and strategies to stem leakage.

We also propose to invest in a number of new supply side schemes, including new transfers to move water to where it is needed in our supply area and beyond. We are collaborating with our neighbouring water companies to develop three strategic regional water resource options, which continue to make progress through the RAPID assessment process:

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

### CASE STUDY: REPURPOSING OF A QUARRY IN THE MENDIPS AS A RESERVOIR

We are working with South West Water on a major and innovative long-term water resource infrastructure project – securing a functioning limestone quarry in the Mendips for repurposing as a reservoir.

The quarry will be worked until 2040, at which point we would start filling it from the River Avon with a working capacity of 28.5M m<sup>3</sup>. This new source will be treated and transferred to Wessex Water and South West Water (Bournemouth) supply zones to mitigate future deficits identified in our Water Resources Management Plans.

The project has received funding approval until 2028 to develop an outline design ready for progress through the planning process, with a view to starting construction in 2033-34 and being operational by 2042.



One of our largest ever projects... the £100 million expansion of Wessex Water's water recycling centre at Avonmouth.

operations by the end of the decade. Our net zero carbon routemap sets out our plan, [route map to net zero carbon emissions](#) and we also proposed a suite of interventions for 2025-30 in our 2024 periodic review submission.

We continue to pursue well-established methods, including advancing our energy efficiency, increasing our use of renewable energy, decarbonising our fleet and pursuing nature-based in preference to asset-based solutions. We also continue to collaborate with the wider water sector on the thorny problem of combating emissions of methane and nitrous oxide from treatment processes. We have been trialling measurement methods during 2023-24.

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

### Climate adaptation

We report how we are adapting to climate change under provisions set out in the Climate Change Act. This involves reviewing the risks posed to our services from the changing climate and explaining the measures we are taking to maintain resilience considering these risks. We will publish our fourth climate change adaptation report by the end of 2024.

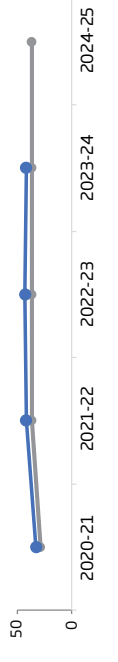
We are also publishing our third report using the framework of the Taskforce for Climate-related Financial Disclosures in this year's Annual Report and Accounts.

## Increased biodiversity

### Protected sites

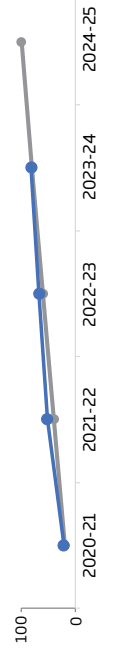
Working with catchment partners to improve natural capital (number of projects)

TARGET 23/24 37	ACTUAL 23/24 42	PREVIOUS YEAR 43
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Natural capital: improve Sites of Special Scientific Interest (SSSI sites) (%)

TARGET 23/24 80%	ACTUAL 23/24 82%	PREVIOUS YEAR 67%
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We delivered 82% of actions, against a target of 80%, to improve a number of Sites of Special Scientific Interest (SSSI) in our landholding, as agreed with Natural England. This was a significant increase on last year's 67% of actions.

Of our SSSI landholding, 63% is in favourable condition and 26% is classified as unfavourable - recovering; a total of 89%. Actions agreed with Natural England to address the condition of this SSSI are programmed for 2024-25.



*Of our Sites of Special Scientific Interest (SSSI) landholding, 63% is in favourable condition.*



## CASE STUDY PROTECTING THE RIVER AVON IN BATH

Our £1.3 million project in the east of Bath is helping to safeguard local homes and businesses from flooding by easing pressure on the sewer system.

### **Understanding the problem**

Storm overflows are designed as relief valves to protect homes from flooding if there is too much rainfall in the system, and automatically discharge into watercourses. We are committed to eliminating the discharge of untreated sewage, starting with the storm overflows that discharge most frequently and those that have environmental impact.

The overflow near Bath RFC's rugby ground, just off London Road in Lambridge, was identified as one of the 13 most frequently discharging in our region.

### **What action did we take?**

A new below-ground storm tank, capable of holding 125,000 litres of storm water, has been installed in the car park of Bath RFC's rugby ground at Lambridge. A five-month project, completed in December 2023, the tank will fill when the combined sewer system is under pressure.

It is expected to reduce discharges into the River Avon by up to three-quarters, while preventing flooding of nearby properties.

The tank then gradually returns the water to the sewer system for onward travel to a water recycling centre to be treated and safely returned to the environment.

As well as keeping nearby Lambridge residents informed about this project, we worked closely with Bath RFC to ensure they could still use their rugby ground during the construction work.

### **How else are we tackling storm overflows?**

The project is one of 13 investment schemes we are prioritising between now and 2025 to tackle the overflows in the region that previously discharged most frequently.

We are also tackling storm overflows in other ways, including upgrading sewage treatment to increase capacity at 42 of our water recycling centres, and introducing more nature-based and low-carbon treatment methods such as reedbeds and wetlands.

Increased investigation and monitoring of overflows in the region, as well as an extensive programme of sewer relining to help keep wastewater within the system and prevent infiltration of groundwater that can lead to flooding, is also continuing.



A new below-ground storm tank, capable of holding 125,000 litres of storm water, has been installed in the car park of Bath RFC's rugby ground at Lambridge.

In total, nearly 100 improvement projects relating to the discharge of untreated water are being completed in our region between 2020 and 2025, part of a £3 million a month investment to reduce the number of hours storm overflows operate by around 25%. This case study focuses on one of a number of projects designed to protect the River Avon and neighbouring communities.

However, we are looking to go much further and have unveiled proposals to invest a record £400 million on reducing overflow operation in the next five-year investment period between 2025 and 2030, subject to approval by industry regulators.



## CASE STUDY DURLEIGH WATER TREATMENT CENTRE

We have completed a £50 million project at Durlleigh water treatment centre to provide an improved water supply to customers in the Bridgwater area.

Refurbishment of the Enmore Road site began in 2019 after more than four years of planning. The project involved reconstructing the old water treatment centre - which treats water from Durlleigh Reservoir to the west - to ensure that the highest quality drinking water continues to be delivered to a population of more than 44,000.

Brought into supply in the autumn of 2022, it is the largest single-value project ever delivered by our engineering and sustainable delivery (ESD) team. The three-year rebuild came in on time, despite additional challenges posed by Covid-19.

### **Why did we carry out the scheme?**

The 30-year old site treats up to 30 megalitres a day of water drawn from the reservoir, but had outgrown its design capacity.

Reconstruction was needed to update the water treatment processes and ensure it would continue to meet increasing demands from a rising population, reduce high operating costs and tackle poor raw water quality. There were high levels of algae during the summer and the water was often cloudy and murky in winter - deterioration was evident over the past 20 years.

### **What improvements did we make?**

More than 70% of the old water treatment centre was demolished and recycled, with outdated equipment decommissioned and removed, while the rest of the site was repurposed or refurbished.

Two new wetlands were created upstream from the centre which will improve the quality of water entering the reservoir and enhance wildlife and biodiversity, supporting the work we do with local farmers to reduce pesticides and silt entering Durlleigh Brook.

### **How did we make savings?**

By using innovative developments in technology and project delivery, we made sure the scheme's impact on the environment was reduced, as well as saving time, money and materials.

We partnered with infrastructure consulting firm AECOM, which delivered the detailed design. They established that some large structures and tanks could be built offsite and craned into position, saving an estimated 20% of programme time and £1.1 million, as well as reducing construction waste on site by up to 20%.



Aerial view of Durlleigh water treatment centre improvements

The success of the Durlleigh project has resulted in the creation of a dedicated Wessex Water off-site build department, at which equipment can be designed, manufactured and supplied pre-assembled, reducing labour, our carbon footprint and costs.

### **Working with the community**

Completing such a large reconstruction inevitably affected nearby communities and we worked closely with Durlleigh Parish Council to ensure they were kept informed about the progress of the scheme. We marked this close working relationship by donating a £6,000 defibrillator to the village and installing it at the entrance to the refurbished water treatment centre.

# Empowering our people

To be a great place to work for all

**Individual safety, wellbeing, and engagement:** our colleagues will be safe at work, proud to work for us and fully engaged in their roles.

**Skills, knowledge, and opportunity:** our colleagues will have all the skills and knowledge they need to confidently carry out their roles.

**Culture, inclusion, and diversity:** we will have an inclusive workforce that reflects the cultures and diversity of the region we serve.





# Overview

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

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

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

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

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

## Our journey

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

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



*Wessex Water's culture supports the diversity and inclusion of all who work at the company.*

## Individual safety, wellbeing and engagement

### Health and safety - reporting and culture

Performance against the Occupational Health & Safety (OHS) strategy is monitored by our Health and Safety Steering Group and overseen by the Health and Safety Board Committee.

We appointed a process safety director and additional process safety engineers to support our major hazard sites and to further develop our process safety management systems. We continue to provide high levels of training and to ensure our staff are competent in all aspects necessary to keep our facilities operating safely and efficiently.

We have made progress in 2023 to actively encourage safety-related reporting and transparency. We recorded a 44% increase in safety observations compared to 2022 and employee engagement increased by 19%. Our increasingly mature culture of engagement is showing tangible benefits; we lost 65% fewer days related to lost time incidents in the year, reflecting both a smaller number of incidents and reduced severity when incidents occurred.

We have broadened how we use Engage, our dedicated health and safety reporting platform, to also capture human influences relating to behaviours as part of root cause analysis investigations and 'Make It Right' reviews. This is helping us to understand how human factors influence unwanted outcomes.

We have also developed enhanced safety performance reports to meet the specific requirements for each business area, supporting improved safety.

In terms of providing better support for the OHS professionals within our teams, in 2023 we took actions including: providing additional training; redefining some geographic locations to increase efficiency; recruiting OHS apprentices; revising some roles; and unifying accountability between operational and construction activities.

More broadly, we developed a new mandatory 'first day/first week/first month' new starter induction module in our iLearn system and developed health and safety campaigns targeting leading OHS issues as identified by safety data trends. These campaigns involved communicating key messages and

preventative measures across a variety of media and formats to suit all learning preferences.

### Organisation and leadership

We completed 3,273 safety audits, an 8% increase compared to 2022.

Among other activities, we revised an OHS framework mechanism for health and safety strategic meetings to improve engagement, support and intervention. We also adapted our OHS practices in line with business restructures, including a 'rebrand' of our health and safety advisers to health and safety partners (HSP) which reflects their role and engagement more appropriately.

### Awards and accreditations

We retained both our ISO 45001 certification and our Royal Society for the Prevention of Accidents' President's Award - an award reserved for organisations which have achieved 10 or more consecutive gold awards. This year we were awarded our 12th gold.

### Skills, knowledge and opportunity

We have broadened our approach to careers programmes, replacing our former 'early careers' focus with a broader careers focus, delivered by a larger team.

In 2023, we took on 31 graduates (up from 13 in 2022) and 61 apprentices (up from 48) - with apprenticeships now also available to existing members of staff (27 enrolled). We hosted 49 work experience placements and 31 industrial placements (up from 13). We have also employed a 'career inspiration adviser' to go into schools to showcase water sector careers.

Our YTL Wessex Academy, which launched in 2022, had its initial Ofsted monitoring visit. Ofsted reported that we have made "reasonable progress" so far in setting up and delivering the five courses we run.

We also introduced new 'Skills Bootcamps' for our existing staff; 64 people completed three camps covering computer aided design, better information management and change management.



*In 2023, we took on 31 graduates and 61 apprentices. Our YTL Wessex Academy, which launched in 2022, had its initial Ofsted monitoring visit.*

## Culture, inclusion and diversity

We operate an 'everyone belongs' ethos and our vision is that all parts of the Wessex Water Group will:

- celebrate diversity and encourage inclusion
- enable everyone to take ownership and accountability through empowerment
- listen to our people's views, ideas and concerns and act on them
- reject any form of discrimination or bias
- reflect the diversity of the communities we serve.

We work continually to reach and uphold these standards but recognise we have a lot of improvements to make.

In terms of workforce diversity, compared to our peers (as benchmarked against Energy & Utility Skills data) we underperform on LGBTQ+ representation and meet averages regarding disability, but underperform on both ethnicity and gender. We also appreciate we need to go well beyond utility sector averages as regards all characteristics.

We continue to work to that end. In 2023, in addition to our existing Race at Work group and Disability Working Group - both of which have developed action plans that we are implementing - we worked on supporting neurodiverse employees and attracting neurodiverse talent, as well as focusing for the first time on social mobility. We have developed three metrics to boost opportunities for employees from disadvantaged postcode areas: the number of people recruited; the number of promotions; and the number who complete Level 5, 6 or 7 qualifications each year.

As well as formal activities, we are working to develop a more inclusive atmosphere where everyone feels welcome. For instance, in March we invited our people to attend a dinner to learn more about Ramadan and partake in Iftar, the meal Muslims eat at sunset every day during the holy month to break the fast.

Meanwhile, the activities of many of our existing internal networks made progress. For instance, our Menopause Network grew from its launch in 2022 and our ARC Alliance developed LGBTQ+ awareness material for employees and managers.

More generally, we hosted a successful Culture, Inclusion and Diversity (CID) Week in September 2023; provided CID awareness training to 659 colleagues; changed our job adverts to improve

inclusivity and accessibility; and continued with our programme of executive level sponsorship for each of the main characteristics to demonstrate leadership commitment to improving diversity and inclusion.

Looking to 2024, our CID Working Group will review our CID awareness sessions and update the content, including social mobility topics.

We will continue to use Energy & Utility Skills data to inform our initiatives and are developing an internal communications plan to keep colleagues informed on progress in this important area. We want to encourage staff to share sensitive data so our activities are well informed.

We also have a number of important gender-related initiatives in the pipeline for 2024. We have launched a Women's Network across the Group to help attract, develop and retain female colleagues and we plan to join the wider sector's Women's Utility Network to gain access to more resources and ideas.

## CASE STUDY: IRECRUIT

During 2023, we launched a new recruitment platform and rebuilt our careers pages to showcase our diverse range of opportunities to communities. This has enabled us to provide our applicants with a more engaging 'one-click' journey when applying for jobs with us and enabled them to track their progress through their own careers portal. They can also view opportunities right across the UK group of companies.

Our hiring managers can easily navigate their recruitment campaigns, accessing talent through their mobile devices and responding to applicants swiftly to keep them engaged. Our in-house recruitment team can analyse where applicants come from and tailor campaigns according to the most effective method.

Since launching this new system in October 2023, we have seen a significant improvement in the quality of talent, reduced our time to hire by up to four weeks, improved both applicant and management engagement and reduced expenditure on both the use of recruitment agencies and non-effective advertising channels.



### Gender pay gap

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

Gender pay data	Gap	ONS 1 Dec 2023
Mean	1.74%	13.2%
Median	3.29%	14.3%
Salary quartile	Male	Female
1st Quartile	70.73%	29.27%
2nd Quartile	81.06%	18.94%
3rd Quartile	78.51%	21.49%
4th Quartile	78.18%	21.82%

The data above represents our gender pay gap figures as at 5 April 2024. Our gap is well below the national median and we continuously work to close it further.

The distribution of men  and women  in salary quartiles is shown opposite.

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



*Our gender pay gap is well below the national median and we continuously work to close it further.*

## Financing the future

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

### Overview

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

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

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

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

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

### *Our journey*

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

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

- being the most efficient water company in the industry – harnessing the power of markets and real competition and championing an outcomes-based approach to regulation where efficiency can be maximised through flexibility and choice

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

## Resilient financial stewardship

### Corporate Structure

The UK group structure has remained the same since 2002 with the company wholly owned by Wessex Water Limited, which in turn is wholly owned by YTL Utilities (UK) Limited. Further details of the overall group structure can be found on page 68.

There is no intragroup funding to the Company, all debt is raised by the Company at market rates and is provided by external third parties.

### Overall performance

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

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

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

### Financial Highlights

	2023-24	2022-23	2021-22	2020-21	2019-20
Revenue (£m)	<b>574.4</b>	530.5	515.6	514.7	552.3
(Loss)/Profit Before Tax (£m)	<b>(43.2)</b>	(28.9)	68.5	82.1	121.2
Reserves (£m)	<b>540.8</b>	636.5	718.6	830.4	822.4
Total Assets (£m)	<b>4,684.1</b>	4,697.5	4,262.0	4,493.0	4,054.3
Net Debt (£m)	<b>2,963.4</b>	2,622.2	2,419.0	2,315.4	2,219.3
Regulatory Gearing	<b>68.8%</b>	64.3%	66.9%	69.9%	66.2%
Dividend Yield	<b>5.0%</b>	5.4%	5.6%	5.7%	7.7%

- operating profit increased by £27.2m from £111.3m to £138.5m
- turnover increased by £43.9m or 8.3%
- Operating cost increases of £15.1m or 3.6% related principally to exposure to energy market prices, new obligations, supporting improvements to leakage and pollutions performance and other inflationary pressures

- the cost of debt increased from 5.2% to 7.3%. We maintained a balanced mix of financial instruments and maturities
- Net financing costs increased by £41.5m (29.6%) to £181.7m primarily reflecting the impact of inflation on index linked borrowings
- Investment expenditure on tangible and intangible assets (including infrastructure maintenance expensed through the income statement) delivered during the year was £421.1m, an increase of £128.9m (44.1%) over £292.2m last year and in line with expectations
- loss before tax increased by £14.3m from £28.9m last year to a loss of £43.2m. This was primarily due to the underlying increase in interest costs
- interest cover, as measured by net interest payable excluding indexation to earnings before interest, tax and depreciation reduced from 4.0x to 3.2x

### *Sustainable Finance Framework*

Our Sustainable Finance Framework, which supports our financing ambitions to deliver tangible environmental and social benefits, was originally published in September 2022 and has recently been refreshed to incorporate latest practice. The framework aligns our purpose – to support our customers’ health and wellbeing, and enhance the environment and the diverse communities we serve – and our business plan commitments to our financing ambitions through the use of targeted financing.

Under the framework, we may issue environmental or social debt instruments to support our environmental and social objectives, enabling investors to participate in the provision of a sustainable future. Wessex Water’s ability to create value for all stakeholders in a sustainable manner is core to our beliefs.

We need certainty to remain attractive for private investment and to plan for the future. We will continue to ensure customers’ bills are affordable whilst investing in our infrastructure, protecting the environment and innovating to find the best, cost-effective solutions.

Our commitment to delivering a better future will allow our investors to participate in funding our provision of water and wastewater services on a sustainable basis, helping to contribute to global climate change targets and the United Nations’ Sustainable Development Goals.

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

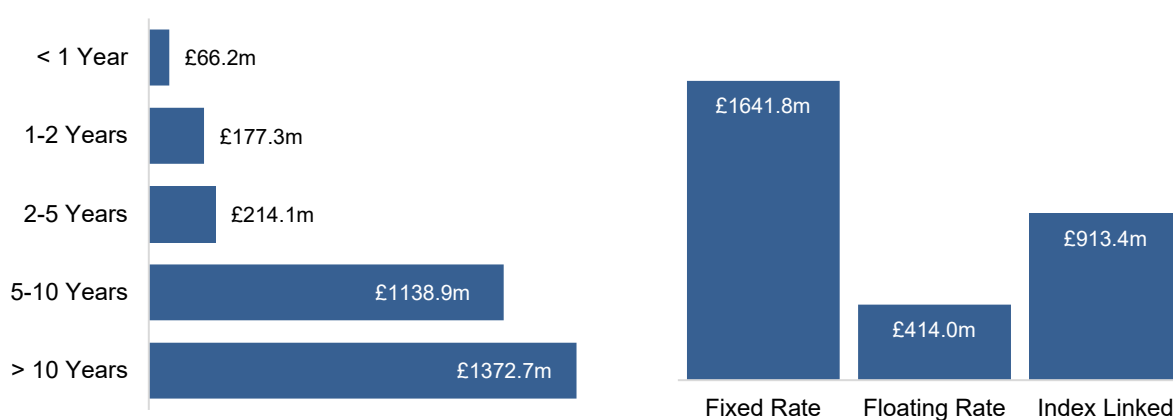
We will continue to be one of the top performing water companies to secure future investment at an efficient cost.

### Financing

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

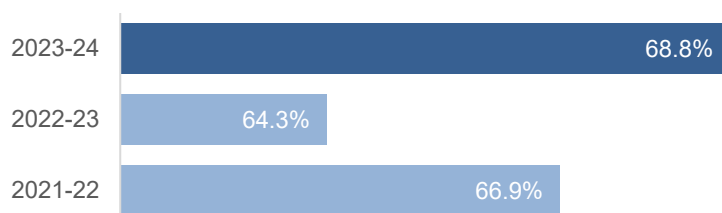
On 15 November 2023, Wessex Water Services Finance Plc agreed terms for the issue of 4 private placement bonds with a combined value of £200m, maturities of 10-20 years and a coupon of 6.50%. The net proceeds from the issue of these bonds were loaned to Wessex Water to fund its investment programme and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

Total borrowings, including amounts owed to subsidiary companies, were £2,969.2m as of 31 March 2024 (2023: £2,916.7m). The maturity and interest rate profile of our borrowings are as follows:



### Gearing

Gearing, as measured by net debt to regulatory capital value (RCV), stands at 68.8% which the Board considers an acceptable level. During the year the Board has continued to pay particular attention to the projected level of the Company's gearing ratio and interest covers with a view, when declaring dividends, to protect the Company's existing credit ratings. The Board remains committed to maintaining investment grade credit ratings for the Company at all times.





### *Dividends*

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

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

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

### *Credit ratings*

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

Credit rating agency	Rating	Outlook	Date of Publication
Fitch	BBB+	Stable	November 2023
Moody's	Baa1	Stable	January 2024

### *Pensions*

The latest actuarial valuation of the Company's pension scheme took place on 30 September 2022, showing a deficit of £35.3m. The Company has agreed with the scheme's trustees a payment recovery plan in respect of the deficit comprising employer contributions of 15.5% and special contributions over the following two years to reduce the deficit. The Company paid a special contribution of £18.4m on 30 June 2023 which, along with investment returns from return-seeking assets, has made good the shortfall. The next funding valuation is due no later than 30 September 2025, at which progress towards full-funding will be reviewed.

### *Environmental, Social and Governance score*

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

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

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

## Tax strategy

### *Our attitude towards UK tax planning*

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

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

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

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

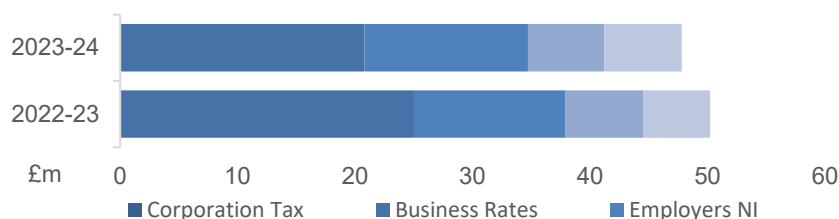
As documented in our finance policy, we adopt a risk-averse and cautious approach to tax. In addition, tax is included as part of our risk assessment framework. We monitor the overall risk framework and provide regular updates to the Board.

### *The company approach towards dealings with HMRC*

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

### *Our total tax contribution*

We are committed to paying the right amount of tax at the right time. We pay a range of taxes, including business rates, employers' national insurance and environmental taxes such as the climate change levy as well as the corporation tax showing in our tax charge on the income statement. Following the Chancellor's confirmation that full expensing has become permanent, our current tax liability remains nil. A breakdown of our total tax contribution is shown below:



## Section 172 Statement

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

This section sets out how both the Board as a whole, and the directors as individuals, have had regard to the matters set out in s.172(1) (a) to (f) in particular:

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

Our Governance Report (pages 53 to 70) outlines how the Board operates and describes how the Board has:

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

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

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

- Employees – the Board regards the company employees as critical to delivering the vision, values and outcomes needed to meet our wider stakeholder expectations. The Board has established several channels to allow employees to be heard whether to raise concerns, make improvement suggestions or simply to appreciate how we work with them. The People's Council is a forum attended by representatives across our operational business and allows employees to raise agenda items for discussion through their representative. The Council is attended by Board Executive Directors and meets twice a year.

In addition, the Company undertakes an annual anonymous employee survey. The Board debates the actions needed and progress. The Company also has employee

roadshows, Learn at Lunch sessions and an ‘Ask an Exec’ on a regular basis to improve learning, appreciation of other departments and to share the messages from the Board. The Board actively supports employees through mental health awareness, disability awareness, creating an inclusive work environment, and developing and supporting people through their careers. The Board continue to grow their established training “Academy” to deliver apprenticeships, to address skills shortages across the industry and in particular supporting people of all ages to develop their careers. Our Academy entry requirements provide a fully accessible route to a career for those from diverse and disadvantaged backgrounds.

- Customers – Our customers and the service we provide to them are fundamental to the Board. The Board considers the impact of its actions and decisions on customers, both for service and value for money. The Board’s aim to be a top-10 customer service provider across all sectors; the provision of water quality in line with World Health Organisation Standards; to have no escape of sewage or environmental harm; whilst ensuring that customer bills are less than 5% of disposable income is embedded throughout all decisions and actions made.
- External Stakeholders – the Board have close regard to our business relationships with our wider stakeholders; our social purpose, sustainability, the natural environment, and the impact of our operations on the environment and the communities we serve; as well as the need to act fairly to balance all stakeholder needs. Consideration of these factors and other relevant matters is embedded into all Board decision-making, strategy development and risk assessment throughout the year.

The Board’s commitment to enhancing the environment and supporting our diverse communities is demonstrated through its Water Force Programme allowing employees to donate their time to local charities; funding local volunteers “Water Guardians” to assist local wildlife trusts, and funding local groups and community interest groups through the Wessex Water Foundation to make a positive impact to the community and improve the environment.

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

Stakeholder group	What matters to our stakeholders?	Metrics	Company engagement	Board level engagement and Impact
<p><b>Customers</b></p> <p>We serve 2.9 million customers across the south-west of England. Our aim is to be an exemplar water and sewerage company providing reliable and affordable services for all customers and communities. Our customers include:</p> <ul style="list-style-type: none"> <li>• Residential</li> <li>• Non-household/business/NAVs</li> <li>• Developers,</li> <li>• Minority and underrepresented groups</li> <li>• Those in vulnerable circumstances</li> <li>• Retailers and bulk supply customers</li> <li>• Future customers and generations, including children and students</li> </ul>	<p>Our customers want safe and reliable water supplies, an effective sewerage system that does not pollute our environment, a great customer experience but delivered with affordable bills and the peace of mind that they are supported in times of need. Our customers' priority is increasing for long-term investment to enhance or protect the environment and biodiversity, with many of our future customers using river and bathing water more frequently.</p>	<ul style="list-style-type: none"> <li>• Customer Experience Score 81.77</li> <li>• Developer Experience Score 90.21</li> <li>• Retailer Experience Score 7.9</li> <li>• Trustpilot rating 4.6 overall</li> <li>• EA Environmental Performance Assessment</li> <li>• DWI Compliance Risk Index Score 0.93</li> <li>• Water Supply interruption 5 mins 35 secs per property within our region</li> <li>• Internal sewer flooding (per 10k properties) 1.56</li> <li>• Priority services 9.1% on register</li> <li>• Risk of severe restrictions in a drought 0%</li> <li>• Unplanned outage 1.53%</li> <li>• Pollution incidents (per 10,000kms of sewer) 36.0</li> <li>• Mains repairs (per 1000km of mains) 127.3</li> <li>• Sewer collapses (per 1000km of sewer) 5.58</li> </ul>	<ul style="list-style-type: none"> <li>• Independent Customer Challenge Group</li> <li>• Qualitative engagement with household customers, stakeholders, businesses including in-depth workshops and inter-generational focus groups to identify the highest priorities</li> <li>• Customer feedback surveys and continuous engagement reviews</li> <li>• Market research</li> <li>• Feedback routes through customer magazine</li> <li>• Website, including LiveChat and e-billing</li> <li>• Developer consultations</li> <li>• Young People's Panel, and working with schools and students</li> <li>• Bill Cap Scheme "WaterSure" for those on low incomes and unavoidable high-water use</li> <li>• Free home check visits and advice on water use. With our online app "GetWaterFit" to monitor water use and promote water efficiency</li> <li>• Working with partners in catchments to protect and enhance raw water quality</li> <li>• Engaging with customers to remove lead pipes and issues that may affect public health</li> <li>• Work with customers to prevent items such as fat, oil and wet wipes being disposed down toilets and sinks.</li> <li>• Personalised support packages tailored to meet individual financial circumstances (the TAP programme)</li> </ul>	<ul style="list-style-type: none"> <li>• Willingness to pay research</li> <li>• Every Customer Matters Strategy</li> <li>• Customer image tracking surveys and customer experience research</li> <li>• Performance metrics</li> <li>• Operational Resilience</li> <li>• Young People's Panel</li> <li>• Catchment Panel</li> <li>• Environment and Public Value Committee and our Social Purpose</li> <li>• Working with stakeholders and customers to develop our 25-year drainage and waste water management plan</li> </ul> <p><b>Feedback from our customers and their representatives informs our strategy, values, priorities including (but not limited to) our business planning priorities, charges, and pricing strategy.</b></p>

Stakeholder group	What matters to our stakeholders?	Metrics	Company engagement	Board level engagement and Impact
			<ul style="list-style-type: none"> <li>Engaged with over 57,000 customers in developing our latest business plan.</li> </ul>	
<p><b>Customer representatives</b></p> <p>We value the opinions of all our customers and their representatives. We work with over 300 organisations (through our Partner Hub) that help us support individuals and communities across our region. Our customers representatives include:</p> <p>Organisations representing customer groups such as (but not limited to):</p> <ul style="list-style-type: none"> <li>Citizens Advice</li> <li>Step Change</li> <li>Consumer Council for Water (CCW)</li> <li>Bristol Age UK</li> <li>Debt Advice Agencies</li> <li>Alzheimer’s Society</li> <li>Mind</li> <li>Schools and Colleges</li> <li>Charities and third sector organisations</li> </ul>	<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. One of our long-term outcomes is affordable bills, targeting water poverty and ensuring that our households spend no more than 5% of their disposable income on water.</p>	<p>As Above</p>	<ul style="list-style-type: none"> <li>Partner Hub</li> <li>Independent Customer Challenge Group</li> <li>Qualitative engagement with household customers, stakeholders, businesses including in-depth workshops and inter-generational focus groups to identify the highest priorities</li> <li>Customer feedback surveys and continuous engagement reviews</li> <li>Market research</li> <li>Website, including LiveChat</li> <li>Developer consultations</li> <li>Young People’s Panel</li> <li>Working with schools and students</li> <li>Tailored Assistance Programme providing tailored packages to help individuals’ financial circumstances</li> <li>Online partner hub and roadshows</li> <li>CCW public meetings</li> <li>Working with partners in catchments to protect and enhance raw water quality</li> <li>Work with CCW and the industry to implement plans for a single national social tariff</li> </ul>	<ul style="list-style-type: none"> <li>Independent Customer Challenge Group</li> <li>CCW public meetings Willingness to pay research</li> <li>Every Customer Matters Strategy</li> <li>Performance metrics</li> <li>Operational Resilience</li> <li>Young People’s Panel</li> <li>Catchment Panel</li> <li>Environment and Public Value Committee and our Social Purpose</li> <li>Launch of our “Foundation” dedicated to community projects across our region. We have distributed grants to 188 projects to help homelessness, hunger, and mental health.</li> </ul> <p><b>Feedback from our customers and their representatives informs our strategy, values, priorities including (but not limited to) our business planning priorities, environmental ethics, charges, and pricing strategy.</b></p>

Stakeholder group	What matters to our stakeholders?	Metrics	Company engagement	Board level engagement and Impact
<p><b>Our people</b></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. We aim to empower our staff with the skills, knowledge and opportunities within a diverse and inclusive culture. Safety of our staff is paramount. Our employee group includes:</p> <ul style="list-style-type: none"> <li>• Employees</li> <li>• Retired Pension scheme members and their families</li> <li>• Future Employees</li> <li>• Unions</li> <li>• Contractors.</li> </ul>	<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>Amongst all H&amp;S KPI's - Lost time incident per 1000 staff rate from health and safety incidents 8.49</p> <p>Gender Diversity Male: Female 77:23</p> <p>Mean gender pay gap 1.74%</p> <p>Delivery of training - 1405 face to face training courses and 17,613 e-learning courses delivered</p> <p>Training plan delivery 100%</p> <p>Staff survey – good company to work for 91%</p> <p>Staff retention 89.1%</p>	<ul style="list-style-type: none"> <li>• A training academy to deliver apprenticeships.</li> <li>• IOSH training for all senior/executive leaders</li> <li>• Employee survey</li> <li>• 'Ask the CEO'</li> <li>• Employee roadshows and Staff Seminars</li> <li>• Lunch and Learn talks</li> <li>• Mental Health First Aiders</li> <li>• ARC Alliance</li> <li>• Working Families Group</li> <li>• Armed Forces Covenant</li> <li>• Autism at Work Programme</li> <li>• Disability Confident Employer (Level 2)</li> <li>• Bristol Future Talent Partnership</li> <li>• Dedicated Early Careers Team</li> <li>• People's Council</li> </ul>	<ul style="list-style-type: none"> <li>• People's council</li> <li>• Employee survey</li> <li>• Ask the 'CEO'</li> <li>• Employee Roadshows and Staff Seminars</li> <li>• Pension Trustee Board</li> <li>• Health, safety, and welfare committee</li> </ul> <p><b>We listen and act on our employees' opinions to provide our people with satisfying careers.</b></p>

Stakeholder group	What matters to our stakeholders?	Metrics	Company engagement	Board level engagement and Impact
<p><b>Our supply chain</b></p> <p>Excellent relationships with our suppliers are key to delivering excellent services to our customer and nurturing business and innovation within our communities. We aim to use markets to identify efficiencies to achieve the best possible outcomes for the best possible price. Our supply chain includes:</p> <ul style="list-style-type: none"> <li>• Contractors</li> <li>• Consultants</li> <li>• Suppliers</li> </ul>	<p>Our suppliers want us to provide them with fair, open and competitive opportunities regardless of their size, so that both ourselves and they can grow and excel. Our suppliers want fair payment terms and assistance during times of economic hardship, so that they can support us in delivering critical services to our customers.</p>	<p>Number of suppliers 2,977</p> <p>Average creditor days 18</p> <p>Total Supplier Payments made during the year £507m</p> <p>Adherence to Utilities Contracts Regulations, with current supplier challenges upheld being 0</p>	<ul style="list-style-type: none"> <li>• Wessex Water Marketplace</li> <li>• Membership of British Water</li> <li>• Pipeline Industries Guild</li> <li>• EnTrade liaison with the market</li> </ul>	<ul style="list-style-type: none"> <li>• Wessex Water Marketplace</li> <li>• Membership of British Water</li> <li>• Pipeline Industries Guild</li> <li>• AMP8 Delivery Plan</li> </ul> <p><b>Our suppliers have provided us with innovative and new ways of working to deliver more services for less. We listen and nurture our supply base ensuring that they are supported during the current economic crisis.</b></p>
<p><b>Our investors</b></p> <p>Our investors provide the financial support to enable us to deliver our strategy and live our values. Our investors include:</p> <ul style="list-style-type: none"> <li>• Banks and financial institutions</li> <li>• Bond holders</li> <li>• Shareholder.</li> </ul>	<p>Our investors want to support a company that provides reputational and financial benefits to them. They want long-term performance that is supported by sound strategy, planning, governance, risk management and sustainability.</p>	<p>Regulatory gearing 68.8%</p> <p>Loss before tax £43.2m</p> <p>Investment credit grade BBB+ &amp; Baa1</p> <p>Sustainalytics ESG Risk Rating 16.8 Low Risk</p>	<ul style="list-style-type: none"> <li>• Ratings agencies</li> <li>• Annual Report</li> <li>• Meetings with debt investors</li> </ul>	<ul style="list-style-type: none"> <li>• Sustainable Financing Policy</li> <li>• Ratings agencies</li> <li>• Annual Report</li> </ul> <p><b>Our investors provide our financial resilience</b></p>



Stakeholder group	What matters to our stakeholders?	Metrics	Company engagement	Board level engagement and Impact
<p><b>Government and regulators</b></p> <p>Our regulators provide the oversight to allow us to contribute to the UK as a nation, to support our environment, our public health standards, and our economic infrastructure. We aim to be an exemplar to the industry trusted to leave the environment in a better condition for future generations, whilst acutely aware of the financial pressures on our customers. Our key government and regulator groups are:</p> <ul style="list-style-type: none"> <li>• Government departments</li> <li>• MPs</li> <li>• Local councillors</li> <li>• Ofwat</li> <li>• Environment Agency</li> <li>• Natural England</li> <li>• DWI</li> <li>• Health &amp; Safety Executive</li> <li>• Pensions regulator</li> <li>• Market Operator Services Limited (MOSL).</li> <li>• Information Commissioner's Office (ICO)</li> </ul>	<p>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.</p>	<p>All performance commitments (see our annual review).</p> <p>Between 2020-2025 we have...</p> <p>Treated and supplied 270 million litres of water daily</p> <p>Renewed over 7,300 miles of water mains</p> <p>Spent £80m tackling leakage</p> <p>Treated 480 million litres of sewage a day</p> <p>Spent £732m on protecting rivers, lakes, and estuaries.</p> <p>Spent £155m improving water quality</p> <p>Spent over £330m on upgrading storm overflows.</p>	<ul style="list-style-type: none"> <li>• Performance and risk reporting</li> <li>• Strategic Direction Statement</li> <li>• Price review methodology</li> <li>• Charging</li> <li>• Health liaison panel</li> <li>• Working with Local Authorities to understand growth strategies and to co-ordinate investment and deliver partnership projects</li> <li>• Chalk streams support projects, county wildlife Trusts, Natural England and local rivers and fishery trusts to develop our water resources management plan</li> <li>• Environment land management auction scheme</li> </ul>	<ul style="list-style-type: none"> <li>• Board meetings and committees</li> <li>• Pre-appointment non-executive director interviews</li> <li>• Business planning and target setting</li> <li>• Health and safety strategy</li> <li>• Environment and Public Value Committee</li> <li>• Outcome Based Environmental Regulation Approach</li> <li>• Working with the Environment Agency to continue review of sustainable levels of abstraction</li> <li>• Working with neighbouring water companies to deliver shared solutions</li> <li>• Working with Defra and the Environment Agency and approx. 200 landowners to reduce nitrogen, phosphorus and carbon</li> </ul> <p><b>Our regulators inform our strategy, our business plans, our processes. They provide valuable input into everything we do.</b></p>

Stakeholder group	What matters to our stakeholders?	Metrics	Company engagement	Board level engagement and Impact
<p><b>Environmental NGOs</b></p> <p>We take our role as a custodian of our local environment seriously and with that the opinions of our environmental colleagues. Our ambition is to perform a wider role in society as a trusted company that takes care of the natural world and sets the benchmark for environmental performance, addressing climate, carbon neutrality and nature emergencies across the industry to meet the rising expectations of the environment and long-term resilience. Our environmental non-governmental organisations include but are not limited to:</p> <ul style="list-style-type: none"> <li>• Wildlife interests</li> <li>• Bathing water and river amenity interests</li> <li>• Catchment and Land Management</li> <li>• waste minimisation</li> </ul>	<p>Our environmental colleagues want us to value, protect, preserve and enhance our local environment, and contribute to wider environmental improvement.</p>	<ul style="list-style-type: none"> <li>• EA Environmental Performance Assessment 4 Star Requires improvement</li> <li>• Compliance with abstraction licences</li> <li>• Pollution incidents (per 10,000kms of sewer) 36.0</li> <li>• Water Recycling Centre compliance</li> <li>• Bathing water compliance</li> <li>• Watercourses in good ecological condition</li> <li>• Sites of Special Scientific Interest in Good or Recovering condition; All actions delivered</li> <li>• Greenhouse gas emissions (operational) - 105 kt CO<sub>2</sub>e (performance commitment), 156 kt CO<sub>2</sub>e (TCFD reporting)</li> <li>• Tree planting</li> <li>• Environmental partnerships</li> </ul>	<ul style="list-style-type: none"> <li>• Catchment Panel</li> <li>• Wessex Water Foundation</li> <li>• Liaison groups</li> <li>• Chalk streams support projects, county wildlife Trusts, Natural England and local rivers and fishery trusts to develop our water resources management plan</li> <li>• Funding for Volunteer Water Guardians</li> </ul>	<ul style="list-style-type: none"> <li>• Environment and Public Value Committee</li> <li>• Outcome based environmental regulation approach</li> <li>• Net Carbon Zero Routemap and Climate Adaptation</li> </ul> <p><b>We embed the opinions of our environmental colleagues into our direction and priorities.</b></p>

## Board principal decisions

The following examples provide insight into some of the Board discussions and principal decisions taken during the reporting year. This includes how stakeholder interests are considered, where conflicting stakeholder requirements have been debated and how the Board and its decisions have added long-term value to the Company. The Board's principal decisions are central to the formation and delivery of our strategy and are those critical to our long-term performance and success. Details of the Board Committees, including membership, number of meetings, and attendance are set out in the Committee reports on pages 71 to 96. An outline of the Board members' skills and experience is outlined on page 62. In any decision we consider the needs and requirements of all our stakeholder groups, cognisant that we may not be able to meet everyone's requirements as positively as we would like and take careful consideration of competing priorities.

### *Principal decision 1 – Pollution Reduction Plan*

The Board reviewed the Company's month-on-month performance for pollutions, whilst noting that serious pollutions had significantly decreased, the Board challenged progress on total number of pollutions and discussed actions to further reduce the pollutions supported by analysis of the root causes. The Board looked at the overall process, including the use of innovative solutions such as artificial intelligence (AI) to reduce pollutions and improve monitoring, noting that 326 events have already been avoided by using AI-smart technology. The Board considered the plan and the Company's aims of having an effective sewerage system, improved river water quality, and enhancing the environment, alongside the needs of customers, stakeholder groups, the regulator and the shareholder. The Board discussed the challenges being faced including the increased extreme weather events and sewer mis-use such as blockages from fats. The Board specifically noted the challenges of funding the initiatives, noting that funding had been included in the PR24 business plan submission, the outcomes of which were currently unknown, with the current activity being funded outside of the price review budgeted process. The Board decided that in light of the longer-term interests of Company, the environment, its customers and stakeholders, the activities to reduce pollutions should be prioritised and funded ahead of PR24.

### *Principal decision 2 – Business Plan Approval*

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

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

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

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

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

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

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

### *Principal decision 4 – Dividends*

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

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

*Principal decision 5 – Capital Investment Decision (Yeovil Pen Mill)*

The board made a number of decisions relating to significant capital investment during the year. An example of this is at Yeovil Pen Mill Water Recycling Centre (WRC) which falls within the South Somerset Council area, serving the majority of Yeovil town together with several surrounding villages, with a population equivalent of 75,000. The treated effluent is discharged to the River Yeo. The Board considered options to deliver improvements to the site for continued compliance with the Water Framework Directive and reduce ammonia and phosphates being discharged and improvements to the river water quality of the Yeo. The Board considered the risks on site and the complex new treatment processes required, considering the ability to maintain site operations and services to the customer during the improvements. The Board considered this scheme's cost (of £30m) and financial impact.

The site is one of the first where glass coated steel for the Primary Settlement Tanks (PSTs) has been adopted to deliver savings predominantly for carbon, but also for financial benefits. The Board considered the opportunities to prioritise the improvements to the environment for river water quality and carbon. The Board considered the scheme to be in the best interests of its customers, to provide sustainable and resilient services, and its regulators.

The strategic report was approved by the Board of Directors on 8 July 2024 and signed on its behalf by:



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

## Governance report

### Chairman's introduction to governance

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

We have a very important role in the lives and wellbeing of our customers and communities and the Board recognises that it is a privilege to be entrusted to provide essential public services to millions of customers. In this privileged position we must build and maintain successful relationships with a wide range of stakeholders. The purpose, strategy, values, and culture of the Company are developed and promoted through continuous engagement with these stakeholders, including customers, community, and interest groups, employees, and regulators. Further details on how we have engaged with all our stakeholders over the year can be found on pages 42 to 52. This year, in particular, the Board has reviewed its proposed business plan for Ofwat's next five-year period outlining an ambitious £3.5bn investment programme.

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

The following pages set out details of our Board of Directors (pages 54 to 57), further information on our governance arrangements and compliance with Ofwat's Objectives (pages 58 to 70) and the reports of the Audit and Risk, Environment and Public Value, Health and Safety, Nomination, and Remuneration Committees (pages 71 to 96). These reports demonstrate that the Company has in place effective arrangements to ensure the highest standards of corporate governance.



Tan Sri (Sir) Francis Yeoh KBE

Chairman

8 July 2024

## The Board of Directors

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

### **Shareholder Non-Executive Chair**

#### *Tan Sri Sir Francis Yeoh KBE*

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

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

He is a founding member of the Malaysia Business Council and Malaysia's Capital Markets Advisory Council and a Global Council member of the Asia Society. He served as an independent non-executive director of the Hong Kong and Shanghai Banking Corporation Limited for a period of 10 years from July 2012 to June 2022.

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

### **Executive Directors**

#### *Colin Skellett OBE – Chief Executive*

Colin Skellett is a scientist and engineer by training and a Fellow of the Royal Society of Chemistry. He has worked largely in the water industry and was appointed Chief Executive of Wessex Water in 1988. Colin's tenure as Chief Executive of Wessex Water will end in September 2024.

Colin is currently Chief Executive of the YTL UK Group that includes Brabazon new town and Arena Complex at Filton, Wessex Water, YTL's UK Hotels, GENeco and a number of retail businesses. He became Chair of Business West in April 2022.

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

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

#### *Andy Pymer – Chief Finance Officer*

A civil engineer turned economist, Andy is a Chartered Director and Fellow of the Institute of Directors with more than 30 years' experience in the water sector. Andy was previously managing director of Wessex Water's regulated water and sewerage business since 2016 and director of regulation and customer services since 2012.

Andy was appointed to the board of Wessex Water Services Limited in August 2012. He is also Co-chair of Wessex Water's joint venture billing company, Pelican Business Services. Andy is a founding Member of the Environmental Markets Board, which oversees the governance framework for participating nature markets in the UK, and Chair of Wessex WaterAid, which has raised more than £1.2m for the charity over the past ten years.

*John Thompson – Chief Operating Officer*

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

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

Appointed to the board of Wessex Water Services Limited in June 2020, John is a director of the Wessex Water Services Pension Trustee board and a member of the Environment and Public Value Committee.

John is a Trustee of Futura Learning Partnership, a partnership of schools which span the Bristol, Keynsham, Bath, and Clevedon areas that are working together to provide high quality educational experience and life skills for all students in their care.

*Ruth Jefferson – Chief Compliance Officer*

Ruth is the Chief Compliance Officer and Group General Counsel for Wessex Water. Ruth joined Wessex Water in 2016 after a legal career in London and Bristol specialising in competition law issues across a broad range of sectors and clients. Ruth has wide experience of legal and governance matters and has overall responsibility for compliance and group services. Ruth will succeed Colin Skellett as Chief Executive of Wessex Water in September 2024.

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

***Independent Non-Executive Directors***

*Jim McKenna – Senior Independent Director*

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

Appointed to the Board of Wessex Water Services Limited in June 2019, he became the Senior Independent Director in November 2020. Jim is a member of the nominations, remuneration and audit committees.

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

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



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

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

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

*Kate Mingay – Independent Non-Executive Director*

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

Appointed to the Board of Wessex Water Services Limited in June 2019, Kate was appointed Chair of the Audit and Risk Committee in August 2020. She is also a member of the remuneration, nomination, and environmental and public value Committees.

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

*Kevin Wall – Independent Non-Executive Director*

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

Appointed to the Board of Wessex Water Services Limited in January 2021, Kevin is a member of the Audit and Risk, Health and Safety, Environment and Public Value, Remuneration and Nomination committee, as well as chairing the Pension Trustees Board. Kevin also acts as a senior advisor to Panmure Gordon, investment bank, is a board observer at Zero Gravity, an online educational platform, and chairs FreeMarket Ireland, a payments provider.

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

*Tim Gardam CBE – Independent Non-Executive Director*

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

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

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

*David Barclay – Non-Executive Director*

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

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

*Hong Yeoh – Shareholder Non-Executive Director*

Hong is the Managing Director of YTL Power International Berhad ("YTLPI"), parent company of Wessex Water. He has been an Executive Director of YTLPI's parent company, YTL Corporation Berhad, Malaysia since 1985 and spearheads the group's investments in utilities, infrastructure, and digital businesses. He is also the Managing Director of the YTL Group's construction and telecommunications divisions.

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

*Mark Yeoh – Shareholder Non-Executive Director*

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

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

*Hann Yeoh – Shareholder Non-Executive Director*

Hann heads the investments, digital and infrastructure portfolio of the YTL Power Group. He has been a director of Wessex Water Services Limited since August 2012.

A graduate of Oxford University with a Master of Engineering in engineering science, Hann also sits on the board of YTL PowerSeraya Pte Limited in Singapore and is the President Director of Tanjung Jati Power Company in Indonesia. Hann led the team that set up Geneco, now Singapore's largest energy retailer, and YTL Data Centers as well as a new digital banking venture in Malaysia.

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

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

### Ofwat Objective 1 - Purpose, values, and culture

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

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

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

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

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

Additional information about the range of stakeholder engagement that has informed and influenced the aspirations of the Board is contained in the Strategic Report on pages 2 to 52. Through this approach the Board ensures that the Company’s vision, which encompasses its purpose, values, and culture, aims and strategy to deliver, are aligned to ensure the Company performs and delivers for all that it serves.

The Company maintains its formal policy on business ethics. Directors and employees are expected to commit to the highest standards of professional and ethical conduct to protect the Company’s reputation and standing. Unethical behaviour, bribery and corruption are not tolerated. All Directors and employees are made aware of the Company’s policy and that breaching it will result in disciplinary action.

The Board's processes ensure that the proposals contained within the current and proposed five-year business plans are consistent with its vision, aims and strategy for the long term. The activities of the Board that enable it to be satisfied that the business plan is consistent with its long-term vision for the Company are set out within the Strategic Direction Statement which is available on the Company's website. The Company actively canvasses for longer-term Outcome Based Environmental Regulation to enable society to pay less for more environmental improvements, empowering the water sector to make its contribution to the Government's 25-year Environment Plan. The Board continues to engage with the Company's regulators to encourage this more holistic approach to regulatory performance outcomes beyond a five-year period to encourage sustained outcomes.

Given the long-term challenges faced by society, the Board has a well-established published statement of the Company's social purpose, overseen by the Environment and Public Value Committee. This statement specifies the Company's wider role, in particular the opportunity to deliver a better environment, to support the communities we serve, to be a great place to work and to contribute to the growth of the UK economy.

The Board monitors and assesses the values and culture of the business to satisfy itself that behaviours are aligned with the Company's purpose and values on an ongoing basis. It does so by monitoring the performance of the business against its key targets. It also seeks out the views and experiences of customers, key stakeholders, and employees. The Board has an established Customer Challenge Group that works with customers to help inform strategy, policy and delivery. The Board also takes account of independent assessments of the Company's commitment to customer service excellence by achieving both the government's Customer Service Excellence accreditation and the Institute of Customer Service 'Service Mark' accreditation and Trustpilot reviews. Key stakeholders are engaged through a variety of means from funding water guardians, working with organisations such as Citizens Advice or liaising with over 300 partners through our "Partner Hub". Employees' views are canvassed through regular surveys and by giving further opportunities for instant feedback. Where there is evidence that behaviours are misaligned with the Company's purpose and values, the Board acts, through the Executive and Management, to correct this. Further details are included in the Strategic Report on pages 2 to 52.

The Company has clear values and behaviours for its employees to follow and actively publicises to all its employees a whistleblowing ("Raising a Concern") policy for reporting instances of wrongdoing or inappropriate activity across all areas of business, including behaviours, water regulation, health and safety, bribery, corruption, and fraud. All 'Raising a Concern' reports are treated on a strictly confidential basis whether from internal or external sources. Issues of whistleblowing are brought to the attention of the Audit and Risk Committee.

## **Ofwat Objective 2 - Standalone regulated company**

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

The Board is fully focused on and has full responsibility for the activities of the Company and is responsible and accountable for setting, implementing, and supporting the Company's purpose, strategy, aims, values, and culture. The Board is satisfied that this objective is met, and the Board takes full responsibility for all aspects of the Company's business for the long term. The Board composition and details of career backgrounds, relevant skills, Committee membership and tenure is set out in the individual biographies on pages 54 to 57.

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

In order to manage risk, the Board and its Committees assess the integrity of information and whether controls and systems of risk management are robust and defensible. The Board requires management to identify, assess and report the impact of risks to enable the Board to effectively monitor and approve any decisions affecting the Company's risk profile. An explanation of principal risks, and our approach to mitigating these risks, is provided on pages 97 to 114.

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

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

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

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

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

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

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

### **Ofwat Objective 3 - Board leadership and transparency**

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

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

Details of the Company's group structure can be found on page 68. Details of the Board Committees, including membership, number of meetings, and attendance are set out in the Committee reports on pages 71 to 96.

The Company's dividend policy and detail on dividends paid during the year are set out in the Notes to the Non-statutory financial statements on page 166. Details of the Company's executive pay policy can be found on page 82.

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 97 to 114.

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

### **Ofwat Objective 4 - Board structure and effectiveness**

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

The Board is satisfied that this objective is met.

The following were Directors during the year under review:

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

The Company carefully considers its Board composition and there are currently five Independent Non-Executive Directors on the Board. This makes the Independent Non-Executive Directors the single largest group on the Board and ensures that wider group or shareholder interests are not able to override independent judgment and/or dominate decision-making. The Independent Non-Executive Directors bring extensive knowledge and experience to the Board.

In addition to the Independent Non-Executive Directors, there are four Executive Directors. The Executive Directors have significant experience in the water sector. One experienced former Independent Director is also appointed as a Non-Executive Director: David Barclay was our former Senior Independent Director, and the Board makes full use of his individual professional expertise.

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

The collective experience of the Directors and the diverse skills and experience they possess ensures that the Board makes decisions in a balanced way. The Board considers that its current composition ensures an appropriate balance of skills, experience, independence, and knowledge so that no individual or small group of individuals can dominate the Board's decision taking. Details of the Board's skills and experience can be found in the Director's biographies on pages 54 to 57 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	Jim McKenna	✓	✓	✓	✓	✓		✓	✓	✓	✓
	Fiona Reynolds	✓	✓		✓	✓	✓	✓	✓	✓	
	Kate Mingaj		✓	✓		✓			✓	✓	
	Tim Gardam			✓	✓	✓				✓	✓
	Kevin Wall		✓	✓	✓	✓				✓	✓
Executive Directors	Andy Pymmer	✓	✓	✓	✓	✓	✓		✓	✓	✓
	John Thompson	✓	✓		✓		✓	✓	✓	✓	✓
	Ruth Jefferson	✓		✓		✓	✓	✓		✓	
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 always encouraged to ensure a deeper understanding of the Company's operations and activities.

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

## Chair

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

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

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

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

## Senior Independent Director

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

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

## Independent Non-Executive Directors

The Company's Independent Non-Executive Directors are appointed from a range of different backgrounds to bring to the Board an appropriate balance of skills, external experience, and knowledge. Details of their skills and experience can be found in their biographies on pages 54 to 57 and in the Board skills matrix on page 62.

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 confirmed their independence. In particular, the Board considers these Directors to be independent in character and judgement. The Board is not aware of any relationships or circumstances which are likely to affect, or could appear to affect, any Independent Non-Executive Director's judgement.



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

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

In the year, the Board considered Fiona Reynolds' term as an Independent Non-Executive Director. Fiona's experience as a director, with expertise in conservation and environmental matters has been central to the Company's work offering a constructive and challenging perspective to Board discussions. As Fiona has been in position since 2012, the Board specifically considered Fiona's independence and was satisfied that Fiona could be considered independent.

<b>Independent Non-Executive Director</b>	<b>Appointed</b>	<b>Current term expires</b>
Jim McKenna	3 June 2019	2 June 2025
Fiona Reynolds	1 August 2012	29 September 2024
Kate Mingay	3 June 2019	2 June 2025
Tim Gardam	27 January 2020	26 January 2026
Kevin Wall	25 January 2021	25 January 2027

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

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

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

## Board meetings

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

Director	Board	Audit and Risk Committee	Nomination Committee	Remuneration Committee	Environment and Public Value Committee	Health and Safety Committee
Francis Yeoh	6/7					
Colin Skellett	7/7		1/1			5/5
David Barclay	7/7		1/1			5/5
Andy Pymer	7/7				3/3	
John Thompson	7/7				3/3	5/5
Ruth Jefferson	7/7					5/5
Jim McKenna	7/7	4/5	1/1	2/2	3/3	5/5
Fiona Reynolds	7/7	5/5			3/3	
Kate Mingay	7/7	5/5	1/1	2/2	3/3	
Tim Gardam	7/7	5/5	1/1	2/2	3/3	5/5
Kevin Wall	7/7	5/5	1/1	2/2	3/3	5/5
Hong Yeoh	7/7		1/1	2/2		
Mark Yeoh	7/7		1/1	2/2		
Hann Yeoh	7/7					
Kathleen Chew (alternate)	0/0					

## Company Secretary

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

Ruth Jefferson was appointed as Company Secretary in 2018. As Company Secretary her role is to provide legal and regulatory advice as required by the Board or any Director and she is responsible for advising the Board through the Chair on governance matters. The Board is kept informed of major changes to law and regulation affecting the Company's business. The Company Secretary also advises on Directors' duties and conflicts. All Directors are aware that any conflicts of interest must be reported to and registered with the Company Secretary.

### **Board Committees and Advisory Panels**

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

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

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

Reports from the Chair of each of the Committees, including details of membership and attendance, are set out on pages 71 to 96. There is a majority of Independent Non-Executive Directors on the Board Committees. The Nomination Committee and Remuneration Committee are chaired by the Chair and a shareholder Director respectively. The Board considers this to be appropriate in the context of the Company's ownership structure.

The Health and Safety Committee is also supported by an Advisory Board.

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

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

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

### **Board, Committee and Director Performance**

The Board undertakes external evaluations on its performance every three years (most recently in 2023) supplemented by an annual confidential self-assessment of its Committees, the Chair, and the Independent Non-Executive Directors, annually. The external evaluations are facilitated by the Company Secretary on behalf of the Senior Independent Director. Both the external and self-assessment evaluations assess the Board's balance of skills, experience, diversity, independence, and knowledge of the Company and how the Board works together as a unit, and other factors related to its effectiveness.

This year the feedback confirmed that, overall, the Board continues to work effectively with particular recognition of the strength of the Board's contribution to the Company's purpose, strategy and values. The strength of the trust levels between the Board and the executive and the Board's good knowledge and understanding of the Company's business and performance were noted and provide a good basis for the business to face its various challenges.

### **Directors' remuneration**

Details of Directors' remuneration are set out in the Remuneration Committee Report on page 80.

### **Directors' interests and conflicts**

The Board has a formal approach to conflicts of interest by including its conflicts within the business ethics policy. This policy covers both employee and Board conflicts and enables Directors and employees to identify, report and manage such conflicts. Directors are aware of the requirement to disclose interests in contracts with the Company and any conflicts of interest are recorded by the Company Secretary. Any new interests or conflicts were disclosed and recorded during the year.

### **Raising a concern**

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

### **Anti-corruption**

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

### **Procurement**

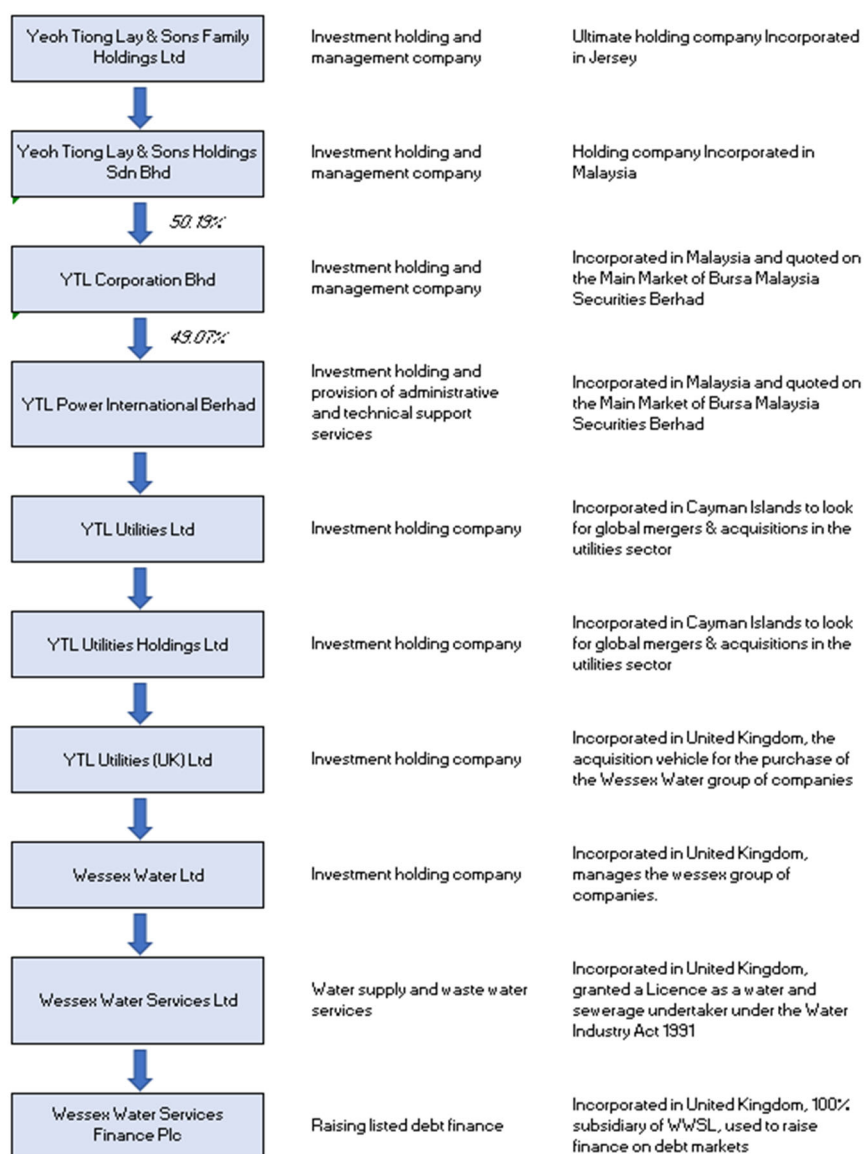
The Company has in place procurement rules that ensure awards of contracts for works, services and supplies are made in compliance with the Utilities Contracts Regulations 2016 or, for contracts below the relevant thresholds, in accordance with clear internal rules. The rules promote fair competition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

### **Group structure**

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

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

A diagrammatic representation of the Group's structure appears below showing ownership of the regulated company through to the ultimate holding company and each company's country of incorporation and role in the structure. YTL Corporation Berhad at 31 March 2024 was 49.81% owned by third-party shareholders and 50.19% owned by Yeoh Tiong Lay & Sons Family Holdings Limited.



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

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

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

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

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

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

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

YTL Corporation Berhad has confirmed that it:

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

### **Compliance with the Wates Principles**

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

#### **Principle One – Purpose and leadership**

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

The Company sets out its compliance with Ofwat Objective 1 on pages 58 to 59.

**Principle Two – Board composition**

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

The Company sets out its compliance with Ofwat Objective 4 on pages 61 to 69.

**Principle Three – Director responsibilities**

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

The Company has clear corporate governance practices in place, with clear lines of accountability and responsibility as set out under Ofwat Objective 2 on pages 59 and 60. Details of the Board Committees are set out in the comments on Ofwat Objective 4 on pages 61 to 69.

**Principle Four – Opportunity and risk**

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

The Company is a long-term business and ensuring its long-term sustainable success underpins the work of the Board and its Committees. The Board's approach to oversight of the identification and mitigation of risks can be found on pages 58 to 59 set out under Ofwat Objective 1 and also in the Strategic Report on pages 2 to 52.

**Principle Five – Remuneration**

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

A detailed explanation of the Company's executive pay policy is provided in the Remuneration Committee Report on pages 80 to 96.

**Principle Six – Stakeholder relationships and engagement**

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

Details of the Company's stakeholder engagement are set out under Ofwat Objective 1 on pages 58 to 59 and in the s172 statement on pages 42 to 52.

## Audit and Risk Committee Report

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

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

### Audit and Risk Committee Members' Attendance

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

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

### Liaison with Other Committees and Working Groups

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

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

The Audit and Risk Committee has worked closely with the PR24 working group to provide direction and input into the PR24 business planning process.



## Role of the Committee

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

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

## Report on this year's activity

The Audit and Risk Committee met five times in the financial year under review, reporting their work to the Board. The Committee has had a full agenda again this financial year. Issues discussed which we would highlight include:

- management of cyber-security risks including detailed penetration testing, ongoing compliance work in relation to the Security of Network and Information Systems (NIS) Regulations 2018 and the company's OT security network;
- oversight of risk reporting, building upon the previous years' detailed review of risk appetite and tolerance for strategic risks and principal risks;
- reviewing assurance plans to cover supply compliance and information assurance;
- agreed the risk-based plan for internal audits over the year reviewing outcomes and agreeing recommendations, and escalating actions;
- plans to further develop our reporting under the Taskforce for Climate-related Financial Disclosures (TCFD); and
- ongoing compliance with the Data Protection Act 2018 and the General Data Protection Regulations (GDPR);

- review the Company's programme on improving asset management maturity.

Our governance arrangements are available on the Company's website and provide full terms of reference for the Audit and Risk Committee. These are in accordance with both Ofwat's Board Leadership, Transparency and Governance (BLTG) principles and the Wates principles.

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

Our external auditor (Ernst & Young LLP) reported to the Audit and Risk Committee on their audit of the 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.</p>
Oversight of Internal Audit and External Audit	<p>The Audit and Risk Committee oversees the work of the Company's Internal Audit function and External Auditors. The Audit and Risk Committee reviews the performance of the internal and external auditor independently of executive management.</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. 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 Chair at all times.</p>
External auditor	<p>Ernst &amp; Young LLP (EY) were appointed as the Company's external auditor in 2017. The EY audit partner is invited to attend all Audit and Risk Committee meetings and has been present at every meeting during the year. The Lead Partner was rotated during the prior year in line with independence requirements. 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 &amp; Young LLP audit fees are £295k for the 2023-24 financial year audit. The Audit and Risk Committee scrutinise the volume and value of non-audit work and as a matter of policy, fees paid to the external auditor for non-audit services will not exceed the limits set out in EU Regulation 537 or the rules set out in the Financial Reporting Council's code of ethics. The proportion of fees for non-audit services is compliant with EU Regulation 537.</p> <p>Ernst &amp; 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 re-appointed from a competitive re-tender of the services in 2019-20. This will be re-tendered in 2024-5.</p>

Further details of internal controls and risk management systems in relation to the financial reporting process can be found on pages 97 to 114.

## Financial Reporting

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

Topic	Activity
Revenue Recognition and accrued income	The Audit and Risk Committee considered the key financial risk that can arise in two ways. Firstly the inappropriate revenue recognition from manual journals and secondly, the estimation of the amount of unbilled income charges at the period. In this context, they discussed that the management estimates and assumptions are aligned to IFRS 15 and current accounting standards.
Classification and Measurement of Capital Expenditure  Valuation of Intangible Assets Developed Internally	The Audit and Risk Committee considered the key financial risk of the degree of judgement involved in the classification of expenditure between operating expenses and capital expenditure. In doing so they considered the level of capital expenditure, the Regulatory Accounting Guidelines and IAS16, the recharges from overhead to capital projects and the controls of the Company. The Committee considered the financial impact of internally developed intangible assets, including classification of capital and operating expenditure, eligibility of capital expenditure, overhead absorption and any potential asset impairment in accordance to IAS 38.
Expected Credit Loss	The Audit and Risk Committee considered the key financial risk that arose due to the subjective nature of the assumptions used. It reviewed the significant judgements made when assessing the reasonableness of the provision rates applied against historic collection rates and future recovery, particularly in light of current cost of living difficulties and economic uncertainties and ensured that the methodology chosen was in accordance with IFRS 9.
Defined Benefit Pension Obligations, Assets, and Actuarial Assumptions	The Audit and Risk Committee considered the key financial risk that the assumptions made by the Company in association with the independent actuary, in arriving at the pension obligations under IAS 19, could lead to an overly prudent or aggressive position. In particular, the assumptions in relation to inflation, discount rate, pension and salary increases, return on equity and life expectancy were tested against the range of assumptions used by other companies.
Defined Benefit Pension Assets	The Audit and Risk Committee considered the key financial risk of the inappropriate valuation of hard to value pension assets, specifically around private equity fund and pooled investments.
Going concern, long-term viability and breach of financial covenants	The Audit and Risk Committee considered the long-term viability assessment and its appropriateness, assumptions, and its approach to reverse stress testing. The Committee considered the going concern of the company in conjunction with the work completed by the auditor under IAS 570, including the company's compliance with financial covenants and the timing of bond issues.
Accounting for litigation and any legal provisions	The Audit and Risk Committee considered the key financial risk that arose regarding the need for provisions for any legal or litigation action and considered the judgement, recognition processes and estimations for any such provision.
Misstatements	Management confirmed to the Audit and Risk Committee there were no material misstatements in the financial statements to achieve a particular presentation. The Audit and Risk Committee was satisfied that the external auditor had fulfilled its responsibilities to the Audit Committee and the Company.

## Nomination Committee Report

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

<b>Nomination Committee attendance</b>	
Francis Yeoh (Chair)	1/1
Hong Yeoh	1/1
Jim McKenna	1/1
Kate Mingay	1/1
Tim Gardam	1/1
Kevin Wall	1/1

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

### Role and report on activities

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

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

Throughout the year the members of the Committee met once to discuss succession planning for the Chief Executive. The members considered the balance of skills and experience required for the Chief Executive role, the potential candidates and timing. Subsequently, Ruth Jefferson, the Chief Compliance Officer was chosen to succeed Colin Skellett as the next Chief Executive of Wessex Water.

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

## Health and Safety Committee Report

Health, safety, wellbeing, and the need to prevent harm to our people and the public remains at the heart of everything we do as a Company. The continued development and implementation of health and safety and process safety policy and practice has been the primary object of the Board's attention throughout the year. Three years after the tragic incident at Avonmouth, we continue to develop our process safety capability across all our sites and ensure it is intrinsic to all our working practices. The Health and Safety Committee, supported by an independent Advisory Board continues to review major risks and controls, and challenges the Company as it drives performance improvement in both occupational health and safety and process safety disciplines.

### Committee Members

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

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

### Committee Meetings

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

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

### Focus of Committee

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

- Process safety management at Avonmouth and the other biogas sites, including:
  - Process safety risk, controls and mitigations, and engineering solutions to reduce risk to as low as reasonably practicable, along with a focus on the clear communication of site risks and controls to the Committee,
  - Our people, including process safety resource, individual competence, engagement, and awareness, the appointment of competent consultant support,

- Our processes, including risk assessment, safe systems of work, the process safety management system, and audits to ensure compliance,
- Our plant, including planned and reactive maintenance and infrastructure investment to improve resilience.
- COMAH and DSEAR at Avonmouth
  - Our Major Accident Prevention Policy, controls, and ongoing engagement with the Competent Authority
- The outputs from, and effectiveness of, incident investigations and learnings from Make it Right Reviews.
- High potential safety incidents and near misses, root cause analysis and actions to drive continual improvement.
- The management of and response to organisational change – both within the health and safety team and the wider WWSL business.
- Training and competency requirements, including training from organisations such as the IChemE and the HSE.

The Committee noted that over the year our overall performance has moved from a stable to an improving position. There has been a reduction in the number of reportable incidents and associated lost workdays, and a reduction in the overall number of lost time incidents has been recorded.

There has been an increase in the number of safety observations submitted and audits completed, along with an increase in improvement actions raised. This demonstrates improving engagement and participation in health and safety by our people and leaders.

## Environment and Public Value Committee Report

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

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

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

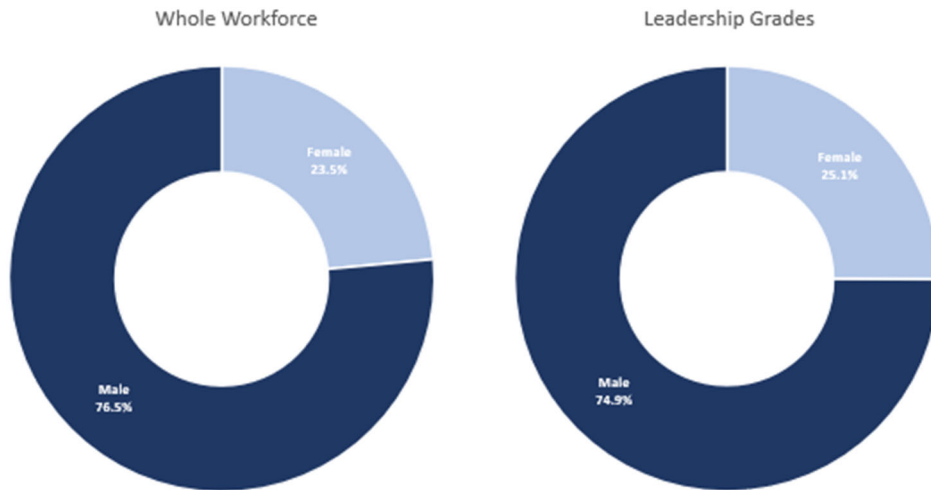
Focusing on outcomes for people, the environment, nature and water across the region, the Committee's functions are to:

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

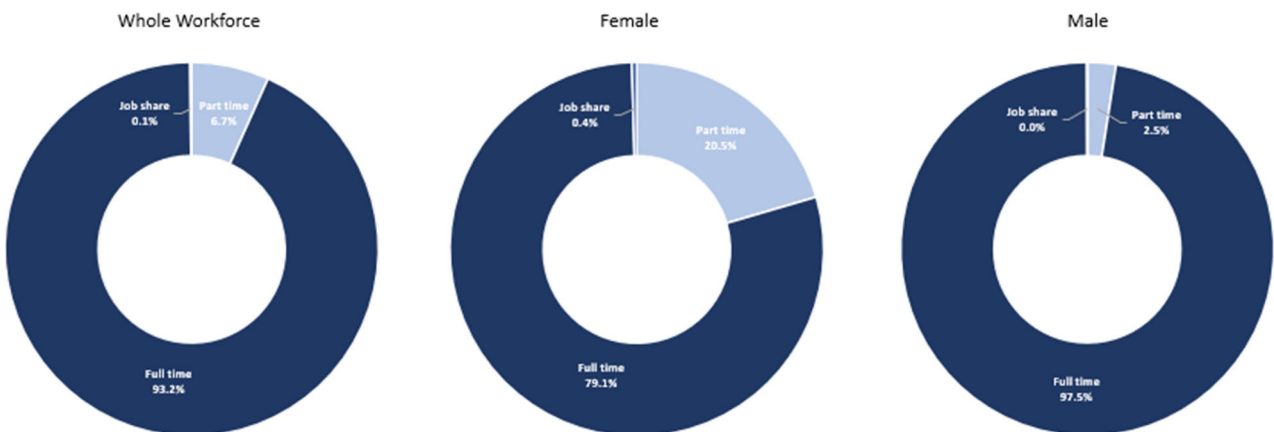
In line with its horizon-scanning function, the Committee periodically invites external perspectives to inform the Board's strategic thinking.

The meetings of the Committee during the reporting year focused on bioresources risks and opportunities; water quality issues in relation to our water supply activities; our sustainable solutions for water and nature project; the evolving UK policy direction for water; environmental strategy and regulatory reform; culture, inclusion, and diversity within the business; the Company's gender pay gap report (extract shown on page 35); sustainable finance; and annual reporting requirements.

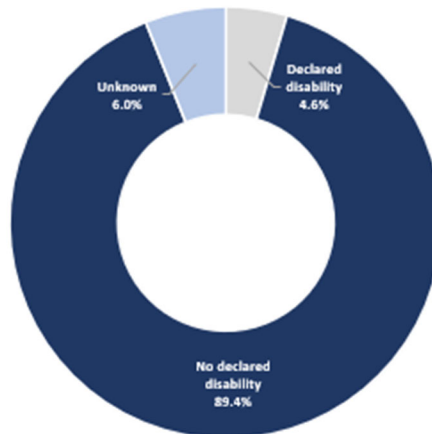
## Gender diversity



## Working pattern diversity



## Employees with a disability





## Remuneration Committee Report

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

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

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

There were no changes to the membership of the Committee for 2023-24.

### Role of the Remuneration Committee

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

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

This report sets out the remuneration policy for the Directors of Wessex Water and discloses the amounts paid to them in the financial year ended 31 March 2024. The policy also applies to the remuneration of the Company's senior managers.

### Activities of the Remuneration Committee

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

### Strategic Alignment of Remuneration

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

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

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

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

### **Remuneration of the Senior Management Group**

The Committee takes 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. There were no payments made to Korn Ferry Hay Group for the year ended 31 March 2024. In line with best practice, the Committee assesses from time to time whether the appointment of its current independent remuneration advisers remains appropriate and whether the role should be put out to tender.

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

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

### **Changes to the Executive Directors**

There were no changes to the Executive Directors of the Company during 2023-24.

### **Remuneration principles and policy**

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

## Recruitment of Executive Directors

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

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

## Policy for loss of office

There are no specific provisions for compensation on early termination (except for payment in lieu of accrued but untaken holidays) or loss of office due to a change of ownership of the Company. The Committee will review all contractual obligations and will seek legal advice, as and when necessary, on the Company's liability to pay compensation in such circumstances.

The Committee will seek to reduce the level of compensation payable taking into account, among other factors, the Company's and the individual's performance, the Executive Director's obligation to mitigate loss, and length of service.

## Early termination payments made in the year

There were no early termination payments during the year.

## Remuneration arrangements for Executive Directors 2023-24

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

- basic salary
- bonus (non-pensionable) subject to individual and company performance
- pension plan
- company car or allowance and private fuel allowance
- private health insurance and executive medical screening

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

Element of Pay	Purpose and Link to Company Strategy	How Operated in Practice	Maximum Opportunity	Description of performance metrics
Base Salary	To attract and retain the high calibre Executive Directors needed to implement the Company's strategy and maintain its leading position in the industry.	Reviewed annually and takes effect from 1 April.  The review takes into consideration: • individual responsibilities	There is no prescribed maximum increase. However, Executive Director salary increases are aligned to those	n/a

Element of Pay	Purpose and Link to Company Strategy	How Operated in Practice	Maximum Opportunity	Description of performance metrics
	To provide a competitive salary relative to comparable companies in terms of size and complexity.	<ul style="list-style-type: none"> <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>	provided to all Company employees. Such increases are negotiated by the joint staff council involving management and trade union representatives.	
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.	The majority of current Executive Directors participate in the Company's defined benefit pension scheme. Other Executive Directors participate in the YTL UK Group section of the Aon MasterTrust. Executive Directors are also insured for a lump sum of up to four times their pensionable salary on death in service.	Up to 15.5% of base salary	n/a
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	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.	Maximum bonus opportunity is 100% of base salary.	Combination of key performance indicators relating to customer satisfaction, service quality, environmental performance, employee alignment and financial performance. The Remuneration

Element of Pay	Purpose and Link to Company Strategy	How Operated in Practice	Maximum Opportunity	Description of performance metrics
	stretching in the context of the nature, risk and profile of the Company and have regard to historical company performance, sector comparisons and the performance commitments made in the relevant business plan. The measures and the weightings of them ensure that bonuses are linked to stretching delivery for customers and the environment.	The 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.		Committee has absolute discretion in making bonus payments.

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

	Colin Skellett Group Chief Executive	Andy Pymmer Chief Finance Officer	John Thompson Chief Operating Officer	Ruth Jefferson Chief Compliance Officer
Target bonus (% of salary)	50	50	50	50
Maximum bonus (% of salary)	100	100	100	100
Pension arrangement	Defined benefit Pension in payment	Defined benefit Pension deferred	Defined benefit	Defined contribution
Benefit Entitlement	Car allowance £20,000, fuel £4,310, and private medical insurance £1,988 (family)	Car allowance £17,000 and private medical insurance £1,988 (family)	Car allowance £17,000 and private medical insurance £1,988 (family)	Car allowance £17,000 and private medical insurance £1,988 (family)

## Base salaries and benefits

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

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

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

### Executive Directors' base salary 2023-24

The Committee reviewed base salaries of the Executive Directors effective 1 April 2023.

	<i>Effective 1 Jun 2023</i>	Effective 1 Apr 2023	Effective 1 Sep 2022	Effective 1 Apr 2022
Chief Executive Officer		£290,100	£290,100	£290,100
Chief Finance Officer (0.6 FTE from 01.06.2023)	£156,600	£261,000	£261,000	£247,500
Chief Operating Officer		£350,000	£320,000	£260,000
Chief Compliance Officer		£243,000	£211,500	-

The salaries for the rest of the Company are usually increased effective 1 April. For 2023 the salary increase of 7.2% was backdated and applied effective 1 January 2023. This was in accordance with a one-year deal agreed with the recognised Trade Unions and also awarded to those employees not covered by trade union agreements.

### Executive Directors' bonuses 2023-24

All Executive Director bonuses for 2023-24 are funded by the shareholder with no costs borne by the Company's customers. The Chief Executive is not receiving a bonus following the conclusion of prosecutions for two serious pollution incidents in 2018. The annual bonus of Executive Directors is performance-related and designed to promote the long-term success of the Company. It is dependent on the achievement of Company and individual targets.

For 2023-24 there were 22 internal performance indicators upon which executive remuneration was based, as shown below:

<b>Serving people and places</b>	<ul style="list-style-type: none"> <li>- C-Mex (Customer measure of experience)</li> <li>- D-MeX (Developer measure of experience)</li> <li>- Customers on a tailored assistance programme (TAP)</li> <li>- Water quality compliance (CRI)</li> <li>- Water supply interruptions</li> <li>- Sewer flooding incidents (internal and external incidents)</li> <li>- Restrictions on water use (hosepipe bans)</li> </ul>
<b>Enhancing the environment</b>	<ul style="list-style-type: none"> <li>- Leakage</li> <li>- Treatment works compliance</li> <li>- Environmental performance assessment (EPA)</li> <li>- Greenhouse gas emissions</li> <li>- River with improved water quality (WINEP)</li> <li>- Storm overflow and FFT progress against plan</li> <li>- Compliance with abstraction licences</li> </ul>
<b>Empowering our people</b>	<ul style="list-style-type: none"> <li>- H&amp;S plan and accident statistics progress</li> <li>- Employees rating company as a good employer</li> <li>- Training plan compliance</li> <li>- Diversity plan progress</li> </ul>
<b>Financial measures</b>	<ul style="list-style-type: none"> <li>- Operational costs</li> <li>- Net capex</li> <li>- Cash flow before dividends</li> <li>- Dividends declared</li> </ul>

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

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

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

	<b>Weighting</b>	<b>Target Bonus Opportunity</b>	<b>Maximum Bonus Opportunity</b>
Customers and communities	35%	17.5%	35%
Protecting and enhancing the environment	35%	17.5%	35%
Employees	10%	5%	10%
Discretionary Award	10%	5%	10%
Personal objectives	10%	5%	10%
<b>TOTAL</b>		<b>50%</b>	<b>100%</b>

***Performance indicator highlights***

- Top of all water and sewerage companies for C-MeX.
- Thirteenth year in a row with the fewest number of complaints per 10,000 customers of any water and sewerage company.
- Winners of the ROSPA Gold Health and Safety for the eleventh consecutive year.
- On track to return to a 4 star/leading company for the EA's EPA for 2023.
- Early indications suggest that our CRI, the primary water quality measure used by the DWI, is predicted to be one of the best in the industry for 2023.
- Wessex Water Foundation funding of £536,708 helping over 200,000 customers and community groups across the region.
- Submitted to Ofwat our 2025-2030 business plan, which sets out an ambitious investment programme to deliver a range of important outcomes, including tackling pollution, enhancing the water environment, and ensuring there is enough water to cater for everyone's needs over the long-term – all while ensuring that our services remain affordable for all.

***Performance indicator lowlights***

- Exceptionally high levels of rainfall throughout the year resulted in extreme pressure on our networks and increases in both internal and external sewer floodings.
- Leakage levels remain higher than 2021-22 despite good recoveries being made following record warm months in the summer and a freeze/thaw event early in 2024.
- Abstraction licence compliance was again a shadow metric for the EA's EPA in 2023. There were two licence breaches as a result of over-abstraction in the year.
- Deterioration in number of performance commitments being met, down from 30 in 2022-23 to 29 in 2023-24.



The Executive Director bonus payments for 2023-24 were calculated as follows:

Key performance indicator (KPI)	Target for each KPI in 2023-24	Out-turn for each KPI in 2023-24	Target bonus as %age of base salary	Multiple of target bonus payable	Bonus awarded as %age of base salary				Remuneration Committee's rationale for the level of bonus awarded in the 2023-24 reporting year
					CEO <sup>1</sup>	CFO	COO	CCO	
<b>Serving people and places</b>									
- C-MeX experience score	UQ	UQ							Based on available information, good level of performance. Most targets met or exceeded.
- D-MeX experience score	UQ	MQ							
- Customers on a tailored assistance programme (TAP)	61,500	64,000	17.5%	1x	0.0%	18.5%	18.5%	18.5%	
- Water quality compliance (CRI)	1.50	1.50							
- Water supply interruptions mins/prop)	05:23	05:00							
- Sewer flooding (internal and external)	2216	2518							
- Restrictions on water (hosepipe bans)	0	0							
<b>Enhancing the environment</b>									
- Leakage (ML/d)	63.5	69							Improved performance. Following higher levels of leakage in 2022-23, good recoveries have been made after two record warm months in the summer and a freeze/thaw event early this year, but levels have not recovered to previous years' lows yet. On track to return to a 4 star EPA rating.
- Treatment works compliance	99%	99.1%							
- Environmental Performance Assessment (EPA)	4 star	4 star	17.5%	1x	0.0%	14.5%	14.5%	14.5%	
- Greenhouse gas emissions (ktCO2e)	105	105							
- Rivers with improved water quality (km)	167.4	170.7							
- Storm overflow and FFT plan progress	Positive	Positive							
- Compliance with abstraction licences	>98%	97.8%							
<b>Empowering our people</b>									
- Assessment of H&S plan progress	Positive	Positive							Good level of performance. All targets met or exceeded, including 92% of colleagues rating the company as a good employer
- Employees rating as a good employer	85%	92%	5%	1.2x	0.0%	7.0%	7.0%	7.0%	
- Training plan compliance	95%	100%							
- Assessment of diversity plan progress	Positive	Positive							
<b>Personal contribution</b>									
Individual assessment by Remuneration Committee			5%	Varies	0.0%	6.6%	7.4%	7.9%	Individual assessment
<b>Discretionary Award</b>									
Individual assessment by Remuneration Committee			5%	Varies	0.0%	0.0%	4.0%	4.0%	Individual assessment
<b>Total bonus as %age of base salary</b>			<b>50%</b>		<b>0.0%</b>	<b>46.6%</b>	<b>51.4%</b>	<b>51.9%</b>	

<sup>1</sup> The Chief Executive is not receiving a bonus following the conclusion of prosecutions for two serious pollution incidents in 2018.

## Pensions

### Defined Benefit Scheme

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

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

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

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

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

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

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

### Defined Contribution Scheme

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

- Employee contributions options, deducted from salary at between 3% and 8% per annum
- Company contributions of between 5% and 12% per annum (dependent on the level of employee contribution) in addition to the amount the individual pays
- A default normal retirement age of 65 years
- The option to select an alternative retirement age

## Differences between Executive Directors' and Employees' remuneration

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

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

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

## Executive Directors' service contracts

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

Executive Directors	Date of current agreement	Date of appointment as Executive Director	Notice Period
Colin Skellett	1 April 2014	1 September 1989	12 months
Andy Pymer	21 July 2016	1 August 2016	12 months
John Thompson	1 September 2022	1 June 2020	12 months
Ruth Jefferson	1 September 2022	26 September 2022	12 months

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

## Non-Executive Directors

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

The breakdown of the Independent Non-Executive Directors' fees from 1 April 2023 is shown in the Directors' Emoluments table below. Independent Non-Executive Directors do not participate in share or bonus schemes or any other performance-related scheme, nor is any pension provision made.

Independent Non-Executive Directors are normally appointed for three-year terms (subject to statutory provisions relating to the removal of a Director) that may be renewed. They do not have service contracts, but their terms of engagement are regulated by letters of appointment (copies of which are available for inspection during normal office hours at the registered office). Any term beyond six years for an Independent Non-Executive Director is subject to particularly rigorous review and considers the need for progressive refreshing of the Board balanced against the requirement for skills, experience, independence, and knowledge.

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

## Directors' Emoluments

The table below shows the emoluments for the current and preceding year. All Executive Director bonuses for 2023-24 were funded by the shareholder with no costs borne by the Company's customers.

	Salary		Benefits		Bonus		Pension		Total	
	FY2024	FY2023	FY2024	FY2023	FY2024	FY2023	FY2024	FY2023	FY2024	FY2023
	£k	£k	£k	£k	£k	£k	£k	£k	£k	£k
Colin Skellett	290	290	23	22	-	120	-	-	313	432
Andy Pymmer	174	156	12	10	81	74	27	39	294	279
John Thompson	350	295	17	24	180	143	39	61	586	523
Ruth Jefferson	243	104	17	9	126	57	43	13	429	183
Mohammed Saddiq	-	120	-	6	-	65	-	29	-	220
Jim McKenna	115	115	-	-	-	-	-	-	115	115
Kate Mingay	99	99	-	-	-	-	-	-	99	99
Fiona Reynolds	88	88	-	-	-	-	-	-	88	88
Tim Gardam	83	83	-	-	-	-	-	-	83	83
Kevin Wall	83	83	-	-	-	-	-	-	83	83
	<b>1,525</b>	<b>1,433</b>	<b>69</b>	<b>71</b>	<b>387</b>	<b>459</b>	<b>109</b>	<b>142</b>	<b>2,090</b>	<b>2,105</b>

Notes to table:

1. No emoluments earned by Francis Yeoh, Hann Yeoh, Hong Yeoh, Mark Yeoh, Kathleen Chew or David Barclay
2. Benefits comprise private medical insurance, company car or allowance and fuel benefits
3. Andy Pymmer moved to 0.6 FTE on 1 June 2023
4. Ruth Jefferson was appointed to the Board on 26 September 2022
5. Mohammed Saddiq stepped down from the Board on 16 September 2022
6. The Chief Executive is not receiving a bonus for FY2024
7. The cost of FY2024 bonuses are being funded by the Shareholder
8. Colin Skellett and Andy Pymmer received emoluments for services to other Group Companies which are disclosed in the financial statements for those companies.

## Chairman

No remuneration was paid to the Chairman during 2023-24 (2022-23 – £nil).

## Chief Executive

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

	Remuneration FY2024 £000	Remuneration FY2023 £000	% change
<b>WWSL</b>			
Salary	290	290	-
Bonus*	-	120	-100%
Benefits	23	22	-
<b>Total</b>	<b>313</b>	<b>432</b>	<b>-27.5%</b>
<b>All employees WWSL</b>			
Wages and salaries	126,600	111,400	+13.6%
Social security costs	15,600	14,500	+7.6%
Other pension costs	17,100	16,800	+1.8%
<b>Total</b>	<b>159,300</b>	<b>142,700</b>	<b>+11.6%</b>

\*The Chief Executive is not receiving a bonus for FY2024 following the conclusion of prosecutions for two serious pollution incidents in 2018. The Chief Executive bonus for FY2023 was funded by the shareholder with no costs borne by the Company's customers.

The pay increase awarded to the employees of the Company on 1 April 2023 (backdated and applied from 1 January 2023) was a 7.2% increase over the preceding year.

## Relative importance of spend on pay

Note 6 to the accounts shows the total employment costs of the Company, and the movement between 2023-24 and 2022-23.

	FY2024 £m	FY2023 £m	Movement £m	Movement %
Wages and salaries	126.6	111.4	15.2	13.6%
Social security costs	15.6	14.5	1.1	7.6%
Other pension costs	17.1	16.8	0.3	1.8%
<b>Total employment costs</b>	<b>159.3</b>	<b>142.7</b>	<b>16.6</b>	<b>11.6%</b>

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

Percentage of	FY2024	FY2023	Source
Turnover	27.7%	26.9%	Income statement
Profit before tax *	-382.9%	-493.8%	Income statement
Profit after tax *	-500.9%	-1285.6%	Income statement
Dividends	239.5%	202.1%	Note 10
Capital expenditure	43.9%	54.4%	Cash flow statement

**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> percentile pay ratio (P75)
FY2024	A	16:1	14:1	10:1
FY2023	A	17:1	14:1	11:1
FY2022	A	17:1	14:1	11:1
FY2021	A	17:1	13:1	10:1
FY2020	A	18:1	15:1	12:1

**Notes:**

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

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

3. The pay ratios were calculated by dividing the CEO's single table of remuneration with the employee pay and benefits at each of those percentile points. The pay ratio was calculated for all employees as at April 2024.

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**

	Pension service completed in years <sup>(1)</sup>	Normal retirement date at 65	Accrued pension at 31-03-2023 £pa	Increase in accrued pension during the year £pa	Accrued pension at 31-03-2024 £pa
Colin Skellett <sup>(2)</sup>	41	13/06/2010	203,417	14,479	217,896
Andy Pymmer <sup>(3)</sup>	23	18/08/2033	73,681	3,682	77,363
John Thompson <sup>(4)</sup>	19	17/10/2034	37,295	2,140	39,435

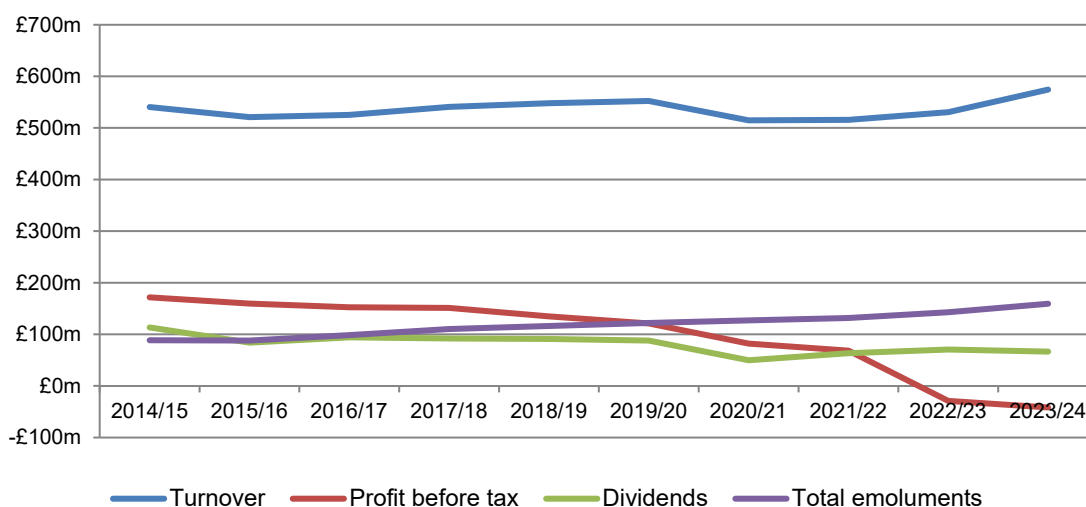
**Notes:**

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

Ruth Jefferson is a member of the Defined Contribution Scheme.

## Remuneration link to financial performance

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



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

## Executive Directors' share interests

### Shares held

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

## Remuneration Arrangements for Executive Directors 2024-25

### Base Salary 2024-25

At the meeting in May 2024 the Committee set the base salaries for each Executive Director effective 1 April 2024.

	Effective 1 Apr 2024	Effective 1 Jun 2023	Effective 1 Apr 2023	% change
Chief Executive Officer	£290,100		£290,100	-
Chief Finance Officer (0.6 FTE from 01.06.2023)	£164,430	£156,600	£261,000	+ 5%
Chief Operating Officer	£367,500		£350,000	+ 5%
Chief Compliance Officer	£255,150		£243,000	+ 5%

Where a salary increase has been approved it mirrors the 5% inflationary increase awarded to employees on 1 April 2024. This was in accordance with a one-year deal agreed with the recognised Trade Unions and awarded to those employees not covered by trade union agreements.

**Bonus scheme 2024-25**

For 2024-25 there are 20 internal performance indicators, as shown below:

<b>Serving people and places</b>	<ul style="list-style-type: none"> <li>- C-Mex (Customer measure of experience)</li> <li>- D-MeX (Developer measure of experience)</li> <li>- Trust Pilot</li> <li>- Water quality compliance (CRI)</li> <li>- Water supply interruptions</li> <li>- Sewer flooding (internal and external incidents)</li> </ul>
<b>Enhancing the environment</b>	<ul style="list-style-type: none"> <li>- Environmental Performance Assessment (EPA)</li> <li>- Pollutions (category 1-2 and category 3)</li> <li>- Leakage</li> <li>- Greenhouse gas emissions</li> <li>- River with improved water quality (WINEP)</li> <li>- Storm overflow and FPF progress – monitoring and improvement outputs</li> </ul>
<b>Empowering our people</b>	<ul style="list-style-type: none"> <li>- Employees understanding Wessex Water's commitment to Health &amp; safety and their own responsibility</li> <li>- Employees rating company as a good employer</li> <li>- Training plan compliance</li> <li>- Employees recognising Wessex Water as inclusive and promoting diversity</li> </ul>
<b>Financial measures</b>	<ul style="list-style-type: none"> <li>- Operational costs</li> <li>- Net capex</li> <li>- Cashflow before dividends</li> <li>- Dividends declared</li> </ul>

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

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

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

The Executive Directors Bonus structure for 2024-25 is illustrated below:

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



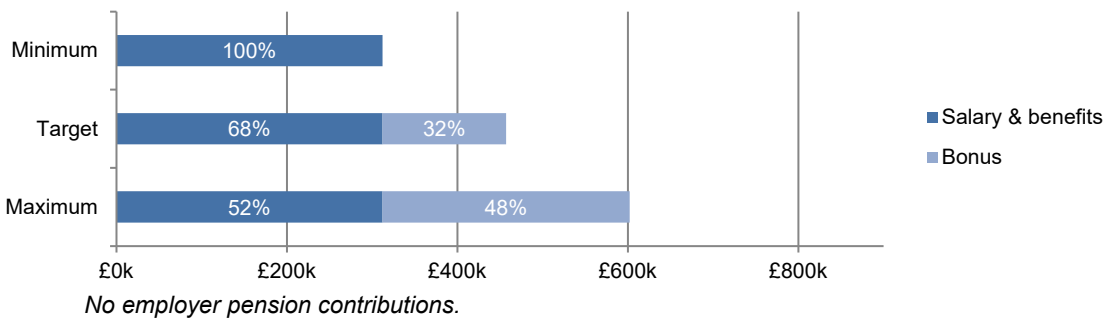
**Illustrations of Remuneration Policy**

(using estimated 2024-25 data)

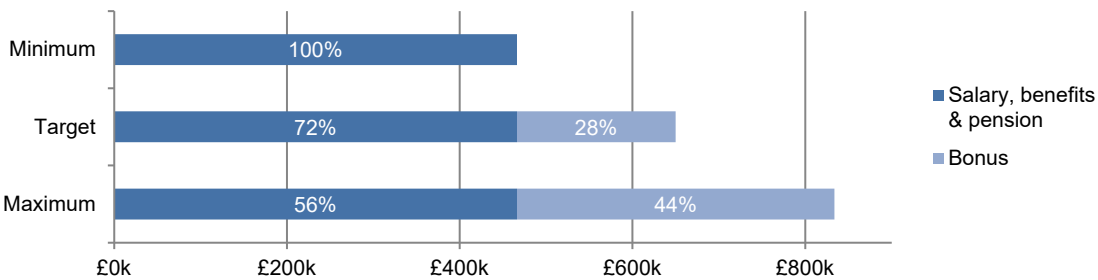
The graphs below show the proportion of remuneration borne by the Company for each of the Executive Directors

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

**Colin Skellett – Chief Executive**



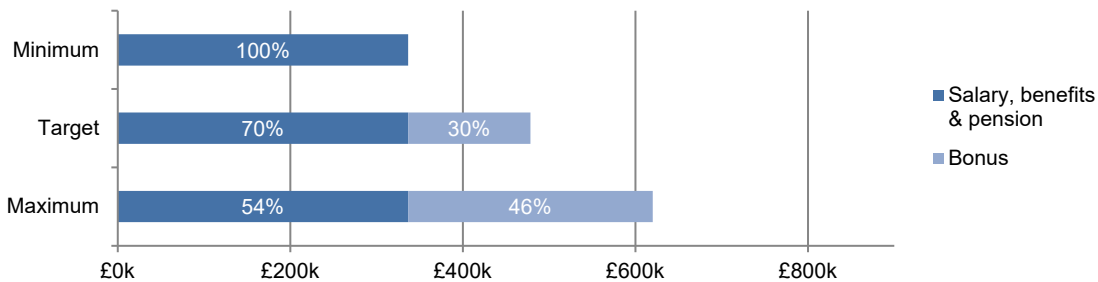
**John Thompson – Chief Operating Officer**



**Andy Pymer – Chief Finance Officer (0.6 FTE)**



**Ruth Jefferson – Chief Compliance Officer**



## Risk management

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

### Risk management process

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

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

Operational staff and senior management review and assess asset and operational risk monthly. Risks are scored based on likelihood and impact on a 'five-by-five' scoring mechanism. Risk mitigation plans are recorded and implemented where appropriate and pre-and post-mitigation scores are monitored.

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

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

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

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

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

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

**Risk management governance**

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



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

- we have successfully deployed the operational module of our governance, risk and compliance system, with work underway to rollout the enterprise risk module in 2024-25.
- our existing risk management scoring for operational risks has been reviewed and data is being updated to reflect this revised approach.
- the Board have reviewed the risk appetite framework and agreed updated appetite and tolerance positions aligned to the Company's strategic objectives and principal risks.

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

### **Principal risks**

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

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

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

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

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

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

**Principal risks - strategic**

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

**Principal risks – compliance, financial and operational**

Principal risk	Description	Risk exposure	Risk Level
<b>Environmental harm</b>	Acute (e.g. major pollutions) or chronic harm to the natural environment as a result of activities conducted by or on behalf of the company	<b>Increasing</b>	<b>High</b>
<b>Supply chain resilience</b>	Resource scarcity or disruptions to supply chains which prevent the procurement of products or services at the expected cost, availability, or quality	<b>Increasing</b>	<b>High</b>
<b>Secure sites, systems, and operations</b>	An internal or external threat actor initiates a security incident that: renders the business unable to deliver the supply of safe drinking water and the management of waste; results in breaches of data protection or other laws; or impacts critical activities such as regulatory and financial reporting.	<b>Increasing</b>	<b>High</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>Unchanged</b>	<b>High</b>
<b>Uninformed action</b>	Inadequate information (e.g. poor asset data) resulting in sub-optimal decision-making, unsatisfactory day to day business operation/ performance and/or an increase in cost and risk	<b>Unchanged</b>	<b>High</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>Increasing</b>	<b>Moderate</b>
<b>Governance and ethics</b>	Non-compliance with our own values, behaviours, and standards, or with statutory and regulatory obligations, either unintentionally, intentionally or maliciously (e.g. insider threat)	<b>Unchanged</b>	<b>Moderate</b>
<b>Supply of unfit or insufficient water</b>	Inability to provide a reliable source of water to customers when they need it in line with quality standards	<b>Unchanged</b>	<b>Moderate</b>
<b>Financial viability</b>	Inability to raise finance at appropriate levels and/or manage cash/gearing to maintain financial viability and provide a sufficient return on investment	<b>Increasing</b>	<b>Moderate</b>

## Reputation and positioning

### Description of the risk

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

### Context

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

The Company is operating in the context of an unprecedentedly low level of public trust in the water industry and its regulation.

### Risk Appetite statement

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

### Mitigation and controls include

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

## Political action

### Description of the risk

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

### Context

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

### Risk Appetite statement

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

### Mitigation and controls include

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

## Regulatory action

### Description of the risk

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

### Context

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

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

### Risk Appetite statement

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

### Mitigation and controls include

- Submission of a high quality PR24 business plan delivering for customers and the environment
- Consulting with customers and stakeholders to understand their requirements
- Strong consistent performance
- Communicating value to customers and stakeholders of our operational performance and investment.
- Embedding culture that embraces Ofwat's challenges to seek opportunities
- Engaging in relevant government and regulatory consultations
- The evolution of SSWAN, widely consulted on across the sector and stakeholders
- Keeping abreast of changing or new legislation and regulatory requirements
- Assessing and communicating the impact of changes in interpretation or expectation of existing regulations will have a material impact on the business



## Environment and public value

### Description of the risk

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

### Context

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

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

### Risk Appetite statement

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

### Mitigation and controls include

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

## Climate volatility

### Description of the risk

The need to adapt to changing climate and weather patterns.

### Context

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

### Risk Appetite statement

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

### Mitigation and controls include

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

## Environmental harm

### Description of the risk

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

### Context

Our waste water operations take away and treat 863 million litres of sewage from 2.9 million customers each day. Escape of sewage into the environment can impact wildlife and the health of our region's watercourses.

As custodians of the environment, we are committed to not causing environmental harm through the reduction of pollutions.

### Risk Appetite statement

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

### Mitigation and controls include

- Risk-based prioritisation process for the maintenance and replacement of our assets
- ISO 9001 (Quality management)
- Robust monitoring of our operations 24/7
- Rigorous sampling/testing programme
- Emergency planning and business continuity plans
- 'Stop the block' and '3 P's – poo, pee and paper' campaigns to raise awareness of sewer misuse
- National lobbying of wet wipe manufacturers and supermarkets to tackle false advertising of 'flushable wet wipes'
- EDM monitoring of overflows
- Rising main monitoring programme
- Robust culture of self-reporting
- Use of Stormharvester machine learning/artificial intelligence network monitoring approach to predict potential problems.
- Storm Overflow Assessment Framework
- Delivery of our pollution reduction strategy
- Storm Overflow Action Plan

## Supply chain resilience

### Description of the risk

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

### Context

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

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

### Risk Appetite statement

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

### Mitigation and controls include

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

## Secure sites, systems and operations

### Description of the risk

An internal or external threat actor initiates a security incident that: renders the business unable to deliver the supply of safe drinking water and the management of waste; results in breaches of data protection or other laws; or impacts critical activities such as regulatory and financial reporting.

### Context

Threats to safety, security and business resilience range from activism and criminal activity, and up to Nation State sponsored threats (including some types of cyber-crime and sabotage). Physical Security, Cyber Security, Information Security and Personnel Security measures are operated in combination to counter and contain such threats and to recover quickly from incidents, helping to protect the personnel, sites, information assets, Information Technology (IT) and Operational Technology (OT) systems that are fundamental to our daily operations and activities.

### Risk Appetite statement

We must understand the threats to the security of our sites, systems and operations and employ the appropriate controls to reduce the impact of threats to our core objectives to as low as reasonably practicable.

### Mitigation and controls include

- Corporate governance and Security governance
- Risk management, audit and assurance
- Security strategy, policy and processes
- Security Education and Awareness
- Compliance with Regulatory Standards, security control frameworks and certification (including NIS regulations and ISO27001)
- Secure architecture and 'Secure by Design' processes
- System and Security Engineering (including secure designs and patterns)
- Threat Intelligence and understanding, including the support of the Centre for the Protection of National Infrastructure (CPNI) and National Cyber Security Centre (NCSC)
- Incident Response preparedness (including training and exercises)
- Vulnerability Management (including discovery, assessment and mitigation)
- Business Continuity and Disaster Recovery planning
- Specialist and technical auditing and testing, including Penetration Testing
- Continuous Monitoring, Detection and Response (inc 24/7 Cyber Security Operations Centre (CSOC) services)
- Capability Development and continuous improvement activity (inc the Operational Technology Security Improvement Programme)

## Health and safety

### Description of the risk

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

### Context

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

The Board remains committed to understanding our occupational and process safety risks and ensuring that they're appropriately managed.

### Risk Appetite statement

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

### Mitigation and controls include

- Dedicated Health and Safety Committee and an expert Advisory Board
- Embedded framework and strategy
- Implemented a cross-business health and safety management process.
- Detailed process safety review of sites
- Embedding process safety into our decision-making framework
- Full Health and Safety risk register
- Compliance with regulatory requirements including COMAH and DSEAR
- Embedded behavioural safety programmes.
- ISO 45001 certified for our engineering and construction activities
- Easy reporting of incidents, near misses and observation through our health and safety app ensuring data is used to drive proactive intervention.
- Supporting our employees through resilience building, mental health and financial wellbeing initiatives
- Improved communication with employees on health and safety issues
- Sharing of best practice and advice between Water UK members
- Ensuring employees and contractors are trained to have a full understanding of the safety processes on all our sites and follow them at all times

## Uninformed action

### Description of the risk

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

### Context

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

### Risk Appetite statement

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

### Mitigation and controls include

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

## Resources and skills

### Description of the risk

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

### Context

Our business is made up of almost 2,900 employees undertaking a wide range of roles with varying skills requirements. For some time there has been national shortage in STEM skills (Science, Technology, Engineering and Maths). However, post-Brexit and Covid 19 there is a national shortage of resources in total, affecting most sectors and roles. Many people are now used to home working and are less willing to move for a new job.

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

### Risk Appetite statement

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

### Mitigation and controls include

- Growing our 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
- Evolving the YTL Academy
- Promoting our Culture, Inclusion and Diversity programme



## Governance and ethics

### Description of the risk

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

### Context

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

### Risk Appetite statement

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

### Mitigation and controls include

- Robust governance frameworks
- ISO standards
- Suite of assurance activities from first, second and third line of defence
- Core business policies covering requirements including business ethics, code of conduct, 'Raising a Concern'
- Separation of duties
- Environment and Public Value Committee
- Audit and Risk Committee

## Supply of unfit or insufficient water

### Description of the risk

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

### Context

We treat and supply more than 280 million litres of water a day to 1.4 million customers. Providing wholesome drinking water is a fundamental obligation to our customers and a responsibility that we take very seriously.

There are many risks that can affect our ability to deliver the right quantity and quality of water to our customers cost effectively. Our Water Resource Management Plan identifies the long-term approach to addressing these and other emerging issues while continuing to provide the expected quantity and quality of water.

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

### Risk Appetite statement

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

### Mitigation and controls include

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

## Financial viability

### Description of the risk

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

### Context

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

At present there are significant global economic and financial implications. These include the conflicts in Ukraine and the Middle East, global logistics affecting delivery times, and insufficient experienced resources.

### Risk Appetite statement

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

### Mitigation and controls include

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

## 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.

In October 2023 we submitted our 2025-30 business plan. This sets out our long-term delivery strategies and outlined operational plans out to 31 March 2035. Given this the Directors have determined 2035 as an appropriate planning horizon for the Company's long term viability statement. The Board stands behind the high-quality plan we submitted and so it is the basis for this long-term viability statement.

There remains significant uncertainty for the period after 2025, increasing further when beyond 2030 is considered. Our plan as submitted represents our best current view of how we can deliver our statutory obligations and covers the maintenance requirements and service obligations we currently understand. It offers a balance of risk and reward that is appropriately remunerated.

Ofwat have a duty to secure that water companies can (in particular through securing reasonable returns on their capital) finance the proper carrying out of their statutory functions. To this end we have not tested arbitrarily lower cost of capital assumptions, and the Board stands behind the compelling evidence we submitted in our PR24 business plan outlining our proposed cost of capital. If through the rest of the PR24 process, scale of investment or service obligations change, then we would expect the WACC to move accordingly, either up or down. However, it should always provide a return commensurate to the level of risk borne which is what this long-term viability statement tests.

For the most immediate term analysis up to 31 December 2025 the Directors have taken into account:

- the current financial position of the Company, its cash deposits and available funds,
- the expected turnover up to March 2025 from the customer charges that have already been set,
- that the larger 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 in the majority long term and maturing after 31 December 2025,
- that the mix of borrowings is spread between fixed, floating and index linked, and predictions of interest rates,
- the need for additional financing and the increasing cost of debt,
- that there are sufficient finance facilities in place to fund our working capital requirements, and
- the potential range of impacts that may result from the ongoing cost of living crisis for our customers.

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

- the principal risks as shown in the Annual Review Summary,
- the shocks and stresses shown in the Company's resilience action plan,
- the liquidity of the Company over the years, and
- compliance with financial covenants in respect of gearing and interest cover.

Having done so, the Directors confirm that they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due up to 31 December 2025. Further details are given in Note 1 on page 148 of the financial statements.

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 97 to 114).

When assessing financial viability over a longer period, Directors considered:

- the financial and operational impact if the risks identified in the corporate risk register were to occur,
- the impact on WWSL if risks related to the wider group were to occur,
- the wider economic and regulatory environment, and
- the impact of any other foreseeable risk.

This ensures that all operational, financial, and regulatory risks and liabilities are fully considered. The assumptions used in stress testing for this viability statement are consistent with this wider risk assessment reported elsewhere in the Company's accounts.

The Corporate risk register is updated on an on-going basis and reviewed by the Company's risk management group and Board every six months to ensure it is a true reflection of the circumstances of the Company. The potential financial impacts (shocks) of the principal risks contained in the Corporate risk register are summarised in the below table:

Principal risk	Financial Shocks
Reputation & positioning	Decreased collections
Political action	Unfunded obligations
Regulatory action	Regulatory fine
Environment & public value	Unfunded obligations
Climate volatility	Increased cost, reduced performance
Environmental harm	Short term cost increases, reduced performance, regulatory fines
Resources and skills	Short term cost shocks, Increase in costs over time
Supply chain resilience	Short or long term increase in costs
Health and safety	Short term cost increases, reduced performance, regulatory fines
Technology resilience	Short term cost increases, reduced performance, regulatory fines
Supply of unfit or insufficient water	Short term cost increases, reduced performance, regulatory fines
Financial viability	Increased cost of debt
Uninformed action	Increase in costs, reduced performance
Governance and ethics	Regulatory fines

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

Area	Stress test
Inflation	<ol style="list-style-type: none"> <li>1. Sustained lower (up to 2%) than forecast CPIH, reducing allowed revenues and RCV growth,</li> <li>2. Short-term deflationary scenario with negative CPIH (-1%) over two years, reducing allowed revenues and RCV growth,</li> <li>3. Short-term higher (up to 8%) than forecast CPIH, increasing costs, and</li> <li>4. Short-term increase in the wedge (up to 2%) between RPI and CPIH on top of current forecasts, increasing accruals on debt without increases in revenues.</li> </ol>
Revenues	<ol style="list-style-type: none"> <li>1. Sustained lower demand (up to 8%) for both household and commercial customers, reducing revenues collected,</li> <li>2. Short-term shock to lower demand (up to 10%) reducing revenues recovered,</li> <li>3. Lower allowed revenues (3% of RoRE ODI penalties) through poor operational performance, and</li> <li>4. Decreased collections and an increase in customers' inability or refusal to pay, this reduces cash into the business and increases bad debt charge within modelled operational costs.</li> </ol>
Capital expenditure	<ol style="list-style-type: none"> <li>1. Short-term and sustained input price pressures above (up to 1.5%) CPIH, increasing capital costs,</li> <li>2. Short-term increases (up to £50m) to capital expenditure because of sudden asset failures/environmental incidents/loss of suppliers,</li> <li>3. Sustained increase (up to 10%) in capital maintenance expenditure, and</li> <li>4. Significant unfunded obligations increasing (up to £100m) capital expenditure.</li> </ol>
Operational expenditure	<ol style="list-style-type: none"> <li>1. Short-term and sustained input price pressures above (up to 3%) CPIH, increasing operational expenditure</li> <li>2. Short-term increases (up to £10m) to operational expenditure because of sudden asset failures/environmental incidents/loss of suppliers</li> <li>3. Sustained increase (up to £7m p/a) in operational expenditure</li> <li>4. Significant regulatory fines (up to 6% of turnover)</li> </ol>
Financing	<ol style="list-style-type: none"> <li>1. Credit rating downgrade, resulting in higher (up to 0.5%) costs of raising new debt,</li> <li>2. Sustained increase (up to 2%) in cost of raising new debt above the forecast benchmark indices, and</li> <li>3. Poor market performance of pension assets resulting in an increase (up to £150m) of our pension deficit.</li> </ol>

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

Scenario	Details and sensitivity testing
Wastewater incident	This might include a major pollution incident or the widespread distribution of unfit water, either driven by catastrophic asset failure, extreme weather events or malicious damage. The base scenarios include the capital costs of rectification and then increases severity by progressively including risks of fines, penalties from regulatory delivery incentives, customer compensation payments and at the most extreme the withholding of customer bill payments.
Water supply incident	
Simultaneous water and wastewater incidents	As above but assumes incidents occur concurrently.
Macroeconomy	This scenario assumes a sustained economic downturn in the UK that increases company input prices and reduces productivity resulting in sustained overspends of regulatory cost allowances while depressing indices of consumer prices and reducing company sales. An accompanying credit squeeze means that the costs of new finance increase.
Combined operational and macroeconomic shock	Assumes operational failure coincides with higher input costs resulting in consistent overspends against regulatory allowances. Alongside this depressed consumer price indices reduce sales and regulatory value. Sensitivity testing increases the severity by assuming demand and sales volumes also decrease and the company suffers higher interest costs through a credit rating downgrade.
New unfunded obligations	This scenario assumes that government or regulators impose new obligations on the Company that create additional costs and diverts management focus leading to operational failure. These are modelled individually and then alongside operational or macroeconomic shocks to fully test the resilience of the company.
Extreme weather event	Extreme weather event (either a 'beast from the east' or a prolonged dry period) causes overspend on operational expenditure and asset failures resulting in ODI penalties.
Climate change	Ongoing climate change causes more uncertain weather, dryer summers and wetter winters lead to additional operational and maintenance expenditure. This was modelled individually and alongside operational and macroeconomic shocks to fully test the resilience of the company.

The individual shocks, scenarios, and levels of sensitivity considered within the financial viability assessment are reviewed and agreed by senior management across the finance, risk and investment, and economic regulation teams. Our full approach to risk identification, management and mitigation is described on pages 97 to 114 of this Annual Report and Accounts. These are then presented to the Company's Audit and Risk Committee for review.

In total the Company modelled 36 scenarios, including those outlined in the PR24 final methodology, the most severe of which consider multiple concurrent and linked risks.

The follow table highlights which shocks were active and in which years in each scenario:

Scenario	Financial shocks				
	Inflation	Revenue	Opex	Capex	Financing
<i>Operational incidents (similar for water/waste and combined)</i>	none	ODI penalties throughout	1:3 years shock	1:3 years shock	1:6 years regulatory enforcement
<i>Totex Overspend</i>	none	none	1:3 years shock - Sustained maintenance overspend	1:3 years shock -Sustained maintenance overspend	none
<i>Macroeconomy</i>	Lower inflation and Higher RPI/CPIH wedge	Lower demand	Input price mismatch	Input price mismatch	none
<i>Combined operational and macroeconomic shock</i>	Lower inflation	ODI penalties throughout	1:3 years shock - Input price mismatch	1:3 years shock - Input price mismatch	none
<i>New unfunded obligations</i>	Lower inflation	none	Unfunded obligations over 2025-30	Unfunded obligations over 2025-30	none
<i>Cyber attack</i>	none	ODI penalties	1:10 year shock	1:10 year shock	none
<i>Climate change</i>	Lower inflation	none	Sustained increase	One off upsizing of assets	none

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

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

If, as expected, the increased scale of investment continues longer term, there is sustained downwards pressure on selected debt covenants (EBITDA / Interest). This may pose an issue towards the end of the assessed period. However, we believe that through constructive engagement with lenders this will be resolved as in these cases we maintain the key credit rating metrics (AICR / PMICR and gearing) consistent with investment grade credit rating and have a track record of positive engagement and strong performance that could improve future ratios.

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

Multiple control measures are in place to mitigate or prevent impacts. These include:



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

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

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

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

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

This alongside restriction of executive pay can help offset other increases in totex. However, given the scale and uncertainty of the upcoming capital programme we will not have the ability to completely offset increases in costs, and these levers will have lower impact than in previous assessments. It is imperative to note that if this restriction on expenditure is required over the longer term this will place more stress on the business and reduce its long-term resilience.

- *Restricting dividends*

The Company has always committed to ensuring it maintains a solid investment grade credit rating and operates a flexible dividend policy that will help ensure this. The Directors note that dividends can be restricted before the new cash lock up clause in the licence comes into force if there is foresight of the risks. As outlined in our PR24 submission, in our base case dividends are already completely restricted over 2025-30 to fund real RCV growth.

The table below sets out which financial shocks were considered in the most extreme case for each scenario and indicates the pre and post mitigation impact on gearing (target <80%), and interest covers (Moody's AICR target >1.1x, PMICR target >1.1x and EBITDA / Interest target > 2.75x). Red represents sustained breaches of a level consistent with investment grade credit rating, amber represents short term breaches that we would expect rating agencies to look through (as evidenced currently with the high inflation & RPI/CPIH wedge shock) and green represents limited issues.

Scenario	Pre-Mitigation		Post Mitigation	
	Gearing	Interest Covers	Gearing	Interest Covers
Wastewater incident	●	●	●	●
Water supply incident	●	●	●	●
Simultaneous water and wastewater incidents	●	●	●	●
Macroeconomy	●	●	●	●
Combined operational and macroeconomic shock	●	●	●	●
New unfunded obligations	●	●	●	●
Extreme weather event	●	●	●	●
Climate change	●	●	●	●

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

Where there are still sustained breaches then this is resolved through equity issuance in the next five years of c£0.5bn, with further requirements if the scale of investment continues post 2030. We have a long-term shareholder who considers their stewardship in perpetuity and who stands ready to invest into Wessex Water, for a fair return under a stable regulatory framework.

The Directors also note the further protections in the regulatory model, (such as interim determinations, or subsequent price determinations recognising a material shift in the balance of risk), which in many of these scenarios, would allow turnover to be adjusted upwards in the event of a substantial adverse effect on the financial position of the Company.

Following these assessments, the Directors confirm that they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due up to 31 March 2035.

Before agreeing this statement, the Directors, through the Audit and Risk Committee which contains all independent directors, challenged company management on its analysis of the risks and of the mitigations. In making this statement the Directors have made the following reasoned and reasonable assumptions:

- that the size of the investment programme post-2025 will be consistent with the company's submitted PR24 business plan;
- the availability of finance capital;
- stability of the financial regulatory framework;
- that Ofwat will continue to perform its statutory duty to ensure that the Company can finance the proper carrying out of its statutory functions; and
- the Company has an active and long-term shareholder, YTL, and is committed to long-term stewardship and investment for a fair return.

# Climate-related Financial Disclosures

## Introduction

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

## Compliance Statement

### *The extent of consistency with the TCFD framework*

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

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

<b>Governance</b> Disclose the organisation's governance around climate-related risks and opportunities.		Page(s)
a. The Board's oversight of climate-related risks and opportunities	Governance Report	53
	Environment and Public Value Committee	78
	Audit and Risk Committee	71
	Governance Framework Principles	58-70
b. Management's role in assessing and managing risks and opportunities	Summary of our decarbonisation plans	26-27
	Our approach to risk and resilience	97-114
	Our climate volatility principal risk	105
<b>Strategy</b> Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material		
a. The climate-related risks and opportunities the organisation has identified over the short, medium, and long-term	<a href="#">climate change adaptation report</a>	12-14
		36-40
		48-71
	Strategy section	124-125
b. The impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning	Strategy section	124-125
	<a href="#">climate change adaptation report</a>	46-94
c. The resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario	<a href="#">climate change adaptation report</a>	46-94

<b>Risk Management</b> Disclose how the organisation identifies, assesses, and manages climate-related risks		Page(s)
a. The organisation's processes for identifying and assessing climate-related risks.	Climate Risk Climate risk management section	97-114 126-132
b. The organisation's processes for managing climate-related risks	Climate Risk Climate risk management section	97-114 126-132
c. How processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.	Climate Risk Climate risk management section	97-114 126-132
<b>Metrics &amp; Targets</b> Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.		
a. Metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.	Metrics section <a href="#">net zero carbon route map</a>	132-136 9-13
b. Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.	Metrics section	132-136
c. Targets used by the organisation to manage climate-related risks and opportunities and performance against targets	Metrics section <a href="#">net zero carbon route map</a> <a href="#">Annual performance report</a>	132-136 9-13

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

## 1. Governance

Our Board is responsible for our risks and through the Environment and Public Value Committee manages our principal risk of climate volatility (page 105). The Board's Environment and Public Value committee advises the Board on the development and delivery of the Company's purpose, strategy, and values, which drive change and influence the company's environment and social purpose (page 78). The Audit and Risk Committee provides assurance and challenges the overall risk, control, and governance framework on behalf of the Board including for our principal risk of climate volatility (page 71). Our governance arrangements are outlined in our Governance Report (page 53) and how we meet the Ofwat Better Leadership, Transparency and Governance objectives as well as the Wates Principles (page 58 to 70). The Board reviews and monitors the Company's progress against numerous environmental performance commitments, including our greenhouse gas emissions.

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

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

## **2. Strategy**

We are a long-term business and aim to be a genuinely sustainable water Company. As such, we are attuned to changes that will take place over several decades. Our management plans for water resources and, drainage and wastewater have a 25-year timescale, and we reflect UK climate projections running to the end of the 21<sup>st</sup> century. These long-term plans are translated into short- and medium-term delivery through the five-year investment plan cycles. We have identified impacts over the short (0-10 years), medium (10-30 years), and long term (30-100 years) horizons.

### ***Policies and Strategies***

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

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

### ***Implications for the Company's strategy and finances***

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

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

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

- heatwaves that increase water demand: necessary use of water sources with the highest unit costs of treatment, plus additional pumping costs.
- extreme rainfall: costs associated with responding to localised site flooding, additional water treatment at sources affected by runoff and leaching, and additional pumping in the sewerage network.

We estimate the extreme rainfall in 2023-24 added circa £3-4m to our operating costs during the year. In the longer term we expect the financial impact to grow in real terms, as extreme weather events become more frequent, and pressure grows to maintain resilient services. We expect very large associated investment i.e. £400m during 2025-30 to reduce storm overflow discharge frequency and volume, and a range of supply and demand-side measures that will allow us to reduce abstraction by 20% by 2050, with most of the reductions happening by 2035. In both cases the long-term impacts of climate change are not the sole contributor, but are nonetheless part of our modelling.

The financial effects of our planned decarbonisation work were factored into our 2024 business plan submission. There will be a wide range of marginal abatement costs across the potential measures to reduce greenhouse gas emissions. This reflects the maturity of the technologies involved, the makeup of the supply chain, and the changing economics of the default, traditional approach. Overall, our direction of travel is to internalise carbon costs, and we will prioritise options that are impactful, best value on a whole life cost basis, or preferably both.

### ***Dependencies upon unproven technologies***

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

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

### 3. Risk management

#### ***Identifying and Assessing Risk***

We prioritise investment or other action to address risk of any nature according to the likelihood and consequence of the hazard occurring, further information is provided on pages 97 to 114. For climate-related risks, our thinking is also informed by the UK Climate Projections, the UK Climate Risk Assessment, the findings of the IPCC and the National Adaptation Plan. We also use an inventory of UK water sector-specific climate hazards for our wider climate risk assessments presented in our [climate change adaptation report](#).

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

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

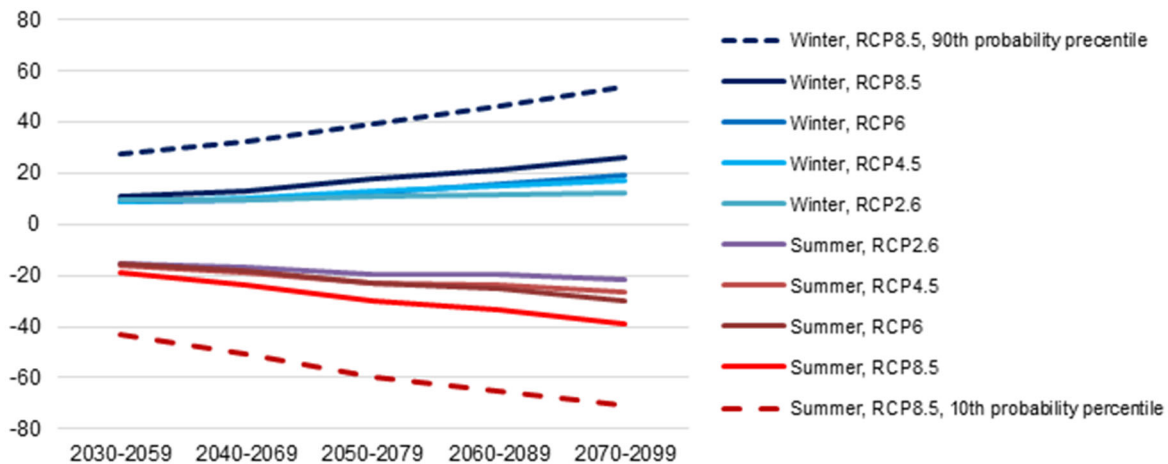
We use UKCP18 outcomes to inform the 25-year long-term delivery strategies (Water Resources Management Plan and the Drainage and Wastewater Management Plan) as part of the 2024 price review and provide the context for the proposed investment during an initial period of 2025-30. The strategies refer to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

#### ***UKCP18 outputs***

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

<b><i>50<sup>th</sup> percentile for probability</i></b>	<b>2030-59</b>	<b>2050-79</b>	<b>2070-99</b>
Summer (Jun-Aug) precipitation	-15% to -19%	-19% to -30%	-21% to -39%
Winter (Dec-Feb) precipitation	+9% to +11%	+11% to +18%	+12% to +26%
Summer average daily temperature	+1.9 to +2.2°C	+2.1 to +3.6°C	+2.3 to +5.4°C
<b><i>Least likely, more extreme outcomes</i></b>			
Summer precipitation	-36% to -43%	-43% to -60%	-46% to -71%
Winter precipitation	+24% to +28%	+28% to +39%	+29% to +54%
Summer average daily temperature	+3.1 to +3.6°C	+3.7 to +6.0°C	+4.2 to +8.7°C

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



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

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

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

- summer 1995 - the driest summer since 1911 and the driest three-month period since 1938. Efforts to reduce leakage were stepped up following this event;
- the prolonged rainfall of summer 2007 that required widespread emergency response and led to a fundamental national review of surface water management;
- the heavy rainfall of 2012, with the wettest summer since 1911, followed a year later by the wettest three-month period since 1911 from December 2013 to February 2014;
- the 2018 'Beast from the East' cold wave and the subsequent thaw which caused widespread outbreaks of leaks and pipe bursts; and
- Heatwaves in 2021 and 2022, the second of which coincided with the driest January to August period since 1976.
- The wettest 18 month sequence on record culminating in March 2024.

Further details can be found in pages 5-7 of our [climate change adaptation report](#).

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

### **Principal Climate-related Risks**

#### *Water resources - quantity*

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



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

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

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

#### *Water resources - quality*

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

#### *Sewerage, sewage treatment and sludge*

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

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

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

Further details can be found in appendix 5 of our [climate change adaptation report](#).

## ***Transition Risks***

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

### ***Energy use***

Since the late 1990s our electricity use increased by 40% due to higher effluent quality standards (which often require energy intensive treatment such as mechanical aeration and ultraviolet disinfection), and the need for a more resilient water supply network. Concerted energy efficiency work has been necessary to prevent even higher energy use. Our electricity consumption is also extremely sensitive to the weather. High rainfall increases the volume of sewage moving through our sewerage network, and heatwaves increase public water demand and the energy required for treating and pumping water. With the backdrop of this and higher energy prices, the economic and financial rationale for self-generation is more compelling. Renewable energy use from our own appointed business source in 2023-24 amounted to 17 gigawatt hours of electricity and 104 gigawatt hours of biomethane, providing financial benefits in terms of sold energy and reduced energy purchase, as well as the subsidies that are offered.

### ***Regulatory***

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

### ***Market/investor pressures***

We are seeing more interest in our carbon footprint, than has been the case historically, from institutional investors, fund managers and ratings agencies. In response we provide disclosures via the Carbon Disclosure Project, and information to our parent company, YTL Power, to meet the listing requirements of Bursa Malaysia.

### ***Customers and other stakeholders***

The DESNZ public attitudes tracker shows that concern about climate change has risen steadily over the last ten years. In the most recent survey (winter 2023-24), 81% of people said they are concerned about climate change, with 43% saying they are “very concerned”. Its summer survey showed that 21% of respondents expect the UK’s transition to a low carbon economy will have a positive impact in 1-2 years, and 52% think it will have a positive impact in 10 years or more. Alongside, a survey conducted in autumn 2021 by Business in the Community and YouGov (*The Right Climate For Business: leading a just transition*), 72% of respondents said it is important that the businesses they buy from take climate action. We believe that there will be growing expectation that we reduce our carbon footprint and increase our resilience to climate risks, alongside other areas of environmental delivery.

### ***Quantification of emissions***

Our quantification of emissions is aligned to UK water sector practice, which continues to evolve. While the process is relatively mature there remain some important challenges, which are explained in 4. Metrics and Targets.

**Managing physical climate-related risks**

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

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

	<b>Our Controls (examples)</b>	<b>Our Actions (examples)</b>
<b>UKCCRA 2022 – PRIORITY RISK AREAS</b>		
Risks to the viability and diversity of terrestrial and freshwater habitats and species from multiple hazards.	<ul style="list-style-type: none"> <li>• Drought planning</li> <li>• Long term water resource planning</li> <li>• Dialogue with regulators on abstraction and river water quality</li> </ul>	<ul style="list-style-type: none"> <li>• Abstraction reduction at sensitive sites</li> <li>• Integrated supply grid to allow transfers within the region</li> <li>• Enhanced treatment at Water Recycling Centres</li> </ul>
Risks to people and the economy from climate-related failure of the power system	<ul style="list-style-type: none"> <li>• Following Cabinet Office good practice guidance for integrated emergency management</li> <li>• Emergency Tactical Planning Group</li> <li>• Incident management procedures</li> <li>• Involvement in Local resilience forums</li> <li>• Back-up generators</li> </ul>	<ul style="list-style-type: none"> <li>• Continued review of business continuity arrangements</li> <li>• Emergency planning; emergency simulation exercises</li> </ul>
<b>UKCCRA 2022 - MORE ACTION NEEDED</b>		
I1 Risks to infrastructure networks (water, energy, transport, ICT) from cascading failures	<ul style="list-style-type: none"> <li>• Following Cabinet Office good practice guidance for integrated emergency management</li> <li>• Emergency Tactical Planning Group</li> <li>• Incident management procedures</li> <li>• Involvement in Local resilience forums</li> <li>• Back-up generators</li> </ul>	<ul style="list-style-type: none"> <li>• Continued review of business continuity arrangements</li> <li>• Emergency planning; emergency simulation exercises</li> </ul>
I2 Risks to infrastructure services from river, surface water and groundwater flooding  H3a Risks to people, communities and buildings from river and surface flooding  B1 Risks to business sites from flooding	<ul style="list-style-type: none"> <li>• Adapting maintenance plans</li> <li>• Water supplies: ability to rezone; blend water sources; move water via our integrated grid</li> <li>• Response and recovery plans</li> <li>• Site flood risk assessments; designation of sites needing defences/alterations</li> <li>• Monitoring of vulnerability of sites and assets</li> </ul>	<ul style="list-style-type: none"> <li>• Water supplies: rezoning; blending; transfers via our integrated grid</li> <li>• Investments in bunding, flap valves, alarms and drainage improvements at high-risk sites</li> <li>• Moving electrical equipment above flood levels</li> </ul>
I8 Risks to public water supplies from reduced water availability	<ul style="list-style-type: none"> <li>• Long term water resource planning</li> <li>• Drought planning</li> <li>• Dialogue with regulators on abstraction</li> <li>• Network monitoring, leakage detection</li> <li>• Intra-regional water movements via the integrated supply grid</li> </ul>	<ul style="list-style-type: none"> <li>• Publication of plans, following detailed analysis of risk and stakeholder engagement</li> <li>• Promotion of water efficiency</li> <li>• Replacement of older water mains</li> <li>• Completion of integrated supply grid</li> </ul>
H3b Risks to people, communities and buildings from coastal flooding  B2 Risks to business locations and infrastructure from coastal change from erosion, flooding and extreme weather events	<ul style="list-style-type: none"> <li>• Adapting maintenance plans</li> <li>• Water supplies: ability to rezone; blend water sources; move water via our integrated grid</li> <li>• Response and recovery plans</li> <li>• Site flood risk assessments; designation of sites needing defences/alterations</li> <li>• Monitoring of vulnerability of sites and assets</li> <li>• Assessed as low likelihood for our sites</li> </ul>	<ul style="list-style-type: none"> <li>• Water supplies: rezoning; blending; transfers via our integrated grid</li> <li>• Investments in bunding, flap valves, alarms and drainage improvements at high-risk sites</li> <li>• Moving electrical equipment above flood levels</li> </ul>

<b>UKCCRA 2022 - FURTHER INVESTIGATION</b>		
I3 Risks to infrastructure services from coastal flooding and erosion	<ul style="list-style-type: none"> <li>• See H3b and B2</li> </ul>	<ul style="list-style-type: none"> <li>• See H3b and B2</li> </ul>
I4 Risks to bridges and pipelines from flooding and erosion	<ul style="list-style-type: none"> <li>• Water supply rezoning</li> </ul>	<ul style="list-style-type: none"> <li>• Watching brief</li> </ul>
I7 Risks to subterranean and surface infrastructure from subsidence	<ul style="list-style-type: none"> <li>• Proactive network monitoring inspections</li> <li>• Reactive responses</li> </ul>	<ul style="list-style-type: none"> <li>• Reactive maintenance in the event of sewer collapses</li> </ul>
H10a Risks to health from water quality	<ul style="list-style-type: none"> <li>• Continuous monitoring of water supplied from our sources</li> <li>• Source to tap risk assessments; water safety plans</li> <li>• Investment in infrastructure and systems to limit the number of customers reliant on a single source</li> </ul>	<ul style="list-style-type: none"> <li>• Rezoning in the event of failing samples</li> <li>• Catchment management to protect drinking water sources</li> <li>• Blending water supplies</li> <li>• Additional treatment where necessary to keep risk to a satisfactory level</li> </ul>
B3 Risks to businesses from water scarcity	<ul style="list-style-type: none"> <li>• Long term water resource planning</li> <li>• Drought planning</li> <li>• Networks management to maintain resilience</li> <li>• Dialogue with regulators on abstraction</li> </ul>	<ul style="list-style-type: none"> <li>• Publication of plans, following detailed analysis of risk and stakeholder engagement</li> <li>• Promotion of water efficiency</li> </ul>

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

Risks of sewer and surface water flooding due to heavy rainfall	<ul style="list-style-type: none"> <li>• Drainage and wastewater management plans</li> <li>• Infiltration reduction plans</li> <li>• Modelling sewer catchments</li> <li>• Topographic mapping; rainfall modelling.</li> <li>• Monitoring networks and overflows</li> <li>• Work with lead local flood authorities on surface water management</li> <li>• Promoting sustainable drainage methods</li> <li>• Property level protection</li> </ul>	<ul style="list-style-type: none"> <li>• Sewer sealing to reduce <b>groundwater</b> infiltration</li> <li>• Sewer maintenance e.g. jetting</li> <li>• Improvements at individual storm overflows (SOs)</li> <li>• Behavioural engagement to reduce sewer blockages</li> <li>• Sewer separation where possible and effective</li> </ul>
Potential benefits to water, transport, digital and energy infrastructure from reduced frequency of extreme cold events	<ul style="list-style-type: none"> <li>• Levels of benefit not assessed</li> <li>• Extreme weather business continuity arrangements</li> <li>• Response to future cold wave events informed by learning points from the 2018 'Beast from the East'</li> </ul>	<ul style="list-style-type: none"> <li>• No action linked to <u>reduced</u> frequency</li> </ul>

### **Managing our greenhouse gas emissions**

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

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

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

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

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

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

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

## **4. Metrics and targets**

### ***Climate related metrics***

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

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

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

<p><b>Water supply</b></p> <ul style="list-style-type: none"> <li>• Compliance with abstraction licences</li> <li>• Water supply restrictions</li> <li>• Water supply interruptions</li> <li>• Avoided water use from water efficiency measures</li> <li>• Water quality compliance; Events Risk Index; water quality customer contacts</li> <li>• Leaks repaired within 24 hours</li> </ul>	<p><b>Wastewater</b></p> <ul style="list-style-type: none"> <li>• Properties at risk of sewer flooding</li> <li>• Sewer flood risk score</li> <li>• Internal flooding per 10,000 connected properties</li> <li>• External flooding per 10,000 connected properties</li> <li>• Sewer collapses per 1,000km</li> </ul>
<p><b>Cross cutting</b></p> <ul style="list-style-type: none"> <li>• Operational greenhouse gas emissions</li> </ul>	

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

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

### **Greenhouse gas (GHG) emissions**

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

### **Data challenges**

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

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

**Reporting: our performance commitment**

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

**Reporting: other disclosures**

Emissions for 2023-24 are shown on page 135, conforming with Ofwat's Annual Performance Report framework that applies to all the companies that they regulate. This account also integrates disclosures that fulfil the requirements of the Streamlined Energy and Carbon Reporting framework. This produces a different figure to that of our bespoke performance commitment, as a greater number of scope 3 categories are included.

All the emissions shown use location-based reporting. The company does not yet purchase certified renewable electricity from grid suppliers, and therefore we are not yet providing market-based data in this report. We will continue to review this option at future buying rounds.

Our emissions during 2023-24 increased by 10,789 tonnes compared with 2022-23. While multiple factors have to be taken into account, certain aspects had a notable influence. In particular:

- Electricity consumption increased due to the unusually wet conditions which increases power use in our wastewater activities. Although the carbon intensity of grid electricity fell, the net effect was that our grid electricity emission increased by 2.6kt CO<sub>2</sub>e.
- natural gas consumption increased by 1 GWh;
- raw sludge volumes increased by 7 kt dry solids;
- diesel use increased by 0.7 million litres, mainly at wastewater and sludge sites;
- transport emissions increased by 533 tCO<sub>2</sub>e.

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

**Assurance**

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

<b>Greenhouse gas emissions (tonnes CO<sub>2</sub> equivalent)</b>	<b>2023-24</b>	<b>2022-23</b>
<b>OPERATIONAL EMISSIONS</b>		
<b>Scope one<sup>1</sup></b>	<b>61,415</b>	57,724
Burning of fossil fuels (location-based)	<b>15,076</b>	13,067
Process and fugitive emissions	<b>34,755</b>	33,607
Company vehicles	<b>11,584</b>	11,050
<b>Scope two</b>		
Purchased electricity (location-based)	<b>50,222</b>	44,066
<b>Scope three<sup>2</sup></b>	<b>47,070</b>	43,152
Business travel	<b>1,059</b>	838
Outsourced activities	<b>8,561</b>	7,402
Purchased electricity: extraction, production, transmission & distribution	<b>12,094</b>	15,534
Purchased fuels: extraction, production, transmission and distribution	<b>5,621</b>	5,859
Treatment chemicals <sup>3</sup>	<b>10,578</b>	5,116
Reuse of biosolids on third party land	<b>9,158</b>	8,403
<b>Gross operational emissions</b>	<b>158,707</b>	144,942
Subtractions: exported renewable electricity	-	-
<b>Net operational emissions</b>	<b>158,707</b>	144,942
Water supply emissions per MI of treated water <sup>4</sup>	<b>0.273</b>	0.239
Wastewater emissions per MI of wastewater treated <sup>4</sup>	<b>0.302</b>	0.343
<b>CAPITAL EMISSIONS</b>		
Capital projects (cradle-to-build) <sup>3</sup>	<b>72,149</b>	47,636

<sup>1</sup> The items included in our operational emissions reported below were expanded in 2022-23. This is a result of Ofwat increasing the number of scope 1 items to be included in regulatory reporting within the annual performance report, with the following being added: well-to-tank factors for electricity generation, electricity transmission and distribution, and purchased fuels; treatment chemicals; and re-use of biosolids on third party land.

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

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

<sup>4</sup> We report two intensity metrics, dividing the emissions associated with water supply and wastewater activities by water put into the supply network and received via sewerage respectively. Both have been trending downwards over time, but the wastewater intensity metric is highly weather dependent; i.e. a higher volume of rainfall received results in a lower figure for emissions per megalitre.



**Overall energy consumption (as per SECR requirements)**

	2023-24		2022-23		unit
	UK& offshore	Global (excl. UK & offshore)	UK& offshore	Global (excl. UK & offshore)	kWh
Energy consumption used to calculate emissions	<b>392,732,377</b>		342,242,883	-	

**Targets**

In 2019 we announced our aim to achieve net zero operational emissions by 2030 and net zero total emissions by 2040. This applies to Wessex Water Services Limited and the emissions associated with its appointed activities.

The 2030 aim is based on the items within scope in 2019:

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

Our 2030 aim is not a science-based target, but we consider it to be aligned with the principles of the Paris Agreement and the United Nations Convention on Climate Change 1.5°C pathway. Our targets and planning are also contextualised by the UK's 2050 net zero aims and successive national carbon budgets.

We have not undertaken any carbon offsetting to date and buying carbon offsets would be a last resort, although we cannot entirely discount this approach. Even with full pursuit of the options available to us, we are likely to have residual emissions in 2030 – especially related to nitrous oxide and methane emitted from sewage and sludge treatment. This is true under all forms of carbon accounting, whether corporate carbon accounting with items being added to scope 3 reporting, or a fixed-in-time reporting as per the initial commitment made in 2019 as part of the Public Interest Commitment. If offsetting were unavoidable we would favour schemes that offer benefits for biodiversity and local communities as well as carbon reduction, such as nature-based projects in our region, or more innovative approaches such as coastal wetland creation or restoration, or storage in marine vegetation such as sea grass. We will engage with our customers and other stakeholders on the topic of carbon offsetting to understand their viewpoints.

## Directors' report

The Directors have pleasure in presenting their report and the audited non-statutory financial statements (subsequently referred to as accounts) for the year to 31 March 2024. 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.

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

### Principal activities

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

### Results

The trading results for the year ended 31 March 2024 and the Company's financial position at that period end are shown in the attached financial statements. The Company has generated revenue of £574.4m during the year (2023: £530.5m) resulting in a loss before taxation of £43.2m (2023: Loss of £28.9m). For further detail on the results for the year see page 36.

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

### Going concern

An overview of the business activities of Wessex Water Services Limited is given in the Strategic Report on pages 2 to 52. A review of the principal risks that the company faces is given in the risk management section on pages 97 to 114. The debt facilities available at the year end date, amounts outstanding and the maturity profile of this debt are shown in note 18.

The Company meets its day-to-day working capital requirements and medium and long term funding requirements through the cash and short term deposits described in note 17 and the facilities described in note 18. Subsequent to the year end date the Company secured a £300m loan facility for 12 months with an option for the company to extend the loan for a further 6 months and the undrawn revolving credit facilities referenced in note 18 were increased to £300m with a maturity date of June 2027, both reflecting the Company's ability to secure finance. Under some of the facilities the Company is required to comply with an interest cover and gearing covenant tested quarterly and the covenants remain the same in the new facilities.

The Directors have considered the financial position of the Company and cash flow forecasts for the period from the date of approval of these Financial Statements through 31 December 2025 (the going concern review period) and have concluded they will be able to meet their liabilities as they fall due and comply with the covenants for the going concern review period. In coming to this conclusion, the directors have evaluated the impact of the 'cost of living' crisis on revenues and debt collectability, the repayment of loans maturing in the going concern review period and the required future financing requirements of the company.

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

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

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

Accordingly, after considering the forecasts, appropriate sensitivities, available facilities and the ability to raise additional debt, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence and to comply with its financial covenants for the going concern review period through to 31 December 2025; therefore, the Directors continue to adopt the going concern basis in preparing the Financial Statements.

## **Environment, social purpose and governance**

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

### **Ethical policy**

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

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

## **Our people**

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

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

## **Employment**

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

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

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

## **Streamlined energy and carbon reporting**

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

Emissions for 2023-24 are shown on page 135. All the emissions shown use location-based reporting.

## **The Modern Slavery Act 2015**

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

## **Environment policy**

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

**Research and development**

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

**Market value of land and buildings**

In the opinion of the Directors, the market value of land and buildings of the Company exceeds the book value of these assets at 31 March 2024.

**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 2024, trade creditors represented approximately 18 days trade purchases (2023: 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 £688,252 was donated to UK charities (2023: £935,685) of which £230,078 (2023: £383,260) 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  
8 July 2024

## Statement of Directors' responsibilities

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

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

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

In preparing these financial statements the Directors are required to:

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

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

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

## **Directors' responsibility statement**

The Directors confirm, to the best of their knowledge:

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

## Non-statutory financial statements

### Income Statement

For the year ended 31 March 2024

	<i>Note</i>	<b>2024</b> £m	2023 £m
<b>Revenue</b>	3,4	<b>574.4</b>	530.5
Charge for bad and doubtful debts		<b>(18.4)</b>	(12.1)
Other operating costs		<b>(422.2)</b>	(412.1)
<b>Total operating costs</b>	5	<b>(440.6)</b>	(424.2)
<b>Other operating income</b>	5	<b>4.7</b>	5.0
<b>Operating profit</b>	3	<b>138.5</b>	111.3
Financial income	8	<b>8.1</b>	0.4
Financial expenses	8	<b>(189.8)</b>	(140.6)
<b>Net financing expense</b>		<b>(181.7)</b>	(140.2)
<b>Loss before tax</b>		<b>(43.2)</b>	(28.9)
Taxation	9	<b>10.2</b>	17.8
<b>Loss for the year</b>		<b>(33.0)</b>	(11.1)

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



**Statement of Other Comprehensive Income**  
**For the year ended 31 March 2024**

	<i>Note</i>	<b>2024</b> <b>£m</b>	2023 £m
<b>Loss for the year</b>		<b>(33.0)</b>	(11.1)
<b>Other comprehensive profit/(loss)</b>			
<i>Items that will not be reclassified to profit or loss:</i>			
Remeasurements of defined benefit liability	20	<b>5.1</b>	(0.5)
Income tax on items that will not be reclassified to profit or loss	9	<b>(1.3)</b>	0.1
<b>Other comprehensive profit/(loss) for the year, net of income tax</b>		<b>3.8</b>	(0.4)
<b>Total comprehensive loss for the year</b>		<b>(29.2)</b>	(11.5)

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

## Statement of Financial Position

At 31 March 2024

	Note	2024 £m	2023 £m
<b>Non-current assets</b>			
Property, plant and equipment	11,12	4,414.4	4,143.2
Intangible assets	13	46.2	50.3
Investments in subsidiaries	14	-	-
Retirement benefit Asset	20	6.7	-
		<u>4,467.3</u>	<u>4,193.5</u>
<b>Current assets</b>			
Inventories	15	7.0	6.3
Trade & other receivables	16	203.1	196.2
Corporation tax receivable	16	0.9	7.0
Other financial assets	17	-	130.0
Cash and cash equivalents	17	5.8	164.5
		<u>216.8</u>	<u>504.0</u>
<b>Total assets</b>		<u><u>4,684.1</u></u>	<u><u>4,697.5</u></u>
<b>Current liabilities</b>			
Other interest-bearing loans and borrowings	18	(66.2)	(208.9)
Trade & other payables	19	(272.4)	(225.6)
Provisions	22	(1.2)	(1.9)
		<u>(339.8)</u>	<u>(436.4)</u>
<b>Non-current liabilities</b>			
Other interest-bearing loans and borrowings	18	(2,903.0)	(2,707.8)
Contract liabilities	19	(5.7)	(5.6)
Retirement benefit deficit	20	(0.7)	(17.0)
Deferred grants and contributions	21	(322.2)	(315.0)
Deferred tax liabilities	23	(571.9)	(579.2)
		<u>(3,803.5)</u>	<u>(3,624.6)</u>
<b>Total liabilities</b>		<u><u>(4,143.3)</u></u>	<u><u>(4,061.0)</u></u>
<b>Net assets</b>		<u><u>540.8</u></u>	<u><u>636.5</u></u>
<b>Equity</b>			
Share capital	24	-	-
Retained earnings		540.8	636.5
<b>Total equity</b>		<u><u>540.8</u></u>	<u><u>636.5</u></u>

The notes on pages 148 to 193 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 8 July 2024 and were signed on its behalf by:

Ruth Jefferson, Director



**Statement of Changes in Equity**  
**For the year ended 31 March 2024**

	<i>Note</i>	Share capital £m	Retained earnings £m	Total equity £m
Balance at 1 April 2022		-	718.6	718.6
<b>Total comprehensive loss for the year</b>				
Loss for the year		-	(11.1)	(11.1)
Other comprehensive loss		-	(0.4)	(0.4)
Total comprehensive loss for the year		-	(11.5)	(11.5)
<b>Transactions with owners, recorded directly in equity</b>				
Dividends	10	-	(70.6)	(70.6)
Total contributions by and distributions to owners		-	(70.6)	(70.6)
<b>Balance at 31 March 2023</b>		-	636.5	636.5
Balance at 1 April 2023		-	<b>636.5</b>	<b>636.5</b>
<b>Total comprehensive loss for the year</b>				
Loss for the year		-	<b>(33.0)</b>	<b>(33.0)</b>
Other comprehensive profit		-	<b>3.8</b>	<b>3.8</b>
Total comprehensive loss for the year		-	<b>(29.2)</b>	<b>(29.2)</b>
<b>Transactions with owners, recorded directly in equity</b>				
Dividends	10	-	<b>(66.5)</b>	<b>(66.5)</b>
Total contributions by and distributions to owners		-	<b>(66.5)</b>	<b>(66.5)</b>
<b>Balance at 31 March 2024</b>		-	<b>540.8</b>	<b>540.8</b>

As explained in Note 24, on 27 November 2023 the company converted all non-distributable reserves to distributable reserves by means of a bonus share issue and capital reduction (non-distributable reserves in 2023 were £479.5m).

**Statement of Cash Flows**  
**For the year ended 31 March 2024**

	Note	2024 £m	2023 £m
<b>Cash flows from operating activities</b>			
Loss for the year		(33.0)	(11.1)
<i>Adjustments for:</i>			
Depreciation, amortisation and impairment		123.1	140.6
Financial income		(8.1)	(0.4)
Financial expense		189.8	140.6
Taxation		(10.2)	(17.8)
		<u>261.6</u>	<u>251.9</u>
(Increase) in trade and other receivables		(6.9)	(21.3)
(Increase) in inventories		(0.7)	(1.5)
Increase in trade and other payables		22.5	38.2
(Decrease) in provisions and employee benefits		(18.7)	(16.7)
		<u>(3.8)</u>	<u>(1.3)</u>
Tax received		7.7	11.1
<b>Net cash from operating activities</b>		<u>265.5</u>	<u>261.7</u>
<b>Cash flows from investing activities</b>			
Proceeds from sale of property, plant and equipment		2.2	2.1
Interest received		8.1	0.4
Acquisition of property, plant and equipment		(353.9)	(251.8)
Acquisition of intangible assets		(8.8)	(10.7)
Purchase of financial instruments		-	(130.0)
Sale of financial instruments		130.0	-
Proceeds from infrastructure charges and capital contributions		5.4	5.8
<b>Net cash from investing activities</b>		<u>(217.0)</u>	<u>(384.2)</u>
<b>Cash flows from financing activities</b>			
Proceeds from new borrowings		232.5	522.0
Interest paid		(98.3)	(68.1)
Repayment of borrowings		(274.5)	(100.9)
Payment of lease liabilities		(0.4)	(0.2)
Dividends paid		(66.5)	(69.9)
<b>Net cash from financing activities</b>		<u>(207.2)</u>	<u>282.9</u>
(Decrease)/increase in cash and cash equivalents		(158.7)	160.4
Cash and cash equivalents at 1 April		164.5	4.1
<b>Cash and cash equivalents at 31 March</b>	17	<u>5.8</u>	<u>164.5</u>

## **Notes to the financial statements**

### **1. Accounting policies**

#### **1.1 Basis of preparation**

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

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 2023 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 UK adopted international accounting standards. These financial statements present information for the company only as a single entity.

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 a cost basis and presented in pounds sterling which is the company's functional and presentational currency.

#### **1.3 Going concern**

An overview of the business activities of Wessex Water Services Limited is given in the Strategic Report on pages 2 to 52. A review of the principal risks that the company faces is given in the risk management section on pages 97 to 114. The debt facilities available at the year end date, amounts outstanding and the maturity profile of this debt are shown in note 18.

The Company meets its day-to-day working capital requirements and medium and long term funding requirements through the cash and short term deposits described in note 17 and the facilities described in note 18. Subsequent to the year end date the Company secured a £300m loan facility for 12 months with an option for the company to extend the loan for a further 6 months and the undrawn revolving credit facilities referenced in note 18 were increased to £300m with a maturity date of June 2027, both reflecting the Company's ability to secure finance. Under some of the facilities the Company is required to comply with an interest cover and gearing covenant tested quarterly and the covenants remain the same in the new facilities.

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

### **1.3 Going concern** *(continued)*

The Directors have considered the financial position of the Company and cash flow forecasts for the period from the date of approval of these Financial Statements through 31 December 2025 (the going concern review period) and have concluded they will be able to meet their liabilities as they fall due and comply with the covenants for the going concern review period. In coming to this conclusion, the directors have evaluated the impact of the 'cost of living' crisis on revenues and debt collectability, the repayment of loans maturing in the going concern review period and the required future financing requirements of the company.

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

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

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

Accordingly, after considering the forecasts, appropriate sensitivities, available facilities and the ability to raise additional debt, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence and to comply with its financial covenants for the going concern review period through to 31 December 2025; therefore, the Directors continue to adopt the going concern basis in preparing the Financial Statements.

### **1.4 Foreign currency**

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

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

## 1. 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 for the purpose only of the cash flow statement.

#### **Financial assets**

##### *Initial recognition and measurement*

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

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

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

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

##### *Subsequent measurement*

Financial assets at amortised cost (debt instruments)

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

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

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

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

##### *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;

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

### **1.5 Financial instruments** *(continued)*

- 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.

### **1.6 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.



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

### **1.6 Property, plant and equipment** *(continued)*

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 IAS16 sewers adopted at nil cost to the Company are included in property, plant and equipment at a fair value, which is the estimated cost of construction and depreciated at the same rate as infrastructure assets.

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

- land and buildings 10 to 80 years
- infrastructure assets 60 to 200 years
- plant, equipment and motor vehicles 2 to 30 years
- office and IT equipment 3 to 10 years

Infrastructure assets comprise these eight components:

Impounding reservoirs 150 years, raw water mains 100 years, treated water mains 100 years, communication pipes 60 years, sewers 200 years, sewage pumping stations 60 years, combined sewer overflows 80 years and sea outfalls 60 years.

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

### **1.7 Intangible assets**

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

#### *Amortisation*

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

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

### **1.8 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.

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

### **1.11 Provisions**

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

### **1.12 Deferred grants and contributions**

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

### **1.12 Deferred grants and contributions** *(continued)*

Grants and contributions relating to infrastructure assets are amortised over the appropriate useful economic life (see 1.6).

Sewers adopted at nil cost to the Company are shown in deferred income at a fair value, which is the estimated cost of construction, and amortised at the same rate as infrastructure assets are depreciated.

### **1.13 Revenue**

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

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

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

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

#### *Variable consideration*

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

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

### **1.13 Revenue** *(continued)*

#### *Other revenue - Developer Services*

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

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

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

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

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

#### *Financing component*

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

#### *Other Revenue - general*

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

### **1.14 Expenses**

#### *Operating lease payments*

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

#### *IFRS16 lease payments*

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

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

### **1.14 Expenses** *(continued)*

#### *Financing income and expenses*

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

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

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

### **1.15 Taxation**

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

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

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

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

### **1.16 Dividends**

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

### **1.17 Contract balances**

#### *Contract assets*

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

## 1. Accounting policies (continued)

### 1.17 Contract balances (continued)

#### *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 buildings 4 to 97 years
- motor vehicles and other equipment 3 to 4 years

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

#### *ii) Lease liabilities*

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

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

### **1.18 Leases (continued)**

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 Software-as-a-Service (SaaS)**

SaaS arrangements are service contracts providing the Company with the right to access the cloud provider's application software over the contract period. Costs incurred to configure or customise, and the ongoing fees to obtain access to the cloud provider's application software, are recognised as operating expenses when the services are received.

Some of the costs incurred relate to the development of software code that enhances or modifies, or creates additional capability to, existing on-premise systems and meets the definition of, and the recognition criteria for, an intangible asset. These costs are recognised as intangible software assets and amortised over the useful life of the software on a straight-line basis. The useful lives of these assets are reviewed at least at the end of each financial year, and any change accounted for prospectively as a change in accounting estimate.

### **1.20 Changes in accounting policies and disclosures**

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



## 2. Changes in accounting estimates

During the year the estimated useful economic lives of certain items of plant and equipment and infrastructure assets were revised, with effect from 1 April 2023. This followed a detailed review of the asset lives coinciding with the preparation of the regulatory business plan which occurs every five years. The detailed work involved in preparing the plan enabled us to gain a greater understanding of our assets and their expected lives, and to ensure they are maintained in a sustainable manner. It also ensures that any extension to those lives is reflected in reduced customer bills over the foreseeable future.

Sewer infrastructure – economic life increased from 125 years to 200 years

Water recycling plant and equipment – economic life increased from 20 years to 25 years

The revised lives were based on operational experience, revisions to design horizons and industry comparisons. The net effect of the changes in the current financial year was a reduction in the depreciation charge of £23.7m.

Assuming the assets are held until the end of their estimated useful lives, depreciation in the short term in relation to these assets will be decreased by approx. £24m per annum.

## 3. Business Unit performance

Business units are reported in a manner consistent with internal reporting provided to the Board. The water business comprises the regulated water and waste water services undertaken by Wessex Water.

	<b>2024</b>	2023
	<b>£m</b>	£m
<i>Turnover</i>		
Regulated	<b>558.8</b>	520.6
Unregulated	<b>15.6</b>	9.9
	<b>574.4</b>	530.5
<i>Operating profit</i>		
Regulated	<b>138.4</b>	111.3
Unregulated	<b>0.1</b>	-
	<b>138.5</b>	111.3
<i>Net assets</i>		
Regulated	<b>540.3</b>	636.1
Unregulated	<b>0.5</b>	0.4
	<b>540.8</b>	636.5

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

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

#### 4. Revenue from contracts with customers

<b>Current year</b>	<b>House- hold £m</b>	<b>Non- house- hold £m</b>	<b>Total £m</b>
Wholesale revenue – water supply			
Unmeasured	49.8	2.0	51.8
Measured	87.0	50.2	137.2
	<u>136.8</u>	<u>52.2</u>	<u>189.0</u>
Wholesale revenue – wastewater			
Unmeasured	96.8	3.1	99.9
Measured	173.0	56.7	229.7
	<u>269.8</u>	<u>59.8</u>	<u>329.6</u>
Retail revenue			
Unmeasured	7.3	-	7.3
Measured	23.4	-	23.4
	<u>30.7</u>	<u>-</u>	<u>30.7</u>
Other revenue			
Regulated			9.5
Unregulated			15.6
<b>Total revenue</b>			<u><b>574.4</b></u>
Prior year	House- hold £m	Non- house- hold £m	Total £m
Wholesale revenue – water supply			
Unmeasured	45.4	1.5	46.9
Measured	80.6	45.1	125.7
	<u>126.0</u>	<u>46.6</u>	<u>172.6</u>
Wholesale revenue – wastewater			
Unmeasured	93.4	2.1	95.5
Measured	158.2	52.2	210.4
	<u>251.6</u>	<u>54.3</u>	<u>305.9</u>
Retail revenue			
Unmeasured	8.7	-	8.7
Measured	25.0	-	25.0
	<u>33.7</u>	<u>-</u>	<u>33.7</u>
Other revenue			
Regulated			8.4
Unregulated			9.9
Total revenue			<u><b>530.5</b></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 of these services over time.

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

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

##### *Contract balances*

Contract assets of £6.4m (2023: £5.6m) are included in the statement of financial position under trade and other receivables, see note 16. At the year-end there were liabilities for receipts in advance relating to contracts of £69.4m (2023: £68.4m), see note 19.

#### 5. Operating costs and auditor's remuneration

	<i>Note</i>	<b>2024</b> £m	2023 £m
Employee costs	6	<b>159.3</b>	142.7
Power		<b>53.5</b>	51.1
Raw Materials and consumables		<b>17.9</b>	19.2
Business rates		<b>20.8</b>	25.0
Charge for bad and doubtful debts	25	<b>18.4</b>	12.1
Service charges		<b>6.5</b>	6.6
Depreciation of PPE	11	<b>113.1</b>	132.8
Depreciation on ROU assets	12	<b>0.4</b>	0.4
Amortisation of intangible assets	13	<b>8.7</b>	9.6
Impairment of intangible assets	13	<b>4.2</b>	-
Property, plant & equipment written off – disposals		<b>1.4</b>	2.8
Short-term lease rentals	12	<b>11.8</b>	8.8
Hire of plant and machinery		<b>0.6</b>	0.5
Infrastructure maintenance		<b>20.6</b>	20.2
Ofwat licence fee		<b>1.6</b>	1.0
Cost of finished goods and w.i.p.		<b>4.7</b>	3.7
Charges from other group companies		<b>18.2</b>	16.4
Other operating costs		<b>103.4</b>	86.6
		<b>565.1</b>	539.5
Own work capitalised		<b>(124.5)</b>	(115.3)
		<b>440.6</b>	424.2

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

	<b>2024</b>	2023
<i>Note</i>	<b>£m</b>	£m
Loss/(gain) on disposal of property, plant and equipment	<b>(1.6)</b>	(1.6)
Amortisation of deferred income	21 <u><b>(3.1)</b></u>	<u>(3.4)</u>
	<u><b>(4.7)</b></u>	<u>(5.0)</u>

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

	<b>2024</b>	2023
	<b>£000</b>	£000
<i>Fees payable to the Company's auditor for:</i>		
Audit of these financial statements	<b>295</b>	258
Other non-audit services	<u><b>189</b></u>	<u>93</u>
	<u><b>484</b></u>	<u>351</u>

Fees payable for the audit of the Company's annual accounts include £5,000 (2023: £5,000) for out-of-pocket expenses incurred for the delivery of the audit.

Other non-audit services include £123,100 in relation to services performed in connection with the Company's regulatory reporting requirements for Ofwat, together with £66,000 relating to bond issuances.

## 6. Staff numbers and costs

	<b>Number of employees</b>	
	<b>2024</b>	2023
Average number of employees	<u><b>2,861</b></u>	<u>2,653</u>
The aggregate payroll costs of these employees was:		
	<b>2024</b>	2023
	<b>£m</b>	£m
Wages and salaries	<b>126.6</b>	111.4
Social security costs	<b>15.6</b>	14.5
Pension costs - defined contribution	<b>10.7</b>	8.7
Pension costs - defined benefit	<b>6.4</b>	8.1
	<u><b>159.3</b></u>	<u>142.7</u>

## 7. Directors' remuneration

	2024	2023
	£000	£000
Total Directors' remuneration including benefits in kind	<u>2,090</u>	<u>2,105</u>
Remuneration of highest paid Director	<u>586</u>	<u>523</u>

Details of Directors' remuneration can be found in the Governance Report. Directors' remuneration is in respect of four Executive Directors, five Non-Executive Directors and six YTL appointed Directors (2023: five Executive Directors, five Non-Executive Directors and six YTL appointed Directors).

## 8. Finance income and expense

	2024	2023
	£m	£m
<i>Finance income</i>		
Interest receivable on short-term bank deposits	6.8	0.4
Gain on short term financial instrument	<u>1.3</u>	<u>-</u>
	<u>8.1</u>	<u>0.4</u>
<i>Finance expense</i>		
To subsidiary company	(172.4)	(127.3)
Net interest on net defined benefit pension plan liability	(0.1)	(0.5)
On bank loans and leases	(32.6)	(19.9)
Interest capitalised	<u>15.3</u>	<u>7.1</u>
	<u>(189.8)</u>	<u>(140.6)</u>

In accordance with IAS 23 borrowing costs of £15.3m (2023: £7.1m) associated with the funding of eligible capital projects have been capitalised at an average interest rate of 7.3% (2023: 5.2%).

## 9. Taxation

### Recognised in the income statement

	2024 £m	2023 £m
<i>Current tax credit</i>		
Current year	-	-
Adjustments for prior years	<u>(1.6)</u>	<u>(7.8)</u>
Current tax credit	<u>(1.6)</u>	<u>(7.8)</u>
<i>Deferred tax credit</i>		
Origination and reversal of temporary differences	<u>(10.0)</u>	<u>(10.9)</u>
Adjustments for prior years	<u>1.4</u>	<u>0.9</u>
Deferred tax credit	<u>(8.6)</u>	<u>(10.0)</u>
Total tax credit	<u><u>(10.2)</u></u>	<u><u>(17.8)</u></u>

### Taxation recognised in other comprehensive income

	2024 £m	2023 £m
Remeasurements of defined benefit surplus	<u>1.3</u>	<u>(0.1)</u>
Tax expense/(credit)	<u><u>1.3</u></u>	<u><u>(0.1)</u></u>

### Reconciliation of effective tax rate

	2024 £m	2023 £m
Loss for the year	<u>(33.0)</u>	<u>(11.1)</u>
Total tax credit	<u>(10.2)</u>	<u>(17.8)</u>
Loss excluding taxation:	<u>(43.2)</u>	<u>(28.9)</u>
Tax using the UK corporation tax rate of 25% (2023: 19%)	<u>(10.8)</u>	<u>(5.5)</u>
Rate difference on current year earnings	-	<u>(2.6)</u>
Impact of Capital allowance super deduction	-	<u>(3.7)</u>
Non-deductible expenses	<u>0.9</u>	<u>0.9</u>
Other	<u>(0.1)</u>	<u>-</u>
Over provided in prior years	<u>(0.2)</u>	<u>(6.9)</u>
Total tax credit	<u><u>(10.2)</u></u>	<u><u>(17.8)</u></u>

The statutory rate of Corporation tax increased from 19% to 25% effective 1 April 2023, resulting in a statutory rate of 25% for the current year (2023: 19%). The Company benefited from the Super Deduction regime until 31 March 2023 which was replaced with the Full Expensing regime after that date which has now been made permanent. As a result of these regimes, the Company has generated current year tax losses which have been recognised as a deferred tax asset and offset against the existing deferred tax liabilities.

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

## 9. Taxation (continued)

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

## 10. Dividends

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

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

In particular the Board takes into account:

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

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

	<b>2024</b>	2023
	<b>£m</b>	£m
Interim dividends for the current year	<b>51.7</b>	55.8
Final dividend for the current year	<b>14.8</b>	14.8
	<b>66.5</b>	70.6

## 11. Property, plant and equipment

	Land & buildings £m	Intra-structure assets £m	Plant & equipment £m	Motor vehicles £m	Office & IT equipment £m	Assets under construction £m	Total £m
<b>Cost</b>							
Balance at 1 April 2022	1,007.5	2,398.6	1,921.0	45.8	36.6	248.6	5,658.1
Additions in year	-	-	-	-	-	261.3	261.3
Transfers on commissioning	51.2	103.4	135.2	5.5	4.0	(299.3)	-
Disposals	(3.2)	(0.4)	(34.8)	(4.2)	-	-	(42.6)
Cost of ROU assets	-	-	0.1	0.1	-	-	0.2
<b>Balance at 31 March 2023</b>	<b>1,055.5</b>	<b>2,501.6</b>	<b>2,021.5</b>	<b>47.2</b>	<b>40.6</b>	<b>210.6</b>	<b>5,877.0</b>
Balance at 1 April 2023	1,055.5	2,501.6	2,021.5	47.2	40.6	210.6	5,877.0
Additions in year	-	-	-	-	-	386.2	386.2
Transfers on commissioning	19.9	79.8	80.0	7.2	4.3	(191.2)	-
Disposals	(2.7)	(0.2)	(17.2)	(4.5)	-	-	(24.6)
Cost of ROU assets	-	-	0.1	0.4	-	-	0.5
<b>Balance at 31 March 2024</b>	<b>1,072.7</b>	<b>2,581.2</b>	<b>2,084.4</b>	<b>50.3</b>	<b>44.9</b>	<b>405.6</b>	<b>6,239.1</b>
<b>Depreciation and impairment</b>							
Balance at 1 April 2022	(349.8)	(164.4)	(1,077.5)	(26.9)	(21.3)	-	(1,639.9)
Depreciation charge for the year	(16.6)	(23.0)	(83.0)	(5.3)	(4.9)	-	(132.8)
Depreciation on disposals	1.7	-	34.1	3.5	-	-	39.3
Depreciation on ROU assets	(0.1)	-	(0.1)	(0.2)	-	-	(0.4)
<b>Balance at 31 March 2023</b>	<b>(364.8)</b>	<b>(187.4)</b>	<b>(1,126.5)</b>	<b>(28.9)</b>	<b>(26.2)</b>	<b>-</b>	<b>(1,733.8)</b>
Balance at 1 April 2023	(364.8)	(187.4)	(1,126.5)	(28.9)	(26.2)	-	(1,733.8)
Depreciation charge for the year	(17.4)	(19.5)	(65.5)	(5.6)	(5.1)	-	(113.1)
Depreciation on disposals	1.7	-	17.1	3.8	-	-	22.6
Depreciation on ROU assets	(0.1)	-	-	(0.3)	-	-	(0.4)
<b>Balance at 31 March 2024</b>	<b>(380.6)</b>	<b>(206.9)</b>	<b>(1,174.9)</b>	<b>(31.0)</b>	<b>(31.3)</b>	<b>-</b>	<b>(1,824.7)</b>
<b>Net Book Value</b>							
At 1 April 2023	657.7	2,234.2	843.5	18.9	15.3	248.6	4,018.2
At 31 March 2023	690.7	2,314.2	895.0	18.3	14.4	210.6	4,143.2
<b>At 31 March 2024</b>	<b>692.1</b>	<b>2,374.3</b>	<b>909.5</b>	<b>19.3</b>	<b>13.6</b>	<b>405.6</b>	<b>4,414.4</b>

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 (2023: £nil).

Cumulative borrowing costs capitalised and included above were £44.8m (2023: £29.5m).

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



## 12. Leases

### Company as a lessee

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

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

	Land & buildings £m	Plant & equipment £m	Motor vehicles £m	Total £m
As at 1 April 2023	1.7	-	0.6	2.3
Additions	-	0.1	0.4	0.5
Depreciation charge for the year	(0.1)	-	(0.3)	(0.4)
<b>As at 31 March 2024</b>	<b>1.6</b>	<b>0.1</b>	<b>0.7</b>	<b>2.4</b>

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

		2024 £m
As at 1 April 2023		2.4
Additions		0.5
Accretion of interest		-
Payments		(0.4)
As at 31 March 2024		<b>2.5</b>
Current	Note 18	0.2
Non-current	Note 18	2.3

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

## 12. Leases (continued)

The following are the amounts recognised in profit or loss:

	<b>2024</b>	2023
	<b>£m</b>	£m
Depreciation expense of right-of use assets	<b>0.4</b>	0.4
Interest expense on lease liabilities	-	-
Expenses relating to short-term leases	<b>11.8</b>	8.8
	<b>12.2</b>	9.2

The Company had total cash outflows for leases of £0.4m in 2024 (2023: £0.2m). The Company also had non-cash additions to right-of-use assets and lease liabilities of £0.5m in 2024 (2023: £0.2m).

### Company as a lessor

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

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

	<b>2024</b>	2023
	<b>£m</b>	£m
Within one year	<b>0.4</b>	0.4
After one year but not more than five years	<b>1.0</b>	1.2
More than five years	<b>1.0</b>	1.2
	<b>2.4</b>	2.8

### 13. Intangible assets

	Software development £m	Assets In Development £m	Total £m
<b>Cost</b>			
Balance at 1 April 2022	73.4	12.7	86.1
Transfer on commissioning	2.8	(2.8)	-
Additions	-	10.7	10.7
Disposals	(3.4)	-	(3.4)
Balance at 31 March 2023	<u>72.8</u>	<u>20.6</u>	<u>93.4</u>
Balance at 1 April 2023	72.8	20.6	93.4
Transfer on commissioning	10.1	(10.1)	-
Additions	-	8.8	8.8
Disposals	-	-	-
Balance at 31 March 2024	<u>82.9</u>	<u>19.3</u>	<u>102.2</u>
<b>Amortisation and impairment</b>			
Balance at 1 April 2022	(36.9)	-	(36.9)
Amortisation charge for the year	(9.6)	-	(9.6)
Disposals	3.4	-	3.4
Balance at 31 March 2023	<u>(43.1)</u>	<u>-</u>	<u>(43.1)</u>
Balance at 1 April 2023	(43.1)	-	(43.1)
Amortisation charge for the year	(8.7)	-	(8.7)
Impairment	-	(4.2)	(4.2)
Disposals	-	-	-
Balance at 31 March 2024	<u>(51.8)</u>	<u>(4.2)</u>	<u>(56.0)</u>
<b>Net Book Value</b>			
At 1 April 2022	36.5	12.7	49.2
At 31 March 2023	<u>29.7</u>	<u>20.6</u>	<u>50.3</u>
<b>At 31 March 2024</b>	<u><b>31.1</b></u>	<u><b>15.1</b></u>	<u><b>46.2</b></u>

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

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

#### 14. Investments in subsidiaries

The Company has an investment of £13,001 (2023: £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>2024</b>	2023
	<b>£m</b>	£m
Raw materials and supplies	<b>7.0</b>	6.3

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

#### 16. Trade and other receivables

	<b>2024</b>	2023
	<b>£m</b>	£m
Amounts receivable from customers	<b>120.8</b>	122.8
Owed by immediate holding company	<b>16.1</b>	17.0
Owed by fellow subsidiary companies	<b>22.3</b>	23.1
Owed by other group companies	<b>0.3</b>	0.2
Owed by associate companies	<b>1.0</b>	0.8
Prepayments	<b>13.2</b>	9.3
Corporation tax	<b>0.9</b>	7.0
Contract cost assets	<b>6.4</b>	5.6
VAT debtors	<b>11.2</b>	7.2
Other debtors	<b>11.8</b>	10.2
	<b>204.0</b>	203.2

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

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

#### Contract cost assets

	<b>2024</b>	2023
	<b>£m</b>	£m
Balance at 1 April	<b>5.6</b>	3.8
Incurred during the year	<b>4.7</b>	3.7
Recognised as costs during the year	<b>(3.9)</b>	(1.9)
Balance at 31 March	<b>6.4</b>	5.6

## 17. Cash and cash equivalents

	2024 £m	2023 £m
Short-term bank deposits	-	80.0
Cash at bank and in hand	<u>5.8</u>	<u>84.5</u>
	<u><u>5.8</u></u>	<u><u>164.5</u></u>

### Other Financial Assets

Term deposits with UK banks from 3 to 6 months	<u>-</u>	<u>130.0</u>
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## 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).

	2024 £m	2023 £m
<b>Current liabilities</b>		
Bank loans	66.0	115.9
Current portion of finance lease liabilities	0.2	0.4
Loans owed to subsidiary company	<u>-</u>	<u>92.6</u>
	<u><u>66.2</u></u>	<u><u>208.9</u></u>
<b>Non-current liabilities</b>		
Bank loans	401.3	502.1
Finance lease liabilities	2.3	2.0
Loans owed to subsidiary company	<u>2,499.4</u>	<u>2,203.7</u>
	<u><u>2,903.0</u></u>	<u><u>2,707.8</u></u>

### Finance lease liabilities

Finance lease liabilities are payable as follows:

	Minimum lease payment 2024 £m	Interest 2024 £m	Principal 2024 £m	Minimum lease payment 2023 £m	Interest 2023 £m	Principal 2023 £m
Less than one year	0.2	(0.0)	0.2	0.5	(0.1)	0.4
Between one and five years	1.2	(0.2)	1.0	1.0	(0.2)	0.8
More than five years	1.6	(0.3)	1.3	1.6	(0.4)	1.2
	<u>3.1</u>	<u>(0.6)</u>	<u>2.5</u>	<u>3.1</u>	<u>(0.7)</u>	<u>2.4</u>

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

Terms and debt repayment schedule:

	Currency	Nominal interest rate	Year of maturity	Issue Value 2024 £m	Carrying amount 2024 £m	Issue Value 2023 £m	Carrying amount 2023 £m
Bank loans - EIB	Sterling	2.68%	2024-25	100.0	100.0	200.0	200.0
Bank loans - KfW	Sterling	3.55%	2024-26	235.0	217.6	235.0	233.3
Bank loans - Natwest	Sterling	4.16%	2032	150.0	149.7	150.0	149.7
Revolving credit facilities	Sterling	2.34%	2025	-	-	35.0	35.0
<i>Loans owed to subsidiary company</i>							
Bond	Sterling	5.38%	2028	200.0	199.6	200.0	199.5
Bond	Sterling	5.75%	2033	350.0	346.9	350.0	346.6
Bond	Sterling	1.50%	2029	200.0	248.5	200.0	248.3
Bond	Sterling	1.25%	2036	300.0	295.8	300.0	295.5
Bond	Sterling	5.13%	2032	300.0	297.0	300.0	298.0
Bond	Sterling	6.50%	2033	35.0	34.7	-	-
Bond	Sterling	6.50%	2035	35.0	34.7	-	-
Bond	Sterling	6.50%	2038	65.0	64.2	-	-
Bond	Sterling	6.50%	2043	65.0	64.6	-	-
Index Linked Bond	Sterling	3.52%	2023	-	-	50.0	92.6
Index Linked Bond	Sterling	2.19%	2039	50.0	89.1	50.0	83.4
Index Linked Bond	Sterling	1.75%	2046	75.0	140.0	75.0	124.6
Index Linked Bond	Sterling	1.75%	2051	75.0	140.0	75.0	124.6
Index Linked Bond	Sterling	1.37%	2057	75.0	140.0	75.0	124.6
Index Linked Bond	Sterling	1.37%	2057	75.0	140.0	75.0	124.6
Index Linked Bond	Sterling	1.49%	2058	50.0	88.1	50.0	78.0
Index Linked Bond	Sterling	1.50%	2058	50.0	88.1	50.0	78.0
Index Linked Bond	Sterling	1.50%	2058	50.0	88.1	50.0	78.0
				<b>2,535.0</b>	<b>2,966.7</b>	2,520.0	2,914.3

Note: Bank overdrafts and leases are excluded from this schedule.

All bonds are listed on the London Stock Exchange under Wessex Water Services Finance Plc, a 100% subsidiary (Note 14). Interest is payable based on the nominal interest rate as disclosed. Index-linked bonds increase in value annually in line with the Retail Prices Index.

The principal borrowing facilities are subject to covenants that are measured quarterly, being an interest cover (excluding indexation) of no less than 2.75x and net debt to regulatory capital value of no more than 75%, based on measures as defined in the facilities agreements.

### Maturity

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

	2024 £m	2023 £m
Less than 1 year	66.0	208.5
More than 1 year and less than 2 years	177.3	65.8
More than 2 year and less than 5 years	214.1	426.4
More than 5 years	2,509.3	2,213.6
	<b>2,966.7</b>	<b>2,914.3</b>

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

### Changes in liabilities arising from financing activities

	1 April 2023	Cash flows	New leases	Other	31 March 2024
	£m	£m	£m	£m	£m
Current interest bearing loans and borrowings (excluding items listed below)	208.5	(274.5)	-	132.0	66.0
Current obligations under finance leases and hire purchase contracts	0.4	(0.4)	0.1	0.1	0.2
Non-current interest bearing loans and borrowings (excluding items listed below)	2,705.8	232.5	-	(37.6)	2,900.7
Non-current obligations under finance leases and hire purchase contracts	2.0	-	0.4	(0.1)	2.3
<b>Total liabilities from financing activities</b>	<b>2,916.7</b>	<b>(42.4)</b>	<b>0.5</b>	<b>94.4</b>	<b>2,969.2</b>

	1 April 2022	Cash flows	New leases	Other	31 March 2023
	£m	£m	£m	£m	£m
Current interest bearing loans and borrowings (excluding items listed below)	15.9	(15.9)	-	208.5	208.5
Current obligations under finance leases and hire purchase contracts	0.2	(0.2)	-	0.4	0.4
Non-current interest bearing loans and borrowings (excluding items listed below)	2,404.8	437.0	-	(136.0)	2,705.8
Non-current obligations under finance leases and hire purchase contracts	2.2	-	0.2	(0.4)	2.0
<b>Total liabilities from financing activities</b>	<b>2,423.1</b>	<b>420.9</b>	<b>0.2</b>	<b>72.5</b>	<b>2,916.7</b>

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

## 19. Trade and other payables

	2024 £m	2023 £m
<b>Current</b>		
Amounts payable to suppliers	66.6	46.7
Owed to subsidiary company	27.5	16.5
Owed to other group companies	-	-
Dividend	14.8	14.8
Other creditors	9.0	7.2
Taxation and social security	3.5	4.1
Accrued expenses	87.3	73.5
Contract Liabilities	63.7	62.8
	<u>272.4</u>	<u>225.6</u>
<b>Non-current</b>		
Contract Liabilities	5.7	5.6
	<u>278.1</u>	<u>231.2</u>

### ***Analysis of Contract Liabilities***

	2024 £m	2023 £m
At 1 April	68.4	62.6
Deferred during the year	133.9	137.8
Recognised as revenue during the year	(132.9)	(132.0)
At 31 March	<u>69.4</u>	<u>68.4</u>

The contract liabilities within current payables all relate to performance obligations due to be settled within the following 12 months. Non-current contract liabilities relate to performance obligations due to be settled over a 15-year period from June 2016.

## 20. Retirement benefits

### **Pension plans**

	2024 £m	2023 £m
Fair value of scheme assets	589.8	578.2
Present value of defined benefit obligations	(583.1)	(594.5)
Net asset/(liability) for defined benefit obligations	6.7	(16.3)
Unfunded and compensatory added years pension	(0.7)	(0.7)
Total employee benefits	<u>6.0</u>	<u>(17.0)</u>



## **20. Retirement benefits (continued)**

The company sponsors a funded defined benefit pension plan for qualifying UK employees, the Wessex Water Pension Scheme. The scheme 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 for the assets and the day-to-day administration of the benefits.

Under the Scheme, employees are entitled to annual pensions on retirement using an accrual rate and final 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. During the year the Company paid £10.6m (2023: £8.7m) to the defined contribution section and at 31 March 2024 owed £0.7m (2023: £0.8m).

### **Profile of the scheme**

The Defined Benefit Obligation (DBO) includes benefits for current employees, former employees, and current pensioners. Broadly, about 24% of the DBO is attributable to current employees, 14% to deferred pensioners and 62% to current pensioners.

The scheme duration is an indicator of the weighted-average time until benefit payments are made. For the scheme as a whole, the duration is approximately 13-14 years, reflecting the appropriate split of defined benefit obligation between current employees (duration of c18-19 years), deferred members (duration of c17-18 years) and current pensioners (duration of c10-11 years).

### **Funding requirements**

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

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

### **Risks associated with the scheme**

*Asset volatility* – The DBO is 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.

## 20. Retirement benefits (continued)

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

*Inflation risk* – The majority of the scheme's DBO is linked to inflation, and higher inflation leads to a higher DBO (although, in most cases, caps on the level of inflationary increases are in place to protect against extreme inflation).

Most 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 lifetime of the member, so increases in life expectancy will result in an increase in the DBO.

### Virgin Media vs NTL Case

The Virgin Media Ltd v NTL Pension Trustees II decision, handed down by the High Court on 16 June 2023, considered the implications of section 37 Pension Schemes Act 1993. As matters stand the case has the potential to cause significant issues in the pensions industry, however, permission to appeal the case has been granted and the appeal is currently scheduled to be heard on 25 June 2024. The company will continue to investigate the possible implications together with the trustees and its advisers (in particular in light of the appeal), but, subject to the outcome of the appeal does not have cause to believe that it will have any material impact on the Scheme.

### Reporting at 31 March 2024

The results of the latest funding valuation at 30 September 2022 have been adjusted to the balance sheet date taking account of experience over the period since 30 September 2022, changes in market conditions, and differences in the financial and demographic assumptions. The present value of the defined benefit obligation, and the related current service cost, were measured using the Projected Unit Credit Method.

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

	31.03.24	31.03.23
Rate of increase in salaries – long term	1.80%	1.90%
Rate of increase in pensions		
- WWPS and 1/80ths members	2.80%	3.00%
- MIS members	2.50%	2.70%
- Reduced level members	2.00%	2.00%
- Post 88 GMP	2.00%	2.10%
Discount rate	4.80%	4.70%
Inflation assumption – RPI	3.00%	3.20%
Inflation assumption – CPI	2.50%	2.70%

## 20. Retirement benefits (continued)

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.

	<b>2024</b>	<b>2024</b>	2023	2023
	<b>Male</b>	<b>Female</b>	Male	Female
	<b>years</b>	<b>Years</b>	years	Years
Life expectancy - current age 60	<b>25.4</b>	<b>28.2</b>	25.6	28.3
Life expectancy - current age 40	<b>46.6</b>	<b>49.4</b>	46.8	49.4

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

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

### *Sensitivity analysis*

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

A reduction in the discount rate of 0.1% would increase the scheme liabilities by £8.0m from £583.1m to £591.1m, reducing the scheme surplus to a deficit of £1.4m.

An increase in the inflation assumption of 0.1% would increase the scheme liabilities by £7.9m from £583.1m to £591.0m, reducing the scheme surplus to a deficit of £1.3m.

An increase in life expectancy of 1 year would increase the scheme liabilities by £19.2m from £583.1m to £602.3m, reducing the scheme surplus to a deficit of £12.5m.

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>2024</b>	2023
	<b>£m</b>	£m
Equities	<b>161.7</b>	158.1
Property	<b>33.7</b>	33.4
Government bonds	<b>42.9</b>	44.1
Corporate bonds	<b>344.2</b>	325.2
Other	<b>7.3</b>	17.4
	<b>589.8</b>	578.2

## 20. Retirement benefits (continued)

The amounts recognised in the income statement and other comprehensive income:

	2024	2023
	£m	£m
<b>Operating cost – service cost</b>		
Current service cost	5.4	8.0
Administration expenses	1.1	1.3
Past service cost (including curtailments)	(0.1)	(1.2)
<b>Financing cost</b>		
Interest on net benefit liability	0.1	0.5
Pension expense recognised in Income Statement	<u>6.5</u>	<u>8.6</u>
<b>Re-measurements in OCI</b>		
Return on plan assets below that recognised in net interest	10.8	179.6
Actuarial (gains) due to changes in financial assumptions	(22.7)	(218.4)
Actuarial (gains)/losses due to changes in demographic assumptions	(2.7)	13.2
Actuarial losses due to liability experience	9.5	26.1
(Gains)/losses recognised in OCI	<u>(5.1)</u>	<u>0.5</u>
Losses recognised in Income Statement and OCI	<u>1.4</u>	<u>9.1</u>

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

	2024	2023
	£m	£m
Opening defined benefit obligation	594.5	773.3
Current service cost	5.4	8.0
Interest expense on defined benefit obligation	27.4	20.9
Actuarial (gains) due to changes in financial assumptions	(22.7)	(218.4)
Actuarial (gains)/losses due to changes in demographic assumptions	(2.7)	13.2
Actuarial losses due to liability experience	9.5	26.1
Net benefits paid out	(28.2)	(27.4)
Past service cost (including curtailments)	(0.1)	(1.2)
Closing defined benefit obligation	<u>583.1</u>	<u>594.5</u>

## 20. Retirement benefits *(continued)*

*Changes to the fair value of scheme assets during the year*

	<b>2024</b>	2023
	<b>£m</b>	£m
Opening fair value of scheme assets	<b>578.2</b>	740.8
Interest income on scheme assets	<b>27.3</b>	20.4
Re-measurement losses on scheme assets	<b>(10.8)</b>	(179.6)
Contributions by employer	<b>24.4</b>	25.3
Net benefits paid out	<b>(28.2)</b>	(27.4)
Administration costs incurred	<b>(1.1)</b>	(1.3)
	<hr/>	<hr/>
Closing fair value of scheme assets	<b>589.8</b>	578.2
	<hr/>	<hr/>
Additional analysis:	<b>2024</b>	2023
	<b>£m</b>	£m
<b>Actual return on scheme assets</b>		
Interest income on scheme assets	<b>27.3</b>	20.4
Re-measurement losses on scheme assets	<b>(10.8)</b>	(179.6)
	<hr/>	<hr/>
Actual return on scheme assets	<b>16.5</b>	(159.2)
	<hr/>	<hr/>
<b>Analysis of amounts recognised in Other Comprehensive Income</b>		
Total re-measurement gains/(losses)	<b>5.1</b>	(0.5)
	<hr/>	<hr/>
Total gain/(loss)	<b>5.1</b>	(0.5)
	<hr/>	<hr/>

## 21. Deferred grants and contributions

	Requisitions £m	Other contribu- tions £m	Adopted sewers £m	Infrastr- ucture charges £m	Total £m
Balance at 1 April 2022	36.3	32.5	107.1	131.4	307.3
Reclassifications	-	-	-	-	-
Received during the year	2.2	1.5	5.3	2.1	11.1
Amortised in year	(0.4)	(0.5)	(1.1)	(1.4)	(3.4)
<b>Balance at 31 March 2023</b>	<b>38.1</b>	<b>33.5</b>	<b>111.3</b>	<b>132.1</b>	<b>315.0</b>
Balance at 1 April 2023	38.1	33.5	111.3	132.1	315.0
Reclassifications	-	-	-	-	-
Received during the year	1.9	0.9	5.0	2.5	10.3
Amortised in year	(0.3)	(0.5)	(0.9)	(1.4)	(3.1)
<b>Balance at 31 March 2024</b>	<b>39.7</b>	<b>33.9</b>	<b>115.4</b>	<b>133.2</b>	<b>322.2</b>

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

## 22. Provisions

	Claim costs	Restructuring costs £m	Total £m
Balance at 1 April 2023	1.1	0.8	1.9
Provisions made during the year	-	0.4	0.4
Provisions used during the year	-	(1.1)	(1.1)
<b>Balance at 31 March 2024</b>	<b>1.1</b>	<b>0.1</b>	<b>1.2</b>
Non-current	-	-	-
Current	1.1	0.1	1.2
	<b>1.1</b>	<b>0.1</b>	<b>1.2</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 reliably, a reasonable and appropriate position has been taken in reflecting such items in these Financial Statements in the note above. The provisions disclosed will be utilised with 12 months of 31 March 2024.

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	
	2024	2023	2024	2023	2024	2023
	£m	£m	£m	£m	£m	£m
Property, plant and equipment	<b>706.0</b>	653.2	<b>(47.9)</b>	(46.3)	<b>658.1</b>	606.9
Employee benefits	<b>1.7</b>	-	-	(4.1)	<b>1.7</b>	(4.1)
Losses	-	-	<b>(87.8)</b>	(23.2)	<b>(87.8)</b>	(23.2)
Provisions	-	-	<b>(0.1)</b>	(0.4)	<b>(0.1)</b>	(0.4)
Tax (assets) / liabilities	<b>707.7</b>	653.2	<b>(135.8)</b>	(74.0)	<b>571.9</b>	579.2
Net of tax liabilities/(assets)	<b>(135.8)</b>	(74.0)	<b>135.8</b>	74.0	-	-
Net tax liabilities	<b>571.9</b>	579.2	-	-	<b>571.9</b>	579.2

Deferred tax assets have been recognised in respect of all temporary differences giving rise to deferred tax assets because it is probable that these assets will be recovered.

### *Movement in deferred tax during the year*

	1 April 2023 £m	Recognised in income £m	Recognised in equity £m	31 March 2024 £m
Property, plant and equipment	<b>606.9</b>	<b>52.9</b>	-	<b>659.8</b>
Employee benefits	<b>(4.1)</b>	<b>4.5</b>	<b>1.3</b>	<b>1.7</b>
Losses	<b>(23.2)</b>	<b>(66.3)</b>	-	<b>(89.5)</b>
Provisions	<b>(0.4)</b>	<b>0.3</b>	-	<b>(0.1)</b>
	<b>579.2</b>	<b>(8.6)</b>	<b>1.3</b>	<b>571.9</b>

### *Movement in deferred tax during the prior year*

	1 April 2022 £m	Recognised in income £m	Recognised in equity £m	31 March 2023 £m
Property, plant and equipment	596.8	10.1	-	606.9
Employee benefits	(7.1)	3.1	(0.1)	(4.1)
Losses	-	(23.2)	-	(23.2)
Provisions	(0.4)	-	-	(0.4)
	589.3	(10.0)	(0.1)	579.2

## 24. Capital and reserves

	2024	2023
	£	£
<b><i>Issued, allotted, called up and fully paid</i></b>		
Ordinary shares of £1 each	2	1
	<hr/>	<hr/>
	2	1
	<hr/>	<hr/>
Shares classified as liabilities	-	-
Shares classified in shareholders' funds	2	1
	<hr/>	<hr/>
	2	1
	<hr/>	<hr/>

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.

On 27 November 2023 the company converted all non-distributable reserves to distributable reserves by means of a bonus share issue and capital reduction (non-distributable reserves in 2023 were £479.5m).

## 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 £1,591.8m and a fair value of £1,479.1m. The fair values of long-term index-linked inter-company borrowings are classified as level 1 in the IFRS 13 fair value hierarchy and have a carrying value of £913.4m and a fair value of £937.3m. Bank loans are classified as level 2 and have a carrying value of £461.5m and fair value of £461.5m. All other loans and leases are classified as level 2 and have a carrying value and fair value of £2.5m.

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



## 25. Financial instruments (continued)

### (a) Fair values of financial instruments (continued)

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

	Carrying amount	Fair value	Level 1	Level 2	Carrying amount	Fair value	Level 1	Level 2
	2024	2024	2024	2024	2023	2023	2023	2023
	£m	£m	£m	£m	£m	£m	£m	£m
<b>Financial liabilities</b>								
<i>Interest-bearing loans and borrowings:</i>								
Fixed rate borrowings	1,641.8	1,529.1	1,479.1	50.0	1,487.9	1,327.4	1,227.4	100.0
Floating rate borrowings	414.0	414.0	-	414.0	520.4	520.4	-	520.4
Indexed-linked borrowings	913.4	937.3	937.3	-	908.4	1,024.1	1,024.1	-
<b>Total financial liabilities</b>	<b>2,969.2</b>	<b>2,880.4</b>	<b>2,416.4</b>	<b>464.0</b>	<b>2,916.7</b>	<b>2,871.9</b>	<b>2,251.5</b>	<b>620.4</b>

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

### (b) Credit risk

Financial risk management;

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

Other financial assets are short term deposits with terms of more than three months. The counterparties have a credit rating of A1+/P1 or A1/P1, and hence there is minimal exposure to credit risk for these values.

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

## 25. Financial instruments (continued)

### (b) Credit risk (continued)

	2024	2023
	£m	£m
Other financial assets	-	130.0
Cash and cash equivalents	5.8	164.5
	<u>5.8</u>	<u>294.5</u>

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

	2024	2023
	£m	£m
South West England	120.8	122.8
	<u>120.8</u>	<u>122.8</u>

Billed and unbilled receivables are from domestic and business customers. No individual customer or industrial sector has a material balance outstanding at either year end, aside from £12.4m from Water 2 Business Ltd, a fellow subsidiary in the water industry.

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

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

	2024	2023
	£m	£m
Billed receivables	94.7	91.4
Unbilled receivables	71.5	70.7
Expected credit losses	(45.4)	(39.3)
	<u>120.8</u>	<u>122.8</u>

The ageing of receivable is as follows:

	Gross	ECL rate	ECL
	2024	2024	2024
	£m	%	£m
Less than 1 year	116.8	10.4%	(12.1)
1 to 2 years	15.8	58.9%	(9.3)
2 to 3 years	13.2	68.2%	(9.0)
3 to 4 years	11.7	72.6%	(8.5)
More than 4 years	8.7	74.7%	(6.5)
	<u>166.2</u>	<u>27.3%</u>	<u>(45.4)</u>

## 25. Financial instruments (continued)

### (b) Credit risk (continued)

	Gross 2023 £m	ECL rate 2023 %	ECL 2023 £m
Less than 1 year	113.3	8.0%	(9.1)
1 to 2 years	16.0	49.4%	(7.9)
2 to 3 years	13.6	55.1%	(7.5)
3 to 4 years	12.0	63.3%	(7.6)
More than 4 years	7.2	100.0%	(7.2)
	<u>162.1</u>	24.2%	<u>(39.3)</u>

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

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

	2024 £m	2023 £m
Balance at 1 April	(39.3)	(41.7)
Written off	12.6	14.4
Adjustment for non-paying customers	0.8	0.8
Non-payers subsequently becoming payers	(1.1)	(0.7)
Charge to profit and loss	<u>(18.4)</u>	<u>(12.1)</u>
Balance at 31 March	<u>(45.4)</u>	<u>(39.3)</u>

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 (2023: none).

## 25. Financial Instruments (continued)

### (d) Liquidity risk

#### Financial risk management

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

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

	Carrying amount	Contractual cash flows	Year 1	Years 2 to 5	Over 5 years
	2024	2024	2024	2024	2024
	£m	£m	£m	£m	£m
<b>Non derivative financial instruments</b>					
Lease liabilities	2.5	3.1	0.5	0.9	1.7
Unsecured bank loans	467.3	593.2	93.0	314.9	185.3
Inter-company loans	2,499.4	4,606.9	82.3	523.3	4,001.3
Total financial instruments	<u>2,969.2</u>	<u>5,203.2</u>	<u>175.8</u>	<u>839.1</u>	<u>4,188.3</u>

	Carrying amount	Contractual cash flows	Year 1	Years 2 to 5	Over 5 years
	2023	2023	2023	2023	2023
	£m	£m	£m	£m	£m
<b>Non derivative financial instruments</b>					
Lease liabilities	2.4	3.1	0.4	0.9	1.8
Unsecured bank loans	618.0	737.6	143.1	361.2	233.3
Inter-company loans	2,296.3	5,483.8	168.0	489.9	4,825.9
Total financial instruments	<u>2,916.7</u>	<u>6,224.5</u>	<u>311.5</u>	<u>852.0</u>	<u>5,061.0</u>

## 25. Financial instruments (continued)

### (e) Market risk

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

#### Interest rate risk

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

	<b>2024</b>	2023
	<b>£m</b>	£m
Fixed rate instruments	<b>1,641.8</b>	1,487.9
Floating rate instruments	<b>414.0</b>	520.4
Index linked instruments	<b>913.4</b>	908.4
	<b><u>2,969.2</u></b>	<u>2,916.7</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 £4.1m.

#### Inflation sensitivity

Index linked bonds are sensitive to movements in the inflation rate. A 1% increase in the inflation rate at the balance sheet date would result in an additional interest charge to the income statement of £9.1m.

## 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 by 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.

	<b>2024</b>	2023
	<b>£m</b>	£m
Cash at bank	<b>(5.8)</b>	(84.5)
Short-term deposits (less than 3 months)	-	(80.0)
Medium-term deposits (3-6 months)	-	(130.0)
Bank loans	<b>467.3</b>	618.0
Finance leases	<b>2.5</b>	2.4
Bonds	<b>2,499.4</b>	2,296.3
<b>Total Net Debt</b>	<b><u>2,963.4</u></b>	<u>2,622.2</u>
<b>RCV at 31 March</b>	<b><u>4,305.0</u></b>	<u>4,075.9</u>
<b>Gearing</b>	<b>68.8%</b>	64.3%

The RCV at March for each regulated water and sewerage company is published by Ofwat here:

[https://www.ofwat.gov.uk/wp-content/uploads/2024/05/RCV-PR19\\_2024\\_Overall-.xlsx](https://www.ofwat.gov.uk/wp-content/uploads/2024/05/RCV-PR19_2024_Overall-.xlsx)

In order to achieve this overall objective, the Company's capital management, among other things, aims to ensure that it meets financial covenants attached to the interest-bearing loans and borrowings that define capital structure requirements. Breaches in meeting the financial covenants would permit the bank to immediately call loans and borrowings. There have been no breaches of the financial covenants of any interest-bearing loans and borrowing in the current period.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 March 2024 and 2023.

## 27. Commitments

Capital expenditure contracted but not provided at 31 March 2024 was £165.8m (2023: £93.6m).

The Company has guaranteed Bonds of £2,499.4m (2023: £2,296.3m) issued by its wholly owned subsidiary company Wessex Water Services Finance Plc.

The Company has provided performance guarantees on its own behalf of £0.5m (2023: £0.5m).

## **28. Contingent liabilities**

### *Claims relating to the Environmental Information Regulations 2004 (EIR)*

Alongside the rest of the sector, five claims have been issued against the Company. The claims allege that in breach of the UK Environmental Information Regulation obligations, the Company failed to provide environmental information free of charge. Consequently, the personal search companies were required to purchase CON29DW searches in order to access information. The claimants are seeking restitution of the sums paid, however, these sums are not considered reliable. The Company is defending the claims. The first phase trial took place in November and December 2023 and judgment was handed down on 28 June 2024. The judgment is largely in the defendants' favour, however it is likely that the claimants will explore potential grounds for appeal. In the absence of an appeal there is still the possibility of a second phase trial (considering levels of compensation), however it remains to be seen which issues fall to be determined at that trial or whether, in light of this judgment, it is required at all.

### *Innovation competition*

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

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

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

### *Incident at Avonmouth Water Recycling Centre*

Investigations into the incident at Avonmouth in December 2020 are ongoing. We continue to co-operate with the investigating authorities. It is not possible to assess any financial penalties or related costs that could be incurred as a result of such investigations.

### *Flow to full treatment investigation*

In November 2021, Ofwat and the Environment Agency announced separate industry-wide investigations into Flow to Full Treatment at waste water recycling centres. Ofwat has since opened enforcement cases into six companies, including the Company. Ofwat published an update on its investigation in August 2023: Investigation into sewage treatment works - Ofwat. The EA continue to issue written requests for information and have conducted a number of visits of Water Recycling Centres. The Company continues to work with both organisations as they continue to gather further information to inform the investigations and next steps.

## 29. Significant transactions with related parties

There were no transactions with key management personnel.

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

There have been no transactions with pre-penultimate, penultimate and ultimate holding companies described in note 30.

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

	<b>2024</b>	2023
	<b>£m</b>	£m
<b>Sales of goods and services:</b>		
Fellow subsidiaries	<b>89.9</b>	83.1
Other group companies	<b>0.8</b>	0.4
Immediate holding company	<b>1.2</b>	1.8
Associate companies	<b>1.5</b>	1.4
<b>Purchase of goods and services:</b>		
Fellow subsidiaries	<b>4.7</b>	5.9
Other group companies	<b>0.7</b>	0.9
Immediate holding company	<b>0.6</b>	0.6
Associate companies	<b>14.4</b>	13.6
<b>Interest expense:</b>		
Subsidiary	<b>172.4</b>	127.3
<b>Year-end balances owing by:</b>		
Fellow subsidiaries	<b>22.3</b>	23.1
Other group companies	<b>0.3</b>	0.2
Immediate holding company	<b>16.1</b>	17.0
Associate companies	<b>1.0</b>	0.8
<b>Year-end balances owing to:</b>		
Subsidiary	<b>2,526.9</b>	2,312.8
Immediate holding company	<b>14.8</b>	14.8

### *Terms and conditions of transactions with related parties*

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

At present the Company has no expected credit loss on intercompany receivables. The Company has assessed the amounts of future cash flows and probability of default and concluded that no material provision is required.

The Company has guaranteed Bonds of £2,499.4m (2023: £2,296.3m) issued by its wholly owned subsidiary company Wessex Water Services Finance Plc. The bond proceeds are lent to WWSL on the same terms as the bonds themselves.



### **30. Ultimate parent company and parent company of larger group**

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

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

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

### **31. Subsequent events**

The final dividend for the year was declared in March 2024 and paid in April 2024. On 9 April 2024, the company repaid £50m in relation to a European Investment Bank term loan.

On 28 June 2024 the Company secured a £300m loan facility for 12 months with an option for the company to extend the loan for a further 6 months and the undrawn revolving credit facilities referenced in note 18 were increased to £300m with a maturity date of June 2027.

### **32. Accounting estimates and judgements**

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

#### **a) Defined benefit pension scheme deficit**

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

#### **b) Expected credit loss provision**

The expected credit loss on outstanding receivables is a key estimate under IFRS 9. We base our estimate of recoverability by grouping customers into similar economic profiles and applying a percentage loss rate based on forward looking judgements on the future collection rates that are likely to be achieved. In particular for the year ended 31 March 2024 this has included additional considerations of the possible impact of the ongoing 'cost of living crisis' on the expected collection rates of outstanding receivables at the balance sheet date. These assumptions are discussed in note 25. A 1% reduction in collection rates would increase the expected credit loss allowance by £5.7m.

## **32. Accounting estimates and judgements (continued)**

### **c) Revenue recognition**

The unbilled income accrual from metered water services requires an estimation of the amount of commissioning unbilled charges at the period end. This is calculated using system generated information based on average customer volume usage. A 2% movement in average consumption equates to a £1.1m movement in the unbilled income accrual.

### **d) Asset lives**

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

## **Significant judgements**

### **e) Classification of capital expenditure**

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

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

## **Opinion**

We have audited the financial statements of Wessex Water Services Limited for the year ended 31 March 2024 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Equity and the related notes 1 to 32, including material accounting policy information. The financial reporting framework that has been applied in their preparation is UK adopted international accounting standards.

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 March 2024 and of its loss for the year then ended; and
- have been properly prepared in accordance with UK adopted international accounting standards.

## **Basis for opinion**

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

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

## **Conclusions relating to going concern**

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for the period to 31 December 2025.

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

## **Other information**

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

Our opinion on the financial statements does not cover the other information and, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

### **Responsibilities of directors**

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

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

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

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

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

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

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are:
  - UK adopted international accounting standards
  - Financial Reporting Council (FRC)
  - Tax Legislation (Governed by HM Revenue and Customs)
  - General Data Protection Regulation
  - The UK Bribery Act
  - Anti-Money Laundering Legislation
  - Health & Safety Legislation

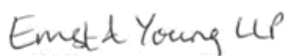
- Ofwat Regulations
  - The Water Act (2003; 2014)
  - Environment Act (1995; 2021)
- 
- We understood how Wessex Water Services Limited is complying with those frameworks by enquiring with management to understand how the company maintain and communicate its policies and procedures in relation to these areas. We evaluated the entity level control environment through discussion with management and in-house legal counsel and inspecting policies and observing the control environment.
  
  - We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by meeting with management and internal audit to understand where they considered there was susceptibility to fraud. We also considered performance targets and the potential incentives or opportunities to manage earnings. We considered the programmes and controls that the Company has established to address the risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those programs and controls. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free from material fraud.

Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures involved making enquiries of key management and in-house legal counsel, reviewing key policies, inspecting legal registers and correspondence of non-compliance from the relevant authorities and reports from any external legal teams, and reading board meeting minutes. We performed journal entry testing to ensure that there are no unusual legal or penalty expenses incurred during the year that haven't been disclosed and to ensure that the management is in compliance with the applicable framework. For any non-compliance noted, we assessed the accounting implications and read the financial statements to evaluate the appropriateness of the disclosures.

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

### **Use of our report**

This report is made solely to the company's directors, as a body, in accordance with our engagement letter dated 2 July 2024. Our audit work has been undertaken so that we might state to the company's directors 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 directors as a body, for our audit work, for this report, or for the opinions we have formed.

DocuSigned by:  
  
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Simon O'Neill (Senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
Birmingham