



Delivering for our
customers **2016-17**
annual review summary

www.wessexwater.co.uk

Wessex Water
YTL GROUP



Welcome to Delivering for our customers 2016-17

annual review summary

To make it easier to find the information you are looking for we have produced four linked documents. Two of these, ***Delivering for our customers*** and ***Annual report and accounts***, represent our full non-statutory accounts prepared to allow users of the regulatory ***Annual performance report*** to reconcile those results to the company accounts.

Delivering for our customers

This summary document provides an overview of our progress against performance commitments, as well as our other company targets. The document also provides an overview of the financial and sustainability accounts for the year. If you are interested in more detail, this is provided in the following supporting documents.

Annual report and accounts

The governance report explaining how the board undertakes its duties and non-statutory financial accounts.

Annual performance report

The regulatory accounts and more detailed information regarding the company's progress against our performance commitments.

Sustainability indicators and accounting

A more detailed explanation of our sustainability performance including a broader range of performance measures and a more detailed explanation of the sustainability accounts.

All these documents are available on our website: www.wessexwater.co.uk

Contents

Annual review summary	1
About Wessex Water	2
Chairman's welcome	3
Managing director's introduction	4-5
Strategic report	
Performance at a glance	6-9
Customers and communities	10-15
Environment	16-20
Employees	21-26
Finance	27-28
Governance and assurance	29-30
Sustainability accounting	31
Income statement	32
Balance sheet	33
Cash flow statement	34
Board of directors	35-37

About Wessex Water

We provide water and sewerage services to more than 2.8 million customers in the south west of England.

Our overall mission is to provide outstanding sustainable water and environmental services.

Water (2015 - 2020)



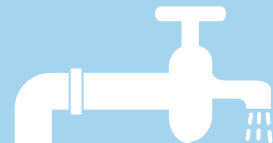
£240m

Safeguarding drinking water quality
Protecting our water sources to ensure highest quality water

We maintain and operate hundreds of water sources, treatment works, service reservoirs and pumping stations



We treat & supply
280 million litres of water a day



£405m
Providing reliable services

Including completing our water supply grid so we can move water around to avoid shortages

We maintain and renew
7,300 miles of water mains



£80m
Tackling leakage

Fixing 7,000 leaks every year

Sewerage (2015 - 2020)



£277m

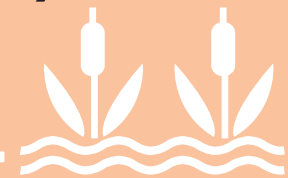
Minimising sewage flooding
Reducing incidents of sewage flooding by improving the sewerage network and managing rainfall run-off

We look after
21,600 miles of sewers

£50m
Reducing our carbon footprint
Producing more renewable energy from sewage waste



We take away & treat
480 million litres of sewage a day



£732m

Protecting rivers, lakes and estuaries
Improving water quality and enhancing the environment



£155m

Improving bathing water quality
Increasing levels of treatment and storm water storage to keep beaches clean

Chairman's welcome



On behalf of the board, I am pleased to present our 2017 annual review.

Globally, it has been a turbulent year with events that have surprised many: a vote for Britain to leave the European Union, Donald Trump elected President of the United States of America and a snap General Election in the UK. Despite this turbulence, we are pleased that YTL is able to increase our investment and commitment in the UK at this time.

Wessex Water is our flagship investment and, for the sixth year running, we have been rated by our customers as the best water and sewerage company in the country. We know that we can't rest on our laurels though and continue to look for ways to do even better.

It is our people who allow us to provide these excellent levels of customer service. It is our people who work hard to ensure we are resilient in the face of shocks. And it is our people who look after the environment and support local communities.

I am proud of the way Wessex Water works with local communities and I am delighted to see the collaborative approach we have taken on important issues this year. The YTL Group will also build communities around the new homes we are developing in Filton, North Bristol - not just bricks and mortar but spaces for people to interact, to enjoy and to build a fulfilling lifestyle.

The environment is something that we must not take for granted. I am pleased to say that we have one of the best records in the country for protecting Sites of Special Scientific Interest and we continue to work closely with people from all walks of life - from students to farmers - to improve the environment in which we live and operate.

As our customers move through life, their needs will change - we understand that anyone can become vulnerable at any time. Customers also expect us to make greater use of technology and automation and I am happy to see Wessex Water continuing to adapt and develop new approaches to achieve all of these requirements.

At YTL we take a long-term view and we own companies hand in hand with the people in whom we have invested. We will succeed as long as we keep serving the community well and keep aiming to be the best we can be. So, in that context, I thank all the unsung heroes of Wessex Water who are doing so well to provide vital services to our customers and communities.

I thank the Lord Jesus for His blessings and for our drive to play our part in being a positive force on humanity. We have had a successful year delivering services that are essential to people's lives and I look forward to many more years of ever-improving service. Our customers, stakeholders and communities continue to provide invaluable support for which I am also immensely thankful.

A handwritten signature in black ink, consisting of a large, stylized 'F' followed by a horizontal line and a small flourish.

Dr Francis Yeoh CBE
Chairman

Managing director's introduction



At Wessex Water we thrive on finding new ways to deliver the best levels of service and environmental performance.

We provide some of life's most essential services to millions of people in our area and we constantly look for new ways to deliver these. This year we have been pioneering two new approaches, EnTrade and catchment permitting, both helping us to deliver environmental improvements at the lowest possible cost to our customers.

Finding better ways to deliver often involves working in partnership with others such as farmers, our customers and our regulators. I'm very proud that with our great people and by forming strong partnerships with others we have once again achieved both industry leading customer service and environmental performance.

Excellent customer service

Our customers are at the heart of everything we do and we aim to provide an exceptional service experience that is inclusive and accessible to all.

We're one of only 10 companies in the UK to achieve the Institute of Customer Service's ServiceMark with distinction, the highest level of accreditation available to its 500-plus members.

We are one of only two water companies to commit to fixing as many reported leaks as possible within a single day - and this year we raised the bar to 70%.

We are committed to providing excellent quality drinking water and overall compliance in 2016 was 99.95%, and we now generate almost 30% of our total energy needs from the sewage that we process.

Resilience

Our services need to continue to be high quality in the face of both acute shocks and gradual stresses.

This year, by joining up our resources in a water grid we have avoided the need to develop new water resources to meet demand in the next 25 years. The grid also means that more of our customers have the added resilience of an alternative water supply should they need it.

This year we have also built more resilience into our system by helping customers to use water more wisely. We fitted efficient water devices and fixed faulty plumbing in more than 5,000 homes through our Home Check programme.

We are continuing our joint research programme with the University of Bath with whom we launched a water innovation and research centre based at the university. This helps to identify opportunities such as using the natural environment to help protect our rivers, lakes and estuaries.

Affordability

Affordability is important for our customers and therefore for us as we develop our future plans and proposals. Bills need to be affordable for all our customers.

We have kept average household bills flat since last year and have continued to work hard to support customers who are financially vulnerable and have difficulty paying. We are now helping more than 27,000 customers to pay ongoing charges and repay debt, as well as offering additional practical help to reduce water and energy bills.

It is 10 years since we introduced the industry's first social tariff and this year we introduced a new discount for customers receiving Pension Credit.

We provide help when and where it's needed most because we understand that anyone can find themselves vulnerable at any time through illness, unemployment or simply a change in circumstances like a bereavement or divorce.

Engaged communities

As a community business and one of the largest infrastructure investors in the region, it is important to us that individuals, households and community groups are engaged with their local water environment and actively support the delivery of our aims.

Managing director's introduction continued

We have led the way with ideas like catchment permitting and gone further still by investing in a number of very innovative projects, some of which are industry firsts. In the Poole Harbour catchment we have run the first reverse auctions to encourage farmers to plant cover crops that reduce the amount of harmful nutrients leaking into the water.

Our management of nearly 300 hectares of land designated as Sites of Special Scientific Interest (SSSIs) means that the condition of these vital habitats exceeded government targets. Of our SSSIs, 99.5% were assessed as being in favourable or recovering status.

Wessex Water's Young People's Panel brings the views of young adults into our decision making as we plan our future operations. To our knowledge this is the first 'youth panel' for this age group that a water company has organised. It is an innovative way of engaging young people, whereby we gain their insights and they gain real-life experience of a company, which also helps them develop their future careers. Some of their ideas are already being taken forward by us.

Our work with local schools allows us to showcase the work we do and encourage children to engage with the water environment around them.

Our people

It takes great people and great teamwork to provide water and sewerage services to nearly three million customers, 24 hours a day, seven days a week. That's why we encourage and reward our employees for their contribution to achieving our aims.

We seek their ideas and put them into practice, celebrate success at our annual awards and encourage them to go the extra mile with our GEM scheme.

This year we launched our People Programme, a dedicated programme of initiatives to address current and future strategic people priorities in areas including resourcing, talent management, reward and recognition, future working, diversity and employee wellbeing.

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

Financial results

Turnover for 2016-17 increased from £521m to £525m. Profit before tax was £152m (against £160m last year) because of the increased costs of meeting new obligations. We achieved all our key financial targets in the year.

Dividends were declared in accordance with board policy, which at all times is to preserve our investment grade credit ratings and access to new capital.

We continue to maintain a straightforward corporate structure, pay the expected level of corporation and other taxes and are classed by the Inland Revenue as low risk.

The future

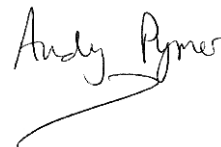
We have now published our updated strategic direction document at www.wessexwater.co.uk/ourstrategy

In it we set out what we aim to deliver for customers, wider society and the environment. And we explain our key priorities for the future, based on wide and ongoing conversations with our customers and stakeholders.

We have also set out the strategy by which we will deliver, focusing wherever possible on forming partnerships with others and harnessing market forces where they can help deliver more effectively and efficiently.

Our strategic direction is designed to inform both our water resources plan which runs to 2045, and our business plan proposals for service and environmental improvements to 2025.

This has been a great year for Wessex Water with achievements to be proud of in many areas. We look forward to continuing to innovate to help reduce cost, improve resilience and improve the essential services we provide.



Andy Pymer
Managing director

Performance at a glance

We aim to be the best and our performance this year continues to lead the industry. We have achieved the highest ever customer service score for a water and sewerage company in Ofwat's service incentive measure and we remain industry leading for environmental performance according to the Environment Agency.

We have met or exceeded most of our targets for the year, including those that were of most importance to customers, including minimising internal sewer flooding, for which we have achieved a provisional incentive payment.

This report includes our progress against 32 stretching performance commitments to achieve our long-term outcomes. Our performance commitments were developed in consultation with our customers and customer stakeholder bodies. Each has targets up to 2020 confirmed in Ofwat's final determination.

We have not achieved our targeted performance for three of our reputational measures and have abstracted more water than we targeted at our Mere source, resulting in a small penalty.

For two further measures our performance was close to the target and therefore no penalty is due.

For these measures we have included a reference to the explanation of performance in the tables below and more detail is provided in our Annual performance report, available on our website.



Performance at a glance continued

Performance commitments CUSTOMERS	Performance level			Target 2016-17	Performance vs target	Page reference
	Five-year average	2015-16	2016-17			
Service incentive mechanism (SIM) customer service score	n/a	87	88	>86	Better	
Customers rating service good/very good	97%	96%	96%	>95%	Better	
Customers rating good value for money	65%	78%	84%	72%	Better	
Customers rating ease of resolution	76.0%	81%	75%	Improving trend	Worse	11
Accessible communications	-	BS18477 & Customer Service Excellence award gained		Meet best practice	Same	
Bill as a proportion of disposable income	1.6%	1.5%	1.4%	Reducing trend	Better	
Restrictions on water use (hosepipe bans)	0	0	0	0	Same	
Drinking water compliance - Wessex Water assets	99.96%	>99.99%	99.98%	99.98%	Changed	14
Drinking water compliance - including customer assets		99.96%	99.95%			
Customer contacts about drinking water quality	2874	2431	2172	2072	Worse	14
Supply interruptions >3 hours (average minutes lost per property)	24.6	14.3	12.8	16.0	Better	
Leakage (MI/d)	68.7	68.3	68.3	68.6	Better	
Reported leaks fixed within a day	-	68%	70%	70%	Same	
Properties supplied by a single source	106,000	78,000	48,000	78,000	Better	
Internal flooding (incidents per 10,000 properties)	1.45	1.36	1.20	1.72	Better	
Flooding risk (combined risk score)	-	51,509	51,125	50,651	Worse	14

Performance at a glance continued

Performance commitments ENVIRONMENT	Performance level			Target 2016-17	Performance vs target	Page reference
	Five-year average	2015-16	2016-17			
EA's Environmental Performance Assessment*	AA/IL	IL	IL	IL	Same	
Bathing water compliance	-	98%	98%	100%	Worse	17
Improved bathing waters - schemes delivered	-	100%	100%	100%	Same	
Monitoring of combined sewer overflows	-	46%	50%	40%	Better	
River water quality improved (number of waterbodies)	-	-	8	0	Better	
Compliance with abstraction licences	100%	100%	100%	100%	Same	
Abstractions at Mere exported (MI)	421	172	341	100	Worse	18
Land actively managed for biodiversity	-	63%	73%	70%	Better	
Greenhouse gas emissions (kt CO ₂ e)	152	138	123	124	Better	
Proportion of energy self-generated	18%	25%	29%	22%	Better	
Volume of water used per person (l/p/d)	139	138	141	134	Worse	18
Volume of water saved by efficiency promotion - cumulative (l/p/d)	n/a	0.68	1.56	1.25	Better	
Water mains bursts (number)	1796	1663	1863	<1993	Better	
Sewer network collapses and bursts (number)	276	271	276	<300	Better	

* IL = Industry leading.

* AA = Above average.

Updated September 2019

Performance at a glance continued

Internal company targets EMPLOYEES	Performance level			Performance vs last year
	Five-year average	2015-16	2016-17	
Health and safety plan and accident statistics progress	n/a	-	Assessment	New
Employees rating company as a good employer	84%	83%	86%	Better
Compliance with training plan	100%	100%	100%	Same
Staff turnover	7.9%	8.8%	8.2%	Better
Diversity plan progress	-	Assessment	Assessment	Same

The following sections of the report explain the activities we carried out during the year. For a more detailed explanation of the performance commitments and the financial implications of this year's performance, refer to section three of the separate Annual performance report, available on our website: www.wessexwater.co.uk



Customers and communities

Our customer service vision is very simple. We aim to deliver the highest levels of customer satisfaction, make it easy for customers to deal with us and ultimately build trust and loyalty.

We achieve this by delivering what customers say is really important to them:

- excellent and reliable water and sewerage services at a price they can afford
- a service tailored to meet their individual needs
- choice and flexibility in the way they can communicate and interact with us
- a real person to answer the telephone
- resolving problems quickly and first time
- keeping them informed at all times using their channel of choice
- checking they are happy with the outcome if they have a problem
- compensating without quibble where things go wrong.

We encourage our staff to go the extra mile whenever they can and invite customers to let us know if we have done well or need to improve.

We remain the top performer in the water sector for customer service. This is the second year of Ofwat's new look service incentive mechanism (SIM) and we have again come top of all water and sewerage companies in the satisfaction surveys.

But we can't stand still. We want to become the best of the best, not just the best in the water industry, and we have challenges ahead of us:

- customer expectations continue to rise and they increasingly demand a more personalised and effortless service
- our future customers, the youth of today, will want a very different and increasingly digital customer service experience
- some areas of vulnerability are becoming more prevalent in society, such as mental ill health, and our staff need to be properly equipped to support our customers
- as we are very reliable, we are a silent provider to many, so we need to build stronger relationships with our communities.

We are rising to these challenges through our customer excellence programme, which is shortly entering its second year, and are also benefiting from our membership of the Institute of Customer Service.

In brief

- Topped the water and sewerage company league table in Ofwat's SIM satisfaction surveys.
- Retained our government Customer Service Excellence award.
- Achieved the Institute of Customer Service's ServiceMark with distinction for our operational contact centre.
- Continued to make progress on our affordability action plan, leading to a 28% increase in the number of low income customers receiving support with their bills or debt.
- Launched five new projects in hard to reach areas to promote our discounted tariffs to customers.
- Demonstrated our commitment to accessible and inclusive services for all by retaining the British Standard for inclusive services provision (BS 18477) and the Louder than Words charter mark.

Customers and communities continued

In detail

Customer service

Once again, we topped Ofwat's league table for satisfaction surveys. This is mirrored in our own satisfaction surveys where customers continue to score us highly on satisfaction, first-time resolution, staff conduct and knowledge and effort.

This year we implemented our real time feedback tool, allowing us to seek feedback on our service from more customers than ever. Under the guidance of our customer experience group, we use this information for continuous improvement of policies, processes, systems and training.

In terms of our performance commitments, 96% of our customers rate our service as very good or good. This is slightly below the long-term average and we are working hard to improve this.

Our value for money score has once again improved with 84% of customers rating our service as very good or good value for money. Our overall customer effort score has dipped slightly with 75% of customers saying it takes little or no effort to resolve their query, but the number saying it takes no effort at all has improved to 59%.

Compared with sectors outside water, our net promoter score compares favourably with many of the top household names. Our UK customer satisfaction index score shows we are towards the top of the utility sector and not far away from the top 50 companies across all sectors.

In September, the Consumer Council for Water confirmed that we continue to have the lowest number of complaints in the water industry - we have had no referrals this year to the water ombudsman, WATRS.

Day to day we are widening our use of alternative communication channels while remaining committed to offering personal telephone answering and, most importantly, choice for our customers. We have also extended our opening hours for operational contact and are seeing a growing number of customers opting for self-service, text messaging and Live Chat.

Keeping customers informed when we have problems on our network, such as a burst water main, or when we are fixing a problem at their own home or



premises, remains one of our key challenges. Proactive phone calls or text messages from our dedicated customer care team have proved an effective way to let customers know what the problem is, what we're doing to resolve it and by when, and they are helping to drive our satisfaction levels up.

The team oversees the whole customer journey, keeps it on track and can provide additional support to customers in vulnerable circumstances and this year they are in touch with more customers than ever before.

We've developed our metered bills so we are now able to provide graphical water use information. This will help customers compare their use over time and identify leakage.

Our billing customer relations staff have been through further training on adopting a more conversational style of writing, designed to make our replies to queries and complaints simpler, easier to understand, more personalised and overall more engaging. This has coincided with additional focus on complaints and root causes and the introduction of an improved two-stage, rather than three-stage, complaints process.

Customers and communities continued

We retained our government Customer Service Excellence award for our approach to customer service and have the best overall package of customer guarantees in the industry. We continue to hold the best practice mark of distinction from the Keep me Posted campaign.

Our operational contact centre has achieved the Institute of Customer Service's ServiceMark with distinction, one of only 10 in the UK to achieve this accolade.

We are about to enter the second year of our customer excellence programme and over the last year we've focused on:

- reviewing customer journeys from the customer's perspective and fixing any problem areas
- improving our communications
- developing better feedback tools and metrics
- improving our self-service offering
- reviewing all our community work
- extending our opening hours

Over this year, projects include a new and improved contact management system, a customer self-service portal and improved signage.

Customer engagement

We engage extensively with our customers and stakeholders, both in our day-to-day business and for specific programmes of work, such as preparation of our five-yearly business plan.

Our challenge group, the Wessex Water Partnership, oversees all our engagement and how it is used. The partnership has met six times and is independently chaired by Dan Rogerson, formerly water minister in the coalition government.

Our engagement strategy - Your say, your future - continues to develop and this year we've conducted major pieces of research to inform our long-term, 25-year vision, obtain customers' views on paying for changes in service levels and their opinions on the resilience of our services.

We successfully launched our Young People's Panel of 21 sixth formers recruited from schools and colleges across our region. These are our future

customers and it has been invaluable to hear about their priorities for service, their views on our day-to-day service offering now and in the future, and on topics such as resilience, intergenerational fairness and affordability.

Our Have your say online customer panel continues and this year we sought its views on:

- our 25-year vision
- our customer magazine
- experience of drought.

We follow up each survey with a newsletter to participants explaining the findings and what we are doing as a result.

Customers in vulnerable circumstances

Anyone can find themselves vulnerable at any time due to illness, unemployment or simply a change in circumstances like a bereavement or divorce. Because our customers are our priority, we are committed to providing extra care and help when and where it is most needed.

We pride ourselves on treating customers as individuals and tailoring our service to suit their needs, making sure we are inclusive and accessible to all. We have retained the British Standard for inclusive services provision (BS 18477) and the Louder than Words charter mark.

We have made sure staff have the right skills, confidence and awareness to deal with often quite complex situations and strengthened this with specialist training. Alongside Wiltshire Mind, we enhanced our training material for field staff by developing videos to support our Going the Extra Mile (GEM) programme and to help them spot the signs of mental ill health and how to support customers, colleagues, friends and family.

We are also an active member of the British Gas task force aimed at encouraging utilities to become dementia friendly and intend to make all our staff Dementia Friends over the next two years. We hold registers of customers with longer term disabilities or additional needs and, as they are likely to need the same support from their energy provider, we are doing all we can to signpost customers to other utilities. This year we renamed this service Priority Services, in line with energy companies.

Customers and communities continued

Through our assistance programme, **tap**, we continue to support those who are financially vulnerable. We are now helping more than 27,000 customers to pay ongoing charges and repay debt, while offering practical help to reduce water and energy bills – this represents a 28% increase over the year.

Around 10,000 customers are in receipt of our main social tariff, Assist, which offers discounts of up to 90% off water charges for those in the greatest financial hardship. A further 3,000 pensioners on Pension Credit are receiving a discount of around 20% on their bills.

Our partnerships with the debt advice community are thriving and we continue to believe that holistic advice is vital to help customers get back on track and into sustainable payment – it's never just about water debt. We are also liaising with a growing number of community based organisations outside the debt advice sector and using geographical mapping to help us engage with customers who are traditionally much harder to reach and likely to be some of the most vulnerable.

We have also launched five new projects in hard to reach areas such as deprived housing estates. We continue to support financial capability and money management projects in our communities, funding a further four this year through our Money Matters awards.

Community and education

We are committed to helping customers reduce water usage at home and use numerous methods to help them with their water use, attending summer shows around our region to encourage them to Be Smart about water.

Last year we were at Yeovil Air Day in Somerset inviting people to find out how to save water and money by learning more about our Be Smart love your loo campaign.

We were at the Bournemouth Air Festival answering questions and telling visitors about water saving initiatives in their homes and gardens.

And in September we attended Dorset County Show spreading information about our Be Smart switch to a meter programme, as well as environmental initiatives.

Our education advisers continued to visit schools across Bristol, Bath, Somerset, Wiltshire, South Gloucestershire and Dorset, teaching topics ranging from the water cycle to what happens to waste once it has been flushed down the toilet, to students of all ages and to community groups.

The advisers welcomed students to eight education centres across our region where the experience included a guided tour of the works and opportunities for hands-on practical work in or around the education centres.

During the last year, 29,104 students benefited from school visits and trips to water and sewage treatment works.

Our Watermark awards support organisations across our region with their environmental projects.

Last year awards included one to help a Somerset school with its swift nesting box project and another to aid a project to save a rare butterfly – the Duke of Burgundy.

Groups and organisations in Dorset, Wiltshire and Somerset with environmental and wildlife projects in areas along our water supply grid scheme received funding for environmental initiatives through our grid community awards.

The awards helped restore a historic pond in Dorchester and supported Wiltshire Bat Group to purchase new monitoring equipment to study a rare species of bat.

Customers and communities continued

Market opening

In April 2017, the retail market opened to enable 1.2 million non-household customers to choose their retailer for water services.

To meet this challenge we delivered our Open Water programme to ensure we operated effectively, compliantly and on budget in the new market.

This was achieved through a strategy of providing a wholesale service which is 'best for business and right for retail'. This meant continuing to supply excellent water quality, great sewerage standards and industry leading customer service to retailers and their customers.

We were also able to test our approach in the shadow market – a practice run before the official opening – which ran from October 2016 to March 2017.

Water and sewerage

Our service delivery and investment plans focus on our outcomes; the results of our consultations with customers and other stakeholders.

Highest quality drinking water

We are committed to providing the highest quality drinking water to our customers.

Our overall compliance with drinking water standards in 2016 was 99.95%, marginally below our long-term performance.

In 2016, there were 23 failures out of approximately 34,000 tests, of which 20 were due to domestic plumbing and service pipe issues such as lead pipes, nickel taps and copper plumbing. The remaining three exceedances were related to our own iron water mains.

There was a further reduction in the number of customer contacts about acceptability of water due to the ongoing benefit of our mains rehabilitation work and improved customer communications.

Sewage flooding minimised

Sewage flooding is a rare occurrence but when it does happen it can be devastating – so tackling it remains a key objective.

The number of flooding incidents caused by blockages in public sewers fell further, down to 1.20 incidents per 10,000 properties compared to our target of 1.72.

This was the result of:

- our campaigns about the problems caused by flushing wet wipes down toilets and pouring fat down sinks
- optimising operational maintenance
- the generally dry weather conditions in the region last year.

Members of the public are being misled by advertising and labelling related to certain wet wipes and other products branded as 'flushable'. Following our complaint to the Advertising Standards Authority, it decided that this issue did not sit within its area of enforcement, but the action was successful in raising public awareness.

In 2015, we introduced a new and innovative measure of overall flood risk due to inadequate capacity, which could potentially cause internal or external flooding. Last year we invested £9m to reduce this risk at 99 locations, but we have narrowly missed the target. We expect to complete a large project at Brent Knoll in the first half of 2017-18, which will put us on course to meet the target.

The responsibility for flooding is often complex and we work with local authorities as they produce surface water management plans and sustainable strategies for flood management. We were consulted more than ever before, attending more than 100 liaison meetings. Together with Wiltshire Council and the Environment Agency we are trialling a shared resource to review planning applications in Wiltshire.

We have contributed a further £50k towards the partnership scheme to reduce flooding at Cannington in Somerset and £25k towards a sustainable partnership scheme in Southmead, Bristol.

Customers and communities continued

Resilient services

Our asset management framework continues to help us maintain a truly integrated approach to risk and investment decision making. Last year we were recertified to the international standard for asset management, ISO55001:2014.

During the year we carried out an assessment of the resilience of our business, assets and services. The methodology we use assesses the status of our systems and processes and identifies improvements; it also provides a consistent framework to manage progress. We will carry out the assessment annually.

In 2010, we began work on our biggest ever project, a major integrated water supply grid, and it remains on track for completion in 2018. Once fully operational it will enable us to:

- reduce abstractions from sensitive groundwater sources
- move water more effectively around our region
- ensure future demand is met
- improve the resilience of supplies to customers.

All the major pipelines have been laid and work is well advanced on the final parts of the scheme at Black Lane in Blandford and Codford, near Warminster. For the first time ever we have transferred water between our southern and northern resource zones, thus delivering some of the benefits of the scheme in advance of the target date.

This year we have reduced the number of properties supplied by a single source by a further 30,000, ahead of the agreed programme.

On the sewer network our infiltration reduction plans continue to reduce the risk of groundwater entering public and private sewers and drains. We proactively inspected more than 90 km of sewers and permanently sealed 5.2 km of leaking sewers.

Environment

Our region has many of the country's finest rivers and streams and we are focused on working with other stakeholders in continuing to protect and improve their condition.

By cutting leakage and managing customer demand and working with communities where there is concern about local effects of abstraction, we have reduced water abstraction.

We have upgraded sewage treatment to avoid adverse effects from contaminants such as ammonia and excessive nutrients. And we have reduced the number of pollution incidents from our sewers, usually caused by blockages, and work with the Environment Agency and local councils to address water pollution caused by misconnected domestic plumbing.

Our region is rich in wildlife and has a large number of areas protected by international and national designations. We take our duties towards the environment seriously and are actively reviewing our landholding and integrating this information with our geographic information system to develop land management plans to improve biodiversity.

All projects within our capital investment programme are subject to detailed environmental screening to avoid harming wildlife. We also offer grants to wildlife organisations under our biodiversity action plan partners' programme, which is helping to further our catchment management objectives.

Collaboration and innovation underpin our significant early progress against our challenging environmental outcomes. This has resulted in our industry leading performance.

In brief

- Industry leading performer according to the Environment Agency's Annual Environmental Performance Assessment.
- 100% compliance with abstraction licences.
- 100% compliance with discharge consents (sanitary standards) and 99.4% compliance with all standards.
- A reduction of pollution incidents from 25 to 22 per 10,000km of sewers and improved levels of self-reporting.
- 100% compliance with sludge standards.
- No prosecutions.
- 100% of the National Environment Programme projects delivered on time.
- Hosting catchment partnerships in the Bristol Avon and Dorset Stour, as well as initiating a catchment resilience and adaptation project with Local Enterprise and Nature Partnerships in the West of England.
- The first water company to pioneer sustainable, alternative approaches to tackling nutrient levels in the environment via our catchment permitting pilot, reducing phosphorus levels, and a reverse auction nutrient trading platform (EnTrade) in Poole Harbour to reduce nitrogen leaching into watercourses.

Environment continued

In detail

Improved bathing waters

The only bathing water within our region that is failing to meet the 'satisfactory' standard is at Burnham Jetty. This is a result of tighter directive standards rather than any underlying deterioration in water quality and is why our performance commitment for beaches passing EU bathing standards is reported as 98% against our target of 100%. We have an agreed programme to improve our assets that may affect the Burnham Jetty bathing water.

We completed the National Environmental Programme during the year, achieving 100% performance against target to deliver agreed schemes. Outputs from the programme include:

- constructing a 1,200m³ underground storage tank at Sloway Lane pumping station near Highbridge
- increasing pumping capacity at Blake Gardens in Bridgwater to reduce overflow operation
- proactively investigating misconnections of foul flows that could end up in the River Parrett in Bridgwater
- installing 67 event duration monitors at overflow locations.

We are supporting Litter Free Coast and Sea project officers in both Dorset and Somerset to raise awareness and ownership of bathing water quality and to promote behaviour change campaigns for local residents, tourists and businesses.

Rivers, lakes and estuaries protected

Our programme for this asset management plan period (AMP6) includes the reduction of phosphorus concentration in discharges at 47 sewage treatment works.

During the year, our in-house engineering team began detailed design on the first group of these schemes, with the first few starting construction on site, and also began outline design on the next group.



The National Environment Programme also includes a series of phosphorus technology trials designed to test the performance of new processes to meet future, more stringent targets for phosphorus levels in sewage discharges required by the EU Water Framework Directive.

We have completed four full-scale trials, including a magnetite assisted settlement process, absorptive media reed beds and stretching existing chemical dosing performance on tertiary sand filters and activated sludge plants.

Under this programme we are working with the University of Bath to develop a high-rate algal pond for the removal of phosphorus from sewage effluent. This plant has been constructed at Beckington sewage treatment works and we are currently monitoring its performance.

Environment continued

Tackling leakage and improving water efficiency

We are committed to reducing the amount of treated water that is used unnecessarily or lost through leaks from our pipe network. This maintains the resilience of our services and helps to keep bills affordable. We have maintained leakage at 68 MI/d which is below our agreed target for the year and also met our target of fixing 70% of leaks reported to us in the same day.

We completed more than 5,000 free in-home water efficiency checks, fitting devices and sharing behavioural advice, and repaired nearly 4,300 of our customers' leaking pipes free of charge to help reduce their water use.

While we met our target for water saved through water efficiency promotion, average daily water use has increased to 141 litres per person, which is above our target. This was due to the exceptionally dry weather experienced from June through to late autumn.

With the completion of our water supply grid in 2018 we will be operating well below the economic leakage level meaning that, without new ways of working, the cost of reducing leakage further will outweigh the value of the water saved. We will continue to innovate as we seek to meet our target of 66.5 MI/day by 2020.

Water resources

Overall, 2016-17 was a drier than usual year with 86% of average rainfall across the region.

Resource management actions and rainfall in early 2017 helped improve the resource position and, although reservoirs refilled later in the season than we usually experience, by the end of the year storage stood at 91% of total capacity. Some groundwater levels and river flows were still below average at the end of the year.

Using our performance measure to limit abstraction at our Mere source has resulted in significant reductions in output. In 2016-17 we were able to minimise abstraction between July and November. However, we then had to return to regular abstraction levels to help manage the effects of the dry autumn on the wider resource situation and the need for other source outages

as part of our grid investment programme. During the year we used 341MI against a target of 100MI and we anticipate this performance will improve later in the AMP once the supply grid is fully commissioned.

Last year was the 41st since we imposed any customer restrictions on water use, such as hosepipe bans. During the year we developed a new draft drought plan setting out how we will respond to periods of drought - public consultation on this plan will take place during 2017-18. We have also started work on developing a new water resources management plan that looks 25 years to the future.

Environmental investigations

Our investment should always be based on sound scientific evidence. By gathering data through investigations we can better understand our impacts and then trial solutions.

In AMP6, we are delivering 45 environmental investigations covering a range of issues:

- the occurrence and removal of hazardous and emerging substances from sewage effluent
- trialling new, sustainable treatment solutions for phosphorus removal
- understanding the ecological impact of our reservoirs and abstractions
- understanding the effect of our sewage treatment works on the nutrient levels within rivers, compared to other sources, at a catchment scale
- trialling techniques to restore and enhance grassland and woodland habitats, improving connectivity for species to disperse.

A number of investigations have been concluded, including one to understand the effects of our assets upstream of and around Taunton on the bathing water quality at Burnham Jetty. This included tracer surveys, complex hydrological modelling of the river system and extensive sampling. The data indicated that there is a limited effect from these assets on bathing water quality, so no further investment is recommended.

This work will feed into our proposals for AMP7 to deliver the most cost effective and sustainable solutions for our customers with the best environmental results.

Environment continued

Wildlife and conservation

In order to develop our performance commitment to assess 100% of our landholding for biodiversity, we have surveyed our key conservation sites extensively over the last five years, resulting in changes to their management. So far, most of our holdings in excess of 10 hectares have been surveyed, amounting to just over 70% of our land area.

In 2015, we appointed a part-time conservation, access and recreation (CAR) officer to help improve these elements of our landholding for the public. The role is to oversee and co-ordinate CAR projects at some of our largest and most visited sites, and those of greatest importance for wildlife and heritage.

Ten new projects have been initiated this year, including the refurbishment of the toilet block at Sutton Bingham reservoir, improving footpaths at Otterhead Lakes and Tucking Mill reservoir, a public bat walk at Backwell Lake and tree surveys and improvement works across a number of sites.

We continue to support wildlife projects funded by our Biodiversity Action Plan Partners Programme up to £80,000 per year and will be supporting four projects in our area between 2015 and 2020.

Our small grants scheme, new for this phase of the programme, has supported three projects this year which have led to:

- the creation of training materials
- improving accuracy of riverfly monitoring
- recruiting volunteers
- constructing brushwood berms to improve river flow
- exploring new ways to control the invasive Himalayan balsam.

Reduced carbon footprint

One of our long-term sustainability goals is to be carbon neutral in our operations. Our net greenhouse gas emissions fell to 123 kilotonnes carbon dioxide equivalent in 2016-17.

This was our lowest since 1999-2000 and meant we met our performance commitment for the year. The reduction was the result of work to improve energy efficiency, increase and diversify renewable energy generation and the falling carbon dioxide intensity of UK grid electricity.

Our electricity use continues downwards from its peak in 2007-08, largely through concerted energy efficiency work which is delivering around four gigawatt hours of savings each year. We are also gaining financial benefits by using innovations such as Open Energi's dynamic demand system which enables instantaneous, temporary adjustment of the site's energy use to maintain a balance on the local electricity grid.

Following installation of advanced anaerobic digestion and associated electricity generation at Trowbridge sewage treatment works in 2015-16, we are making good progress with a scheme to improve digestion at Berry Hill, near Bournemouth.

Meanwhile, our operating division GENeco has finalised an agreement with Unilever for a certified supply of biomethane originating from anaerobic digesters at Bristol sewage treatment works.

Innovation

Our environmental investigations programme aims to gather knowledge and data from locations potentially experiencing environmental stress in order to better understand the scale of the issue.

One project, in the Bristol Avon catchment, involves a novel approach to regulating effluent discharges. We have agreed with the Environment Agency a mandatory reduction of 46 tonnes of phosphorus from a group of 24 sites at a cost of £20m less than the traditional approach; each of these in turn has a discretionary stretch target.

This is a more flexible approach than usual, which will allow optimisation of existing treatment and the use of novel processes or additional treatment that has not been over-sized.

Environment continued

Our Eureka programme rewards staff who have proposed projects that save money, improve service to customers, reduce risk and improve the ways we work. In 2016, there were 91 suggestions overall, of which 16 were rewarded and five deemed suitable for wider roll-out.

In addition, we have introduced directors' challenges where a defined issue is put to the entire company for ideas.

The first two, which concerned protection of drinking water quality once it is in the distribution network and options to reduce fly nuisance at sewage treatment works, received positive responses.

We carry out regular trials of new products developed by other companies and in 2016-17 these included:

- a hydrogen sulphide resistant product that deals with corrosion in pipes and tunnels
- an epoxy lining system that can be used for sewers more than 300mm in diameter
- a mobile unit that analyses the phosphate content of river water.

We continue to develop better ways to tackle our most pressing environmental and social concerns. One of these, launched this year, is EnTrade - an innovative, market-based method for improving the water environment. EnTrade involves an online platform by which farmers bid for payment to carry out measures such as planting cover crops that reduce the amount of nitrogen that leaches from soil into groundwater. This approach is much more cost-effective than conventional engineered solutions and the first two auctions were comfortably oversubscribed.

The first part of our joint research programme with the University of Bath concluded in 2016-17. The main themes were low energy nutrient recovery

from sewage, methods for increasing biogas from sewage sludge digesters, emerging pollutants in waste water, and improved techniques for understanding and comparing the whole life costs of water management.

Meanwhile, the university's Water Innovation Research Centre, formed with our assistance in 2014-15, continues to develop. The last 12 months saw the formation of an advisory board that brings together individuals from industry, regulators and academia, plus the hosting of its first water science and engineering conference and the UK International Water Association's Young Water Professionals event.

Environmental resilience

The resilience of our services to customers is closely tied to the resilience of the wider water catchments in which we operate.

Catchment-based strategies are now a business as usual approach to protecting our service levels; often this means we are able to deal with the source of the problems not the symptoms. We are currently working with farmers at 20 sites to reduce nitrate levels in groundwater sources or to remove pesticide risks from reservoirs.

We are now also taking catchment-based approaches to reducing nitrate run-off into Poole Harbour rather than installing nitrate removal at a sewage treatment works and are finding innovative ways to maximise the benefits achieved at the lowest cost to customers.

We have extended the work we do to promote the more efficient use of water and during the year we visited more than 5,000 homes, fitting water saving devices and offering advice, resulting in a saving of 50 litres per person. The service has had excellent customer feedback and we will be extending its reach during 2017.

Employees

We aim to be an employer of choice and provide all employees with the opportunity to develop to their full potential and have a rewarding and satisfying career.

We provide our employees with the skills, expertise and professional development they need to perform to the highest level. In return, our employees are highly motivated and engaged and consistently provide outstanding and industry leading levels of customer service.

Our people are of the utmost importance to us and our continued success is built on their commitment, goodwill and performance.

Apprenticeships are a key element of our resourcing strategy to build and maintain a sustainable workforce to meet current and future needs. We are proud that we have recruited a higher percentage of young women into technical apprenticeships compared to the regional and national average in both the engineering and construction sectors - this reflects the work we do to bring young women into our sector.

Promoting and encouraging diversity and inclusion has been a key focus again this year. We firmly believe the diversity of our workforce should reflect the community we serve. We recognise that difference in personal characteristics is positive and brings richness to our work environment that is essential to our continued success.

We continue to develop and implement a range of diversity initiatives and we continue to promote flexible and remote working, together with flexible retirement aimed at easing people into retirement gradually.

Protecting the health, safety and welfare of our staff, contractors and customers remains the highest priority.

In brief

- We continue to have a strong, positive and engaging culture.
- We were awarded the prestigious Sir George Earle trophy by RoSPA, the pinnacle of the RoSPA awards scheme and internationally recognised as the premier award for occupational health and safety.
- We invested an average of three days' development training for all staff.
- We have developed an apprenticeship strategy to deliver entry talent programmes and long-term staff development training.
- 12% of our technical apprentices recruited in the past year are female. This exceeds the regional and national average in both engineering and construction sectors and is a reflection of the work we do to bring young women into our sector.
- An excellent 90% retention rate of apprentices since 2010.
- We have reviewed and improved our leadership and management skills programmes in order to meet the needs of a changing business and ensure we grow and develop our existing talent and potential from within.
- We have continued development of diversity initiatives with a focus placed on flexible and new ways of working.
- We launched our People Programme to address current and future people priorities.

Employees continued

In detail

Training

Training and development continues to be of integral importance and we have delivered more than 650 courses with an average of three days' development training per employee.

We continue to work in partnership with a number of local colleges and universities to enhance our management development programmes. In partnership with the University of the West of England, we have delivered our accredited Institute of Leadership and Management Level 5 programme, which has been very successful.

As part of our talent and succession planning, we continue to invest in two-day development centres for nominated high potential employees. This led to rotation, secondment and mentoring opportunities providing our people with identified career development opportunities.

Apprentices

We are seeing the benefits of running apprenticeship programmes and have an outstanding retention rate with our apprentices. Over the past year we employed 43 new apprentices with another 42 posts expected to be filled in the next six months.

We have continued to engage our local young people in apprenticeships. We held our second apprenticeship open day in November 2016 to coincide with National Engineering Week and again welcome around 300 visitors to learn more about the company and the career opportunities available to young people in our business.

Taking advantage of our volunteering policy, our apprentices took part in the Brathay Apprenticeship Challenge. Through the challenge, they visited more than 20 schools and careers fairs to promote the concept of apprenticeships to young people. They also designed, resourced and built an outside learning space for St John's Primary School in Trowbridge.



“Thank you very much for the outdoor structure you have designed, sourced materials for and built as your community project. It is fantastic and the children’s learning will be greatly enhanced by having a shelter to use when taking part in outdoor lessons. The apprentice team from Wessex Water have been very professional throughout the whole process” Erica Pagan, School business manager.

We are proud that 12% of our technical apprentices this year are female - this exceeds the regional and national average in both engineering and construction sectors and is a reflection of the work we do to engage young women into our sector.

We have again worked with our training providers to support local women into engineering events, and ensure our vacancies are promoted to all kinds of young people across our region.

Employees continued

As the government changes the focus of apprenticeships, we will ensure we make best use of the reforms and this year we introduced our first higher level apprenticeship. The Civil Engineering higher level apprenticeship saw four apprentices develop skills and knowledge across our entire Engineering and Construction directorate whilst also studying towards an HNC in Civil Engineering and a NVQ Level 4 in Construction Site Supervision. As the scope of apprenticeships widens, we will continue to offer more Higher Level Apprenticeships and introduce Degree Level Apprenticeships.

Diversity

We value the differences that a diverse workforce brings and are committed to creating and promoting an inclusive workplace for all employees and others who work with us as suppliers, contractors or customers.

We continue to place strong emphasis on promoting diversity and inclusion within the company, ensuring everyone has an equal chance to progress their career with us regardless of age, gender, sexual orientation, ethnicity, disability, cultural background and carer responsibilities.

We have developed and implemented a range of diversity initiatives this year, including policies on hearing loss, facilitated action learning sets for employees to support one another through supported facilitation and coaching.

We hosted a Women in Sustainability networking event to promote and encourage membership within our company and we have been an active member of the Business Disability Forum.

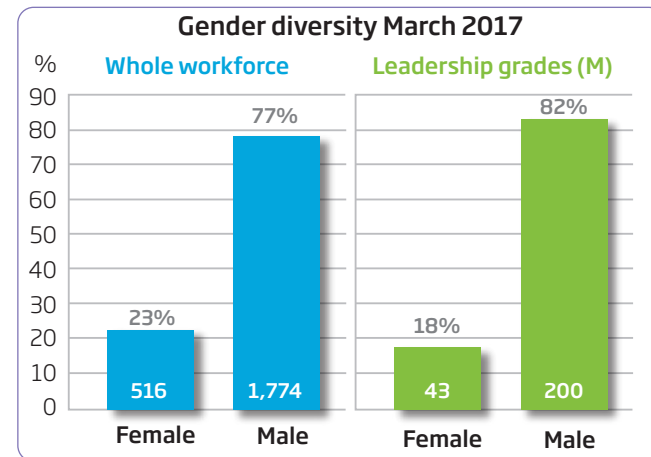
We have promoted our volunteering policy and encouraged staff to volunteer in our community and we continue to promote flexible and remote working together with flexible retirement aimed at easing people into retirement gradually.

Diversity remains a key focus within our strategic People Programme and our aim is to reflect the community we serve.

Diversity scorecard

In March 2017, there were 2,290 employees, of whom 516 were women and 1,774 were men. There are 14 board directors of whom 11 are men and three are women, and 52 senior managers of whom 10 are women and 42 are men.

During the last year, the number of women employees in our workforce increased to 23%, whilst in leadership roles the number of women managers increased by 2% to 18%.



Employees continued

Culture

We continue to have a strong, friendly and positive culture and staff enjoy working for us and with each other. We held a staff survey this year and 86% of employees rated us a good company to work for and 77% rated us a great place to work. Our staff engagement was 80%, an increase of 3% from last year. Our employees are important to us and we listen to their feedback.

We want to ensure they continue to feel valued and to make a positive difference to their day-to-day lives. To help us achieve this we have launched a People Programme, a five-year plan to oversee and invest in a series of activities to benefit our employees, to attract and retain highly skilled staff and help build a sustainable workforce for the future.

Health and safety

As a responsible employer it is clear to us that the management of health and safety is critical to our success. Protecting the health, safety and welfare of our staff, contractors and customers remains an established and shared responsibility that is essential to maintaining our reputation.

We continue to develop and embed a strong health, safety and welfare culture in our day-to-day operations that targets zero accidents and supports our aim to be a great place to work in which all employees can work safely and reach their full potential.

We monitor all accidents and incidents reported by employees and the information we collect assists in determining problem areas and allows resources to be allocated to ensure that the situation does not escalate.

During the year we have encouraged staff to report all incidents and especially near misses. Any report that raises significant concerns is subject to additional investigation and where appropriate the situation is rectified or procedures improved.

Position for the 12 months to 31 December 2016:

- 539 incidents reported (an increase of 17% from 2015)
- no fatalities or life changing (permanently disabling) injuries
- no reportable diseases or dangerous occurrences
- 10 incidents were notifiable to the Health and Safety Executive (an increase of three from 2015)
- 230 working days lost through notifiable incidents (a reduction of 40% from 2015)
- no enforcement action from the Health and Safety Executive.

Despite an increase in the overall number of reportable incidents during 2016, overall safety performance was within the company target.

Reportable incident rate

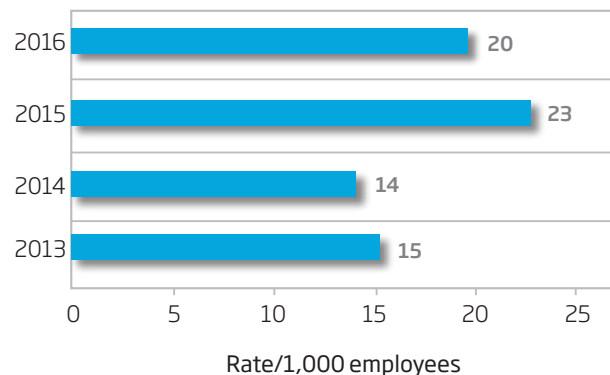
This is the measure of the number of reportable incidents per 1,000 staff. Continued improvements in performance were noted against 2014 and the three-year average.



Employees continued

Lost time incident rate

This includes all reported incidents involving staff that resulted in absence from work of one or more days. In 2016 there was a slight reduction in the number of incidents with 40 lost time incidents. The principal causes of lost time in 2016 were slips, trips and falls and manual handling.



Safety Smart

More than 850 staff attended a Safety Smart day. The day comprised a business update, health and safety presentations and an interactive safety scenario using actors to play out an incident based around a life changing injury sustained after a fall through defective mesh flooring.

Health and safety awards

Our commitment to safety and performance has been recognised by two external safety bodies.

Engineering and Construction were awarded the prestigious Sir George Earle trophy by RoSPA. This is the pinnacle of the RoSPA Awards scheme and is internationally recognised as the premier performance award for occupational health and safety. RoSPA acknowledged our committed and insightful

management and the innovative and unique approach to changing behaviour based on expanding the awareness of teams, whilst also engaging and using them as a source of innovation.

Operations were awarded a distinction in the British Safety Council's 2016 International Safety awards with a score of 59 out of 60 and were shortlisted for the Power and Utilities sector award that recognises outstanding performance.

External engagement

To improve awareness and safety at roadworks we have joined the charity SafeWise which has centres at Weymouth, Bournemouth and Devizes. The charity works with schools and young people to educate them about the risks in the home and on the roads, using full scale street scenes.

Staff from Engineering and Construction had been involved with the charity and in particular a focus group involving disabled charities that identified safety improvements for pedestrians around roadworks. In support of speeding issues at roadworks we have produced a hard-hitting video designed to slow down drivers passing roadworks. The video is used at driver awareness sessions run by Dorset and Wiltshire Police for people who have been detected committing a road traffic offence.

Future initiatives

Our overall performance is encouraging and remains within target but we continue to look for new ways to improve. We are developing a safety incident and observation app to improve the ease of reporting incidents and near misses as well as trialling a driver behaviour programme. We are also reviewing the company arrangements for managing the safety of lone and mobile workers and trialling female fit personal protective equipment.

Financial performance

The UK group structure has remained the same since 2002 with the company wholly owned by Wessex Water Limited, which in turn is wholly owned by YTL Utilities (UK) Limited. Neither of these entities provide any intra-group funding to the company with virtually all of the debt raised for the UK group sitting within the company and all borrowings at market rates provided by financial third parties.

Gearing, as measured by net debt to RCV, stands at 65%. On a pensions-adjusted basis, this figure rises slightly over 70%, which the board still finds an acceptable level.

During the year the board has continued to pay particular attention to the projected level of the company's gearing ratio with a view, when declaring dividends, to protect the company's existing credit ratings at all times. The board remains committed to maintaining the company's current level of credit ratings.

The latest actuarial valuation of the company's pension scheme took place on 30 September 2016. At each triennial valuation the company agrees with the scheme's trustees a payment recovery plan in respect of any deficit and the company will do so again with regard to the 2016 valuation. The company is committed to honouring any special contribution obligations that it signs up to.

We continue to have a healthy liquidity position comprising cash and cash equivalents held on the balance sheet along with undrawn bank facilities giving the company instant access to funding if needed.

Taxation strategy

The company adopts a risk averse and cautious approach to tax. The company seeks to comply with the spirit and letter of UK tax legislation and claims all tax reliefs and allowances that it is entitled to. The company does not enter into complicated structures nor engages in any aggressive or artificial tax planning, as it does 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 it seeks external advice when required.

The company has an open, regular and professional dialogue with HMRC. HMRC renewed its low risk rating for the company last year for a further three-year period. The company is keen to maintain this low risk status in the long term. The company believes that its approach to tax and early engagement with HMRC on any area of uncertainty are significant factors in maintaining this low risk rating.

The current year corporation tax charge was £25.3m, which represented an effective tax rate of 17%. This is lower than the statutory rate of corporation tax of 20% due to the availability of tax allowances available to the company.

In addition to corporation tax, the company is also liable to a number of other taxes, which represent a cost to the business, including employer National Insurance contributions, business rates, environmental taxes and Insurance Premium Tax.

In brief

- Operating profit fell by £7.9m from £234.2m to £226.3m due to the impact of the most recent price review agreed with Ofwat
- Turnover increased by £4.5m or 0.9% whilst total operating costs increased by £12.4m
- The cost of debt fell from 3.8% to 3.7% as we maintain a balanced mix of financial instruments
- Capital expenditure delivered in the second year of AMP6 was £214.0m, an increase over £200.8m last year
- Profit before taxation was £152.4m, down £7.2m from £159.6m last year
- Gearing, as measured by net debt to regulatory capital value, has decreased to 64.7%
- We achieved all of our key financial targets in the year (profit after corporation tax, operational costs, net capital expenditure, cash flow before dividends and dividends declared).

Finance continued

In detail

Financial performance

The second year of the AMP6 price review period saw a reduction in profitability, with operating profit falling by £7.9m from £234.2m to £226.3m, and profit before tax falling by £7.2m from £159.6m to £152.4m. The increase in turnover was £4.5m, whilst at the same time there was an increase in operational costs of £12.4m.

Turnover

Turnover increased by £4.5m or 0.9% from £520.8m to £525.3m. The price increase allowed by Ofwat at 1 April 2016 was 1.9% comprising a 0.8% increase from the price review and November 2015 RPI of 1.1%.

Turnover increased by less than the Ofwat adjustment because of the impact of tariff switching and reduced volumes of consumption for commercial and domestic customers.

Operating costs

Operational costs increased by £12.4m from £286.6m to £299.0m. There was a £5.4m increase in repair costs, a £2.7m increase in depreciation as well as increases in retail services, site operations, pension costs and EA charges.

Interest charges

Interest charges decreased by £0.7m from £74.6m last year to £73.9m this year, with a £0.7m interest payable reduction, a £0.2m increase in interest receivable and a £0.2m increase in pension related interest costs.

The decrease in interest payable arose because of a fall in the cost of debt from 3.8% to 3.7% in respect of floating rate and index linked borrowings. This was greater than the additional interest on the increase in net debt during the year from £1,856.3m to £1,903.6m.

There is a prudent mix of debt instruments and at the year end the split was 47% fixed, 37% index linked and 16% floating, with the index linked debt based on November and March RPI. The maturity of debt is generally long term with £1,675m of debt maturing after 2020.



Taxation charge

The corporation tax charge was £23.2m, a reduction of £4.1m over £27.3m last year, because of the reduction in profitability and an increase in prior year credits obtained from tax computations. The normal corporation tax rate was unchanged at 20% in both years.

The company has a statutory year-end of 30 June and the tax computation is prepared for the 12 months to 30 June each year. Corporation tax is paid quarterly.

Deferred tax has moved significantly from a credit of £31.9m last year to a credit of £16.9m this year. The deferred tax credits arise in both years because the rate at which deferred tax is calculated has fallen by 2% last year from 20% to 18% and a further 1% this year, to 17%.

Finance continued

Dividends

Wessex Water's dividend policy is to declare dividends consistent with the company's performance and prudent management of the economic risk of the business. The board has agreed to ensure that pensions-adjusted gearing stays at a level that maintains its current credit ratings and gives the company continued access to the capital markets.

Cash flow and gearing

Net debt increased by £47.3m from £1,856.3m to £1,903.6m. A cash inflow from operations of £330.0m was reduced by capital investment of £182.5m, interest and tax payments of £84.9m, dividend payments of £90.5m and working capital outflows of £19.4m.

Liquidity at the year-end was £253.5m comprising £103.5m of cash and cash equivalents and £150.0m of bank facilities not yet drawn down.

The regulatory capital grew by £137m, from £2,805m to £2,942m, increasing by £87m in relation to inflation and £50m for growth in assets. Gearing at 31 March 2017, calculated as net debt divided by regulatory capital value, was 64.7%, a reduction from 66.2% last year because the regulatory capital value increased by nearly three times the increase in net debt.

Capital investment

In 2016-17 we delivered gross capital expenditure for the second year of the AMP6 programme of £214.0m, which is £13.2m higher than the £200.8m delivered last year. This profile is typical of a five-year capital programme where there is lower expenditure in the first year of the new AMP period as the new programme of work is commissioned.

Governance and assurance

Principal risks

Our industry leading customer and environmental performance has been achieved through a focus on understanding the risks we face and using innovative approaches to mitigate risks and create opportunities to improve the services we provide.

The company's policy on risk identification and management is subject to annual review by the board. The identification and management of risk is delivered through a tiered system of groups from operational staff, senior management, executive directors and the Wessex Water Services Limited Board. The board reviews and holds ultimate responsibility for the risk process and for the identification and mitigation of risks.

A risk group meets through the year and submits the current corporate risk register and summary report every six months to the Risk Management Advisory Group made up of the executive directors. This group scrutinises and challenges the risks included in the register and identifies any additional work it thinks is necessary to better classify the risk or explore other mitigation methods which may be available. Any significant new risks are reported to the Advisory Group and to the board as they arise.

The chief executive submits an annual risk review paper to the board for its review and agreement. This paper details the risk review process, identifies the current principal risks (listed below) to the business and the mitigation measures in place. It also records the status of emergent risks that have been identified.

Since the last annual review, the board has agreed the removal of one principal risk relating to the industry's preparedness for retail non-household market opening now that the market has opened, and the combination of two principal risks of digital security and IS business resilience into a single risk of digital resilience.

The board also agreed the addition of a principal risk reflecting the ability to attract skilled resources. Risk scores have generally remained static as mitigation works have balanced out a general increasing trend of risk.

1. Government/regulatory action. Market uncertainties reflecting the Brexit vote, general election and the format of the next (PR19) price control are all reflected in this risk. Relationships with politicians and regulators are

maintained so that the company's views about the effect of any proposed legislative changes on the company and its customers are heard.

- 2. Major pollution incident.** Recent fines in the industry are now regularly exceeding £1m per incident, with a maximum fine to date of £20m. Significant effort is made to prevent such an incident occurring through staff adherence to company processes and procedures. Local emergency plans are in place to protect the local environment at key installations.
- 3. Insider threat.** Considerable damage could be done to the company's reputation by a rogue or radicalised employee or contractor. References are obtained for all new starters, whether permanent or contract. DBS checks are undertaken for all new permanent and fixed-term staff and for agency staff working in sensitive areas of the business.
- 4. Health and safety incident.** Serious injury or death of a staff member or third party could expose the company to prosecution under health and safety legislation and the Corporate Manslaughter Act. As expected, the changes to the sentencing guidelines has resulted in an increase in recent prosecution fines for larger organisations which have, in some cases, been greater than £2m. Health and safety is of paramount importance to us with processes and procedures implemented through staff training and regularly monitored to maintain compliance and to protect people from harm. Our 'Take 5 to Check 5' initiative has been launched during the year and our health and safety approach has been recognised through national awards.
- 5. Availability of new finance.** The bond markets are used extensively to fund new investment. The current economic climate post Brexit vote has shown the volatility of these markets. The relationship with bond markets and rating agencies will be maintained and the board will continue to ensure that the company operates within prudent financial parameters. This annual review includes our long-term viability statement which includes modelling the main financial risks.
- 6. Resourcing and skills.** There is already a recognised short-fall in STEM skills (Science, Technology, Engineering and Maths), which is compounded by the uncertainty from the Brexit vote and heightened in our region by the impact of the Hinkley Point C programme. It is expected that this situation will become worse and we have initiated a People Programme to help mitigate this risk.

Governance and assurance continued

7. **Unfit water.** Significant effort is made to prevent a major failure of process or contamination of the water supply. We have completed a major exercise in documenting and updating our methodology for drinking water safety plans in liaison with the Drinking Water Inspectorate. Risk assessments are now being formally reviewed at the monthly water risk meeting and issues escalated to the Risk Group.
8. **Outcome delivery incentive failure.** As part of the move to risk-based regulation Ofwat has introduced performance commitments for the period 2015-2020. Many of these measures are company specific but some are cross-company measures with stretch targets. As well as reputational risk there are also financial penalties and rewards that can be incurred which will apply in the period 2020-2025.
9. **Digital resilience.** Most activities undertaken by the business are reliant on the availability of IT services and facilities and the company continues to examine ways in which IT resilience can be maintained and, where appropriate, improved. The Security Service has identified the growing threat of cyber-attack or industrial espionage as a high risk to both businesses and utilities. The company also holds and processes large quantities of data which are considered sensitive within the meaning of the Data Protection Act. Failure to process and protect the data in the prescribed manner is an offence. The quarterly Information Security Forum maintains the focus on mitigating this risk.
10. **Anti-competitive behaviour.** With the opening of the non-household retail market the risk of not complying with competition law is at its highest. We have setup a competition team that meets monthly to consider emergent issues and risks and appropriate actions. Management and staff have completed a training programme and further mitigation is being implemented to address this risk.

While the corporate risk register holds 80-100 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. Many other areas which would be expected as standard areas for consideration, such as fraud, have been assessed and determined to be risks which are well controlled with current mitigations.

Board endorsement of the Annual Review

On the 23rd June the Audit Committee considered the Annual Review, where it had the opportunity to question the Executive Directors and relevant senior managers. It was recommended to the board on the 7th July.

On behalf of the Wessex Water board, we confirm that we approve this Annual Review and are satisfied that it is accurate.

Francis Yeoh
Chairman

Gillian Camm
Senior Independent
Director

Andy Pymer
Managing Director

Sustainability accounting

For the year to 31 March 2017

Since 2002 we have produced accounts that enable a wider view of our sustainability. Firstly, they provide a monetary assessment of environmental effects that are not typically dealt with through investment or some other payment. Secondly, they summarise our expenditure on items relevant to sustainability in its broader sense.

Environmental accounts

Regulated investment in service improvements and the water environment

Issues addressed by our 2015-20 investment programme include low river flows that can occur during dry weather, phosphorus in rivers and streams, flooding from the sewerage system and bathing water quality.

The single largest scheme is the integrated supply grid, which will involve investment of more than £200m over eight years. Alongside investment in physical assets, our work with farmers to better manage groundwater and river catchments means we can achieve improvements without significant increases in energy consumption or chemical dosing. Our environmental investigations also help ensure that future capital investment is focused on well evidenced environmental impacts.

Licences and fiscal measures

We are subject to numerous licences, taxes and other annual charges that have an environmental basis. These include abstraction licences and discharge consents, the Carbon Reduction Commitment Energy Efficiency Scheme (CRC) and the Climate Change Levy. Combined, we paid approximately £12.4m for these in 2016-17.

Other valuation methods

Calculating the hypothetical investment to eliminate an environmental impact is another way to assess environmental costs in monetary terms. Examples include the net cost of investing in renewable energy generation as an alternative to purchased fossil fuel based energy and investments to reduce inputs of phosphorus and nitrogen to the water environment.

A further approach is the use of shadow prices, such as the carbon values issued by government for policy and project appraisal, which we apply to estimates of the whole life carbon footprint of investment schemes. Overall, the monetary cost of our 2016-17 greenhouse gas emissions using UK shadow prices ranges between £0.5m and £7.9m (central values, traded and untraded prices).

There are some established market-based approaches such as carbon offsetting with prices reflecting varying levels of accreditation. Other environmental

markets are emerging and this year we launched a system called EnTrade for buying reductions in nutrient leaching linked to farming practices through an online auction platform.

Investment towards sustainability

Expenditure made in the last 12 months is summarised below with two main components: mandatory expenditure driven by legislation and additional discretionary expenditure that benefits our customers, the environment in our region and our employees, while helping our general movement towards being a sustainable business.

A more detailed account is given in the accompanying report entitled Sustainability indicators and accounting. This document also provides information on the full cross-section of our activities, covering customers and communities, the environment, employees and finances. It includes trends over the last five years for a range of issues and explanation of the issues we are addressing and our work during 2016-17.

	2017 £m	2016 £m
Customers and communities		
Mandatory	133	134
Discretionary	1	1
Environment		
Mandatory	79	65
Discretionary	<1	1
Employees		
Mandatory	53	43
Discretionary	11	8
Totals		
Mandatory	265	242
Discretionary	12	10

Wessex Water Services Ltd - Board of Directors

Executive Directors



Colin Skellett - Chief Executive

A chartered chemist and engineer by training, he has worked in the water industry for more than 40 years, holding a number of positions in the management and control of both water supply and sewage treatment.

He joined Wessex Water in 1974 and was appointed its Chief Executive in 1988. Colin oversaw the move from the public to the private sector and the transformation of Wessex Water into a highly rated UK plc. Colin was awarded an OBE for services to business and WaterAid in the 2012 Queen's Birthday Honours and has an Honorary Doctorate in Engineering from the University of the West of England. He was Chairman of the West of England Local Enterprise Partnership until January 2016.



Andy Pymer - Managing Director

A chartered civil engineer turned economist, Andy has more than 25 years' experience in the water sector, holding roles both overseas and in the UK. He was appointed Managing Director in 2016 having previously been Director of Regulation and Customer Services.

Andy is also co-Chair of Wessex Water's joint venture billing provider, Pelican Business Services, and Chair of Wessex WaterAid, which has raised more than £1.5m for the charity over the past 10 years.



Mark Watts - Director of Finance

A qualified treasurer, Mark spent eight years in international banking before joining the treasury department of Wessex Water in 1991. He was appointed Treasury Manager in 1994 before becoming Treasurer in 1999.

Mark is highly experienced in raising finance, from both the capital markets and the banking sector, as well as having a long history in dealing with various corporate finance issues. He was appointed Finance Director and Treasurer on 16 March 2010.



James Rider - Chief Operating Officer

James is a Fellow of the Chartered Institute of Water and Environmental Management with more than 25 years' experience in the water industry. He started as a technician engineer in 1990 and has since held a wide range of roles within operations, engineering and construction, information and technology and billing and customer services.

Wessex Water Services Ltd - Board of Directors

Non-Executive Directors Independent



Gillian Camm - Senior Independent Director

Appointed in November 2011 and Chair of the Wessex Corporate Responsibility Committee. Deputy Lieutenant Gloucestershire, vice president Quartet Community Foundation, member Society of Merchant Venturers, Chair of Leadership Foundation for Higher Education.



Fiona Reynolds DBE

Appointed in August 2012 and chair of the Futures Panel. Master of Emmanuel College, Cambridge from September 2013. Other non-executive roles include Chair of the Cathedrals Fabric Commission for England, Chair of the Green Alliance and Non-Executive member of the John Lewis Partnership Corporate Responsibility Committee. Director-General of the National Trust from 2001 to 2012.



Huw Davies FCA

Appointed in September 2014 and Chair of Pension Trustees and Audit Committee. Former chief financial officer of Wates Group Ltd, non-executive director of J Murphy Ltd, and Chair of I CAN the children charity for speech, language and communication needs.



Richard Keys

Appointed in 2016. Chartered accountant, former partner and head of PwC's global accounting consulting group. Currently, non-executive director, NATS Holdings Limited; non-executive director, member of the Departmental Board, The Department for International Development; non-executive director Merrill Lynch International; recently retired as non-executive director Sainsbury's Bank plc.

Wessex Water Services Ltd - Board of Directors

Non-Executive Directors Shareholder



Francis Yeoh CBE

(Chairman) Managing Director of YTL Corporation Berhad, Malaysia since 1988. A founder member of the Malaysia Business Council, member of Malaysia's Capital Markets Advisory Council and Independent Non-Executive Director of The Hong Kong and Shanghai Banking Corporation Limited. Director since May 2002.



Hann Yeoh

Non-Executive Director of Wessex Water since August 2012. Executive Director of YTL Power Generation Sdn Bhd (wholly-owned subsidiary of YTL Power International Berhad) and part of the business development team of YTL Power International Berhad. He also sits on the Board of YTL PowerSeraya Pte Limited in Singapore and is a graduate of Oxford University with a Master of Engineering in Engineering Science.



Hong Yeoh

Director of YTL Corporation Berhad, Malaysia since 1985, Executive Director of YTL Power International Berhad. Responsible for YTL Group's utilities and construction divisions. Director since May 2002. Chairman of Remuneration Committee.



David Barclay

Former Vice Chairman of Dresdner Kleinwort and Non-Executive Deputy Chairman of John Lewis plc. Senior Independent Director of Wates Group Limited. Deputy Chairman of the Board of the British Library. Appointed 1 November 2005.



Mark Yeoh

Executive Director responsible for the YTL hotels and resorts division. 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 joined the YTL Group in 1989 and serves on the Board of YTL Corporation Berhad, YTL Power International Berhad, YTL Land & Development Berhad, YTL Cement Berhad and Wessex Water Limited. Director since October 2003.