

DELIVERING FOR OUR CUSTOMERS

annual review summary 2017-18

wessexwater.co.uk

Wessex Water

YTL GROUP



WELCOME TO DELIVERING FOR OUR CUSTOMERS

annual review summary 2017-18

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. Non-statutory accounts are prepared every year for the end of March and are a requirement of our licence. In addition we prepare statutory accounts for our financial year end, June, which is a requirement of being a private limited company. A copy of the latest statutory accounts are available on our website. Our *Annual performance report* reconciles those results with the company's regulatory accounts.

Delivering for our customers

A summary document that 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 our 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: WESSEXWATER.CO.UK

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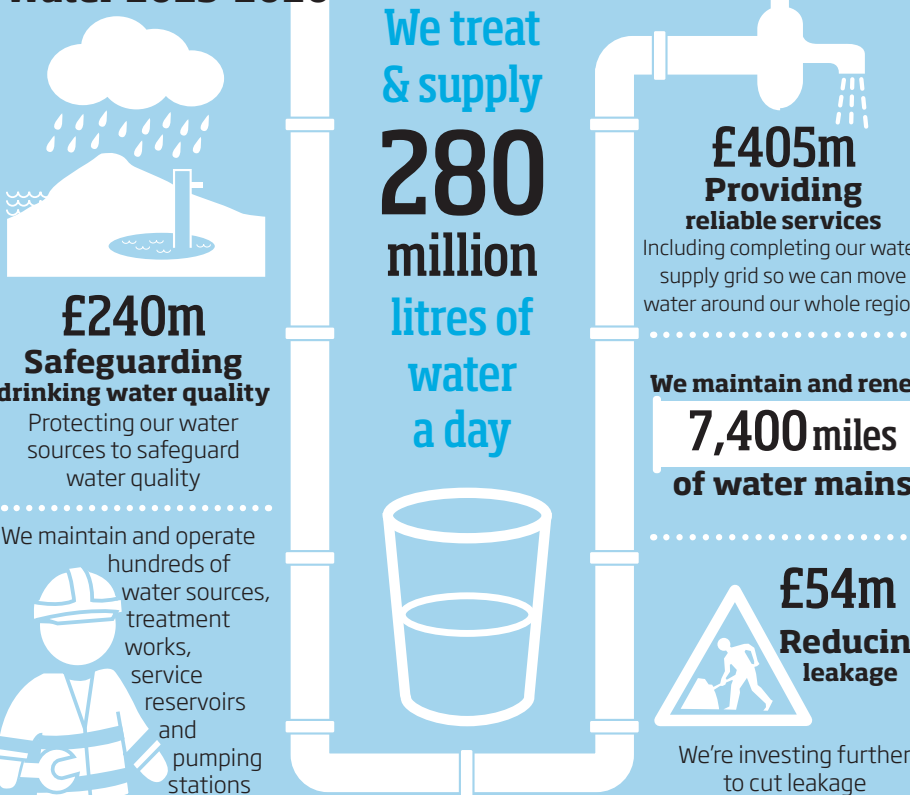
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About Wessex Water

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 safeguard water quality

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

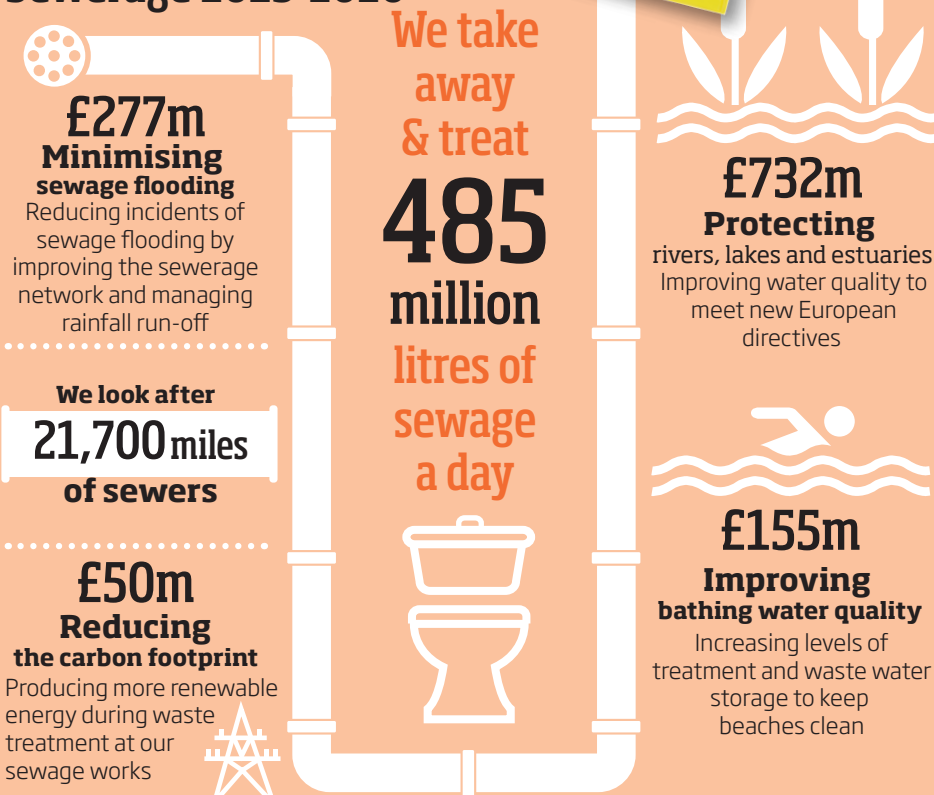
£405m
Providing reliable services
Including completing our water supply grid so we can move water around our whole region

£54m
Reducing leakage
We're investing further to cut leakage

We treat & supply 280 million litres of water a day

We maintain and renew 7,400 miles of water mains

Sewerage 2015-2020



£277m
Minimising sewage flooding
Reducing incidents of sewage flooding by improving the sewerage network and managing rainfall run-off

£50m
Reducing the carbon footprint
Producing more renewable energy during waste treatment at our sewage works

£732m
Protecting rivers, lakes and estuaries
Improving water quality to meet new European directives

£155m
Improving bathing water quality
Increasing levels of treatment and waste water storage to keep beaches clean

We take away & treat 485 million litres of sewage a day

We look after 21,700 miles of sewers

Chairman's foreword

On behalf of the board, I am pleased to present our 2018 annual review.

We recognise the great responsibility and opportunity we have been afforded in providing an essential public service in the UK. I am proud of the record that we have at Wessex Water and of the commitment of our great team of staff right across the business. This record has been hard-earned but we know it could so easily be lost if our performance or our behaviours fall below the expectations of our customers and wider society.

At YTL, we are clear that the model of private delivery has brought significant benefits to customers and the environment in terms of investment and improvements to service that we believe would not have been possible in public ownership.

It is important that we continue to maintain the trust of our customers, stakeholders and politicians. We must do this by continuing to strive for excellence in service, in building communities and in protecting the environment we live in. Engaging with our local communities is a key enabler to delivering our services. Our water environment is precious and all of us need to use water efficiently to protect it. New research is regularly uncovering new problems in the environment. Plastics, pollutions and leakage are all high on our agenda and we are constantly looking for new ways to improve our environment.

We take our long-term stewardship of the essential service that we provide very seriously. It is important that we are transparent about our performance - both operationally and financially. Our annual

report is part of how we do that and I hope that you feel you can trust us to do the right thing as a result.

We will continue to invest in Wessex Water and in services to our customers as part of our long-term view to continue being the best water company we can be. I am particularly proud that Wessex Water has again achieved the prestigious Queen's Award for Enterprise - one of only a handful of companies in the UK to gain this award three times in a row.

At YTL we have strong ethics and values that we live and work by. We are delighted to see that our people at Wessex Water embody those same ethics and values, working hard to ensure we all play our part in dealing with the challenges we face.

I would like to thank everybody at Wessex Water for continuing to push the boundaries and finding new ways to better serve our communities and improve our environment.

I thank the Lord Jesus for His blessings and I am thankful for another year of excellent performance and look forward to many more.



Dr Francis Yeoh CBE
Chairman



Managing director's introduction

At Wessex Water, we are proud of our record in delivering essential water and environmental services.

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

I am pleased, therefore, that we have had another strong year, exceeding many of our targets and improving our service. Our approach at Wessex Water is one of continuous improvement and, in cases where we have missed targets, we set out our plans for future progress. The investment and performance that we have delivered in the past 12 months, reported here, and our plans for the future demonstrate that we take our responsibilities seriously.

Customers and communities

We continuously ask our customers what they like about what we do and how we can improve. We work hard to deliver what they want - a reliable service that is value for money and provided without fuss.

This year we have been consulting widely on our plans for the future. Our multi-channel Your Say Your Future programme has enabled nearly 80,000 customers to make their voices heard.

We consistently achieve satisfaction ratings above 90% and currently 96% of our customers rate our service as very good or good.

It is important to us that we are able to support all our customers, including those in vulnerable circumstances.

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. Water is an essential resource that should never be limited by ability to pay.

Our teams have launched dozens of new projects and partnerships across our region, including with the Quartet Community Foundation, leading to a 37% increase in the number of people on low incomes who are receiving assistance from us to pay their bills or manage their debt.

More than 500 staff have also completed the Alzheimer Society's training to understand what it's like to live with dementia and how to turn that understanding into action.

This year we launched our new staff volunteering programme, Wessex Water Force. Staff can use one working day a year for volunteering, equalling around 18,750 hours of support donated every year to charity. This is just one strand of our vibrant communities programme covering community support, health and wellbeing, leisure access and community education.

Resilience

Our services need to be able to withstand whatever the future throws at them, whether that be more extreme weather events, cyber attacks or unexpected asset failures.

The resilience of our services is closely tied to the resilience of the wider water catchments in which we operate. We use catchment-based strategies to deal with the source of the problems not the symptoms. Such approaches avoid costly treatment plants and enable innovative ways to improve the water environment at the lowest cost to customers.

We have again increased our catchment-based work this year, including through our associated company EnTrade. We are currently working with farmers at 20 sites to reduce nitrate levels in groundwater sources or to remove pesticide risks from reservoirs.

Catchment interventions also achieve wider benefits, such as reduced soil erosion, reductions in other pollutants, improved biodiversity, and will assist in beginning to deliver the government's 25-year Environment Plan.

The freezing conditions and heavy snowfall in early March resulted in a red weather warning in our region. However, our investment in resilience proved its worth and we maintained



Managing director's introduction continued

supplies to our customers. A significant contribution to this was the completion during the past year of our regional water supply grid.

This £228m eight-year programme of works now enables us to move water across our entire region, greatly increasing the resilience of supplies. It has also enabled us to deal with deteriorating raw water quality by allowing us to blend water, and to reduce abstraction in areas of our region where this was reducing the water flow in sensitive rivers, thus improving the environment.

Our people

Our team at Wessex Water are incredible. They consistently go the extra mile to help customers and improve the environment and it takes a huge team effort to stay at the leading edge of the industry.

As a customer, it is easy to take water and sewerage for granted because it so rarely causes us any problems. That is only possible thanks to the tireless work of our great people, 24 hours a day, 365 days a year. I thank them for their continued support and commitment.

Our People Programme is in full swing and has already started delivering initiatives to improve the way we look after our employees, enhance our diversity and ensure we have a pipeline of talent flowing through the business to create the leaders of tomorrow. One of our proudest achievements this year is that apprentices and graduates on formal training now represent more than eight per cent of our total workforce.

Financing and investment

Last year saw a record £250m investment in maintaining and improving our assets and the services that they underpin. Our profit after tax fell £23m to £123m (excluding exceptional items), largely as a result of increased tax charges.

Under YTL's stewardship we have always been structured and financed in a simple and transparent way that ensures we are financially resilient. Our gearing will continue at under 70% and we will continue to maintain a straightforward corporate structure. We are classed by HMRC as low risk.

The future

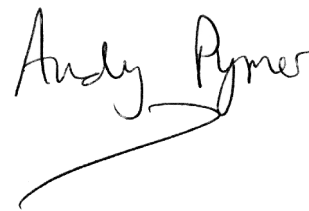
Later this year, we will publish our business plan for the period 2020 to 2025.

Our plan is being built on a new business model requiring the support and involvement of all stakeholders in the water environment. It embraces our public service ethos while capitalising on the opportunities for greater innovation, more market-led solutions and growing competition. All of this requires the trust and confidence of a wider range of potential participants.

Our ambition will run through the plan and show that we view water as a natural resource in which everyone has a stake. It will show how we share value with our communities who, in turn, assist us to meet better outcomes. And it will show that we are transparent, accountable and financially resilient.

It is a plan that will set out our vision, define the challenges that stand in the way, and describe how we will go about delivering long-term environmental standards, make bills affordable for every household and build an exceptional service based on our customers' convenience, not ours.

This year has been a further step on that journey with achievements to be proud of in many areas.



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 had another great year for customer service and expect to be one of the top water and sewerage companies for customer service in Ofwat's service incentive measure, and to continue to have the fewest complaints of any company in the industry. We also remain industry-leading for environmental performance according to the Environment Agency, and are top of the Drinking Water Inspectorate's new league table for drinking water compliance.

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

Our results include two exceptional items identified in the year, a pension credit of £32.9m resulting from the agreement of the pension scheme to change the measurement of inflation from RPI to CPI and a deferred taxation charge of £22.2m arising from the pension credit (£5.6m), and an alignment with group methodology in relation to industrial building allowances (£16.6m).

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 confirmed targets up to 2020 in Ofwat's final determination.

We have met or exceeded our targets on 25 of our performance commitments, two of which will result in an outperformance payment. There are two measures where we have not achieved our targeted performance, for which we will receive a financial penalty.

For measures where we haven't reached our target, 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.

WE DELIVER TOP QUALITY DRINKING WATER
AND THE BEST OVERALL PERFORMANCE IN THE
WATER INDUSTRY



WE AIM TO BE THE BEST,
AND OUR PERFORMANCE
THIS YEAR CONTINUES TO
LEAD THE INDUSTRY

Performance at a glance continued

Performance commitments CUSTOMERS	Performance level			Target 2017-18	Performance vs target	Page reference
	Five-year average	2016-17	2017-18			
Service incentive mechanism (SIM) customer service score	n/a	88	87	>86	Better	
Customers rating service good/very good	96%	96%	96%	>95%	Better	
Customers rating good value for money	72%	84%	70%	73%	Worse	11
Customers rating ease of resolution	n/a	93%	93%	Improving trend	Worse	11
Accessible communications	n/a	BS18477 & Customer Service Excellence award gained		Meet best practice	Same	
Bill as a proportion of disposable income	1.5%	1.4%	1.5%	Reducing trend	Same	
Restrictions on water use (hosepipe bans)	0	0	0	0	Same	
Drinking water compliance - Wessex Water assets	99.95%	>99.98%	99.97%	100.00%	Worse	15
Drinking water compliance - including customer assets		99.95%	99.96%			
Customer contacts about drinking water quality	2507	2172	2031	1608	Worse	15
Supply interruptions >3 hours (average minutes lost per property)	17.2	12.8	12.3	12.0	Worse	16
Leakage (MI/d)	68.5	68.3	67.7	67.9	Better	
Reported leaks fixed within a day	n/a	70%	76%	75%	Better	
Properties supplied by a single source	70,400	48,000	42,000	78,000	Better	
Internal flooding (incidents per 10,000 properties)	1.29	1.20	1.21	1.70	Better	
Flooding risk (combined risk score)	50,340	51,125	49,796	50,651	Better	
North Bristol sewer scheme	n/a	n/a	Interim milestone met	Reach interim milestone	Same	

Performance at a glance continued

Performance commitments ENVIRONMENT	Performance level			Target 2017-18	Performance vs target	Page reference
	Five-year average	2016-17	2017-18			
EA's Environmental Performance Assessment*	IL	IL	IL	IL	Same	
Bathing water compliance	98%	98%	96%	100%	Worse	18
Improved bathing waters - schemes delivered	n/a	100%	100%	100%	Same	
Monitoring of combined sewer overflows	n/a	50%	60%	43%	Better	
River water quality improved (number of waterbodies)	n/a	8	23	8	Better	
Compliance with abstraction licences	100%	100%	100%	100%	Same	
Length of rivers with improved flows (km)	n/a	0	78	0	Better	
Abstractions at Mere exported (Ml)	179	341	30	100	Better	
Land actively managed for biodiversity	n/a	71%	90%	80%	Better	
Greenhouse gas emissions (kt CO ₂ e)	135	123	122	122	Same	
Proportion of energy self-generated	24%	29%	26%	22%	Better	
Volume of water used per person (l/p/d)	140	141	143	133	Worse	19
Volume of water saved by efficiency promotion - cumulative (l/p/d)	n/a	1.56	2.48	1.95	Better	
Water mains bursts (number)	1823	1863	1920	<1993	Better	
Sewer network collapses and bursts (number)	264	264	223	<300	Better	

* IL = Industry leading.

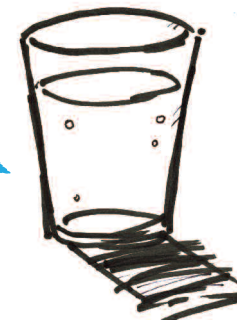
Performance at a glance continued

Internal company targets EMPLOYEES	Performance level		
	Five-year average	2016-17	2017-18
Health and safety plan and accident statistics progress	n/a	Positive assessment	Positive assessment
Employees rating company as a good employer	84%	86%	84%
Compliance with training plan	100%	100%	100%
Staff turnover	8.4%	8.2%	8.7%
Diversity plan progress	n/a	Positive assessment	Positive assessment

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 FINANCIAL IMPLICATIONS OF THIS YEAR'S PERFORMANCE, REFER TO SECTION THREE OF THE SEPARATE ANNUAL PERFORMANCE REPORT, AVAILABLE ON OUR WEBSITE WESSEXWATER.CO.UK



MORE THAN WATER...
FIND OUT
WHAT WE DO



Customers and communities

WE PUT CUSTOMERS AT THE HEART OF EVERYTHING WE DO AND OUR CUSTOMER SERVICE VISION REMAINS 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 if things go wrong.

We encourage 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 one of the most consistent top performers in the water sector for customer service. This is the third year of Ofwat's new look service incentive mechanism (SIM) and although we have come a close second of all water and sewerage companies in the satisfaction survey element this year, we hope to retain our top spot again on the overall SIM through our excellent performance on complaints.

We do not simply want to be the best for customer service in the water sector; we want customers to value our service as highly as the service they receive

from top household names. We know there are challenges ahead:

- 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 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 delivering our customer excellence programme, shortly entering its third year, and are also benefiting from our membership of the Institute of Customer Service.

We have reviewed and co-created our strategy for supporting customers in vulnerable circumstances with our customers and stakeholders, and agreed areas on which to focus to raise awareness and increase take up of our affordability support (**tap**) and Priority Services.

Through our innovative, multi-channel Your Say Your Future engagement programme, all our customers have had the opportunity to influence the level of bills they pay and the service they receive in the future.

In brief

- One of the top water and sewerage companies in Ofwat's SIM satisfaction surveys league table.
- Retained service to all customers during the extreme "Beast from the east" weather.
- Retained our government Customer Service Excellence award.
- Continued to make progress on our affordability action plan, leading to a 37% increase in the number of low income customers receiving support with their bills or debt.
- Launched seven new projects in hard to reach areas to promote our discounted tariffs to customers.
- Launched 10 new projects, working with the Quartet Community Foundation, to improve financial capability and money management
- Demonstrated our commitment to accessible and inclusive services for all by retaining the British Standard for inclusive services provision (BS 18477), the Keep Me Posted award and the Louder than Words charter mark.

WE REMAIN ONE OF THE MOST CONSISTENT TOP PERFORMERS IN THE WATER SECTOR FOR CUSTOMER SERVICE

Customers and communities continued

In detail

This year we have come a very close second among all water and sewerage companies in the satisfaction survey element of the SIM, and we hope to retain our top spot on the SIM overall due to our excellent record of performance on complaints.

Through our desire to go the extra mile and deliver excellent service, we were one of the only companies to keep water flowing for all customers throughout the extreme “Beast from the east” winter weather.

Our own feedback surveys show that customers continue to score us highly on satisfaction, first-time resolution, staff conduct, and knowledge and effort. This year we have made improvements to our continuous improvement programme that uses this feedback, alongside ideas from staff, to deliver change for customers at a faster pace.

We have made full use of our dynamic customer journey mapping tool to look at journeys through the eyes of the customer and identify improvements that would make the most difference to them. This includes the customer journeys associated with many of our Priority Services customers.

In terms of our performance commitments, 96% of our customers rate our service as very good or good.

Our value for money score has dipped, with 70% of customers rating our service as very good or good value for money. While this is still a strong score, it is lower than we have achieved recently.

There have been no significant changes in our bills, people’s average income or the country’s overall financial situation, so we will redouble our efforts to ensure we engage our customers more than 90% of whom have told us our plans for 2020-2025 were acceptable and affordable.

On customer effort, our surveys show that 93% of customers say it takes little or no effort to resolve their query. We are required to consider an update to the source of this data this year and our customer challenge group has approved a move to a new methodology.

Compared with sectors outside water, our net promoter score compares favourably with many of the top UK 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.

WE WERE ONE OF THE ONLY COMPANIES TO KEEP WATER FLOWING FOR ALL CUSTOMERS THROUGHOUT THE EXTREME “BEAST FROM THE EAST” WINTER WEATHER.



In September, the Consumer Council for Water confirmed that we continue to have the lowest number of complaints in the water industry with no investigations. Supported by our new Every Word Matters writing style, both billing and operational teams have continued to focus on reducing complaints and unwanted contacts. We’ve seen a reduction in escalated complaints and are resolving 95% of our complaints first time.

Day to day we continue to offer a full range of communication channels while remaining committed to offering personal telephone answering and, most importantly, choice for our customers. We continue to see a growing number of customers opting for self service, text messaging and web chat. Satisfaction on these channels remains high.

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 business, remains one of our key drivers of satisfaction.

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. The team oversees the whole customer journey, keeps it on track and can provide additional support to customers in vulnerable circumstances.

We continue to make wider use of proactive bulk text messaging and social media posting during operational problems such as burst water mains. A full review of our signage is taking place over the next year, including options for digital signage.

Customers and communities continued

As part of our efforts to build a detailed picture of what is happening on jobs and to shorten our diagnosis and repair times, we're extending the opportunities for customers to send photographs while operational work is in progress, and trialling the use of 360-degree cameras during site inspections.

Our focus on giving staff the right tools to do their jobs has extended into other areas of our business. The Every Word Matters training on a more simple and conversational style of writing has reached our teams in developer services and insurance. We have also rolled it out to our contact centre agents and into the web chat knowledge base.

We retained our government backed 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 holds the Institute of Customer Service's ServiceMark with distinction, one of only 10 in the UK to achieve this accolade. We plan to widen ServiceMark accreditation to other customer facing departments over the next two years, starting with our repair and maintenance teams.

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

- implementing our new contact management system
- launching a new digital job tracker to allow customers to track progress towards resolution of their contact online, similar to the delivery of a parcel
- launching our Every Word Matters training programme on communication style
- extending our real-time feedback dashboards across customer facing teams
- improving our self service offering.

We have also relaunched our e-billing service, giving customers a convenient online billing experience. The technology we've used will also allow us to grow this service over the next 12 months and deliver effortless online experiences. This year we have been through a full redesign of our bills. Metered bills will contain improved graphs of water use, enabling customers to not only compare their own water use over time and identify possible leaks, but also to compare it with similar sized households.

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 full partnership has met 11 times since its inception and is independently chaired by Dan Rogerson, formerly water minister in the coalition government.

Our innovative and multi-channel engagement strategy - Your Say, Your Future - continues. This year we've conducted major pieces of research to obtain customers' views on the balance between service and price, bill profiles and their opinions on the future proofing of our services, leakage, our offering for customers in vulnerable circumstances, as well as the acceptability of our draft Business Plan for 2020-2025. Our new innovative business plan game went live in late October and was an integral part of this engagement, along with our community roadshows.

Our successful Young People's Panel of sixth formers recruited from schools and colleges across our region has just completed its second year. Last year's panel helped us design our new cash back guarantee for meter options and our digital job tracker, and this year the 23 students helped us design ways of encouraging younger people to care about the waste system to build resilience for future generations. They came up with some excellent campaign ideas for sewer misuse and these will be taken forward.

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

- amenity value of our reservoirs
- attitudes to water use.

The panel will also take part in the testing of our business plan. We follow up each survey with a newsletter to participants explaining the findings and what we are doing as a result.



Customers and communities continued

Customers in vulnerable circumstances

Anyone can find themselves vulnerable at any time due to illness, unemployment or simply a change in circumstances such as a bereavement or relationship break-up. Because our customers are our priority, we are committed to providing extra support 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.

Our approach to customer care, coupled with the support schemes we offer customers in financial difficulty or who have specific additional needs, has enabled us to retain the British Standard for Inclusive Services for another year, one of our performance commitments, and the Louder than Words charter mark.

Our new look vulnerability strategy has been co-created with stakeholders and customers. So far 23 organisations have endorsed our service for those in vulnerable circumstances.

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. To complement the face to face training on mental health developed with Wiltshire Mind, we have launched an e-learning programme for all staff to help them spot the signs of mental ill health and support customers, colleagues, friends and family. We have also held training sessions with the Samaritans and Alzheimer's Society.

We have committed to being a dementia friendly utility. We were an active member of the British Gas task force aimed at encouraging utilities to become dementia friendly and feature in the recently launched Dementia Friendly Utilities Guide. Around 550 of our employees are already Dementia Friends, the remainder are due to be trained by the end of 2018. We will also make sure our sites and signage are dementia friendly.

We hold a Priority Services register 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. The number of people on the Priority Services register has increased 30% this year.

We have embarked on several pilot projects to share data with energy companies. This will ensure customers only need to register once for Priority Services across all utilities. We are playing an active part in the wider work to introduce data sharing at a national level by 2020.

One of our key outcomes is to ensure bills are affordable for all. We remain committed to tackling this issue and growing the support we offer customers who are financially vulnerable through our **tap** programme. **Tap** offers customers tailored solutions to their affordability problems via a range of schemes and low rate tariffs to help them afford their ongoing charges and repay their debts, along with practical help to reduce their water and energy use.

We provide this support through long standing and very effective partnerships with the debt advice sector, either face to face, telephone or online providers. Under the guidance of our expert affordability advisory group, we are helping more than 37,000 customers through **tap**, a 37% increase over the year.

Around 11,500 customers receive our main social tariff, Assist, which offers discounts of up to 90% off water charges for those in the greatest financial hardship. Just over 13,000 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 seven new projects in hard to reach areas such as deprived housing estates. We recently partnered with the Quartet Community Foundation to deliver our Money Matters awards, which are now in their fifth year. Since Money Matters began, we have provided grants to 33 different organisations delivering financial capability and money management projects across our region.

Customers and communities continued

This year we have launched our new online partner hub, designed to make engagement with us even easier. The hub will allow our partners to obtain information on the support we offer, request resources and application forms, apply for schemes on behalf of their clients, advertise and request our attendance at community events and network with one another online.

Community and education

Keeping customers of all ages informed about what we do and helping them to conserve water and prevent blockages in our sewers forms an important element of our day to day work.

Twenty years ago, we started our free education service to schools and in addition, we introduced education centres at some of our sites around our region. The team delivered topics ranging from water conservation to what happens to waste once it has been flushed down the toilet. Last year 22,022 students benefited from school visits and trips to water and sewage treatment works. Our three education advisers cover Bristol, Bath, Somerset, Wiltshire, South Gloucestershire and Dorset.

We also engaged further with customers by attending events around the region such as the Yeovilton Air Day and the Great Dorset Steam Fair in Blandford. We launched our Make Every Drop Matter campaign to highlight the importance of looking after what flows from the tap. In addition, Our Stop the Block campaign highlighted what should not be put down the toilet and provided an opportunity for customers to find out about what we do and ask questions.

Our website and publications offered educational information to customers including encouraging use of our online water and energy calculator and providing informative online videos.

The Wessex Watermark environmental grant scheme has been supporting environmental projects across our region for nearly 25 years. Schools, parish councils, youth groups and community organisations can apply for financial assistance of up to £1,500. Last year we supported the Saltford Brass Mill project with a grant of £300 and gave £500 to the Stoke St Gregory Allotments

THE NEW WATER FORCE EMPLOYEE VOLUNTEER PROGRAMME IS NOW UNDERWAY WITH THE FIRST EMPLOYEE GROUPS TAKING PART IN ACTIVITIES IN THE COMMUNITY



Association to help set up a reliable water source for the allotments, and many other projects.

The new Water Force employee volunteer programme is now under way with the first staff groups taking part in activities in the community.

As the programme develops it will enable more skills based volunteering and, working with the social policy unit, we hope to arrange Dementia Friends volunteering to complement the Dementia Friendly commitment already in place.

To date around 200 staff have donated volunteer time for a range of environmental and social activities with beach cleans, tree planting, animal rescue centre and older people's charities all supported.

We piloted a project in the Chippenham area which has progressed well and enabled us to trial a new approach for engaging with a local community for positive reasons rather than simply in response to works or identified issues.

Customers and communities continued

An initial workshop took place to involve local staff and gain an overview of the local area, including local priorities, issues, events and ideas for future engagement. This was repeated with invited community partners to generate local engagement and support for our activities.

Ideas arising from this engagement include more local support and promotion of the Home Check service, feedback on the position of a community refill point and support for a Yellow Fish river drain awareness project to support the local environment.

Meetings and presentations have also taken place at the town council and local area board. Information from initial work at Queens Crescent offered the opportunity for the first use of a pilot 'community identity' as part of the support for the local school.

Market opening

The new retail market enabling business customers to choose their retailer for water services celebrated its first birthday this year. There are now 41 retailers active in the market and 26 of these are national retailers.

The water industry has concentrated on ensuring stability in the first 12 months of market opening, focusing on processes, data improvements and the standards on which retailers and wholesalers are measured.

Our wholesale services team has supported the national efforts by focusing on delivering high standards of customer service, joining numerous working groups and completing continuous improvement cycles to enable rapid change for retailers and customers. We also launched our accredited entities scheme, giving retailers more choice on who carries out metering and disconnection work.

We continue to work with the market operator, Ofwat and Defra on ensuring the market is a success for all participants, particularly its 1.2 million customers.

HYDRATE, FEEL GREAT
DRINK
MORE WATER!



Water and sewerage

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 2017 was 99.96%, which was an improvement from 2016.

There was a total of eight failures out of approximately 25,000 tests, of which five were due to customers' domestic plumbing and service pipes. The other three failures were related to a single incident at a property related to an iron water main. These eight water quality failures were down from 23 in 2017. There was further reduction in the number of customer contacts about acceptability of water - customers have seen the benefits of our ongoing mains rehabilitation work and improved customer communications.

Sewage flooding minimised

Sewage flooding is thankfully a very rare occurrence but when it does happen it can be devastating - so tackling it remains one of our key objectives. The number of flooding incidents caused by blockages in public sewers fell further last year, down to 1.21 incidents per 10,000 properties compared to our target of 1.70.

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.

We continue to work closely with the national 21st Century Drainage Programme to try to bring about change in what customers flush into the sewers because this factor has the biggest impact on flooding and pollution levels.

In 2015, we introduced a new and innovative measure of overall flood risk due to inadequate capacity of our sewers during heavy rainfall. Last year we invested £9m to reduce this risk at 87 locations and have met our target. A large project at Brent Knoll was delivered in 2017-18, which reduced the risk of flooding to 46 locations.

Customers and communities continued

The responsibility for flooding is complex and we work closely with other flood risk management authorities – we were consulted more than ever before, attending more than 120 liaison meetings. We contributed over £100k towards the partnership schemes to reduce flood risk, including £50k towards a scheme in Wrington, Somerset.

A new framework is being developed for all water companies to give visibility of long-term sewerage plans. It is an ambitious framework which we are embracing, requiring drainage and sewage management plans to be published by 2023.

Several locations in our region with water bearing chalk strata can be affected by high groundwater levels which infiltrate the sewer network and restrict toilet use. It is a complicated issue so to help customers understand it and help prevent it, we produced a computer-generated animation explaining 'How groundwater can cause sewer flooding'.

Our infiltration reduction plans continue to reduce the risk of groundwater entering sewers and drains. We proactively inspected more than 100 km of sewers for signs of infiltration and permanently sealed 6.1 km of sewers where seepage was occurring.

Resilient services

Our asset management system continues to help us deliver our strategic business objectives through an integrated approach to risk and investment decision making, effective asset lifecycle management and by driving continuous improvement.

Following an annual surveillance audit our asset management processes were again certified 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. Our methodology assesses the status of our systems and processes and identifies improvements; it also provides a consistent

framework to manage progress. We will be using external auditors to review our resilience in line with the British Standard for Organisational Resilience (BS65000:2014).

Our north Bristol sewer scheme will improve sewerage systems in both the Frome and Trym catchments, in both cases diverting sewage flows away from Bristol city centre. We have made great progress with both these projects and the Frome scheme will be delivered ahead of time by August 2018 and in use by the end of 2018. The Trym scheme is also on track and work began on design, consultation and construction last year.

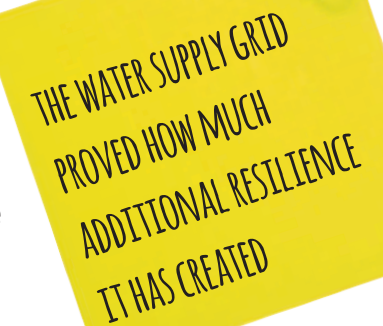
In 2010, we started work on our biggest ever project, a major integrated water supply grid enabling us to:

- 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.

The final parts of this project have now been completed and the whole system is in full operation. This year we have reduced the number of properties supplied by a single source by a further 6,000, and achieved our final target one year early.

In 2017-18 we achieved a supply interruptions figure of 12.3 minutes, an improvement on our past performance but not quite sufficient to meet the tightened target, resulting in an underperformance payment. Despite this, we have made considerable improvements which gives confidence we will meet the target for the rest of the period.

In March, the water supply grid proved how much additional resilience it has created. It enabled us to continue to provide water to all properties in our region even after the rapid thaw event which saw so many supplies interrupted elsewhere in the country.



THE WATER SUPPLY GRID
PROVED HOW MUCH
ADDITIONAL RESILIENCE
IT HAS CREATED

Environment

OUR REGION CONTAINS MANY OF THE COUNTRY'S BEST 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 the amount of water we take from the environment.

Our region is rich in wildlife with many areas protected by international and national designations. We take our duties towards the environment seriously and are actively reviewing our landholding and combining this information with our geographical information system to develop land management plans to improve biodiversity.

All projects in 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.

PROTECTING THE
ENVIRONMENT IS
AN ESSENTIAL PART
OF OUR WORK



In brief

- Leading performer according to the Environment Agency's Annual Environmental Performance Assessment.
- Hosting the Bristol Avon and Dorset Catchment Partnerships, delivering environmental improvements and enabling collaborative working, including supporting three natural flood management projects.
- 100% compliance with abstraction licences.
- 100% compliance with discharge consents (sanitary standards) and 99% compliance with all numeric standards.
- 23 pollution incidents 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.
- Successfully delivering 37 tonnes per year of phosphorus reduction in the Bristol Avon against a target of 25tpa and part of a UK first catchment permitting trial.

Environment continued

In detail

Improved bathing waters

This year 96% of our bathing waters passed strict environmental standards. However, two (Uphill Slipway and Burnham Jetty) were assessed as having below standard water quality, which is below our 100% target. We completed the National Environmental Programme schemes in the year, achieving 100% performance against target to deliver agreed schemes.

Schemes to improve our assets that may affect the Burnham Jetty bathing water include:

- constructing a 3,000m³ underground storage tank and a new pumping station at Bristol Road, Bridgwater
- proactively investigating misconnections of foul flows that could end up in the River Parrett in Bridgwater
- providing 150m³ storage at a new pumping station to transfer flow from Combwich to Cannington
- installing UV disinfection plant to disinfect flows from Combwich and Cannington.

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



Rivers, lakes and estuaries protected

Our programme for 2015 to 2020 includes the reduction of phosphorus concentration in discharges at 47 water recycling centres (WRC) and improvements to the ammonia discharges at eight WRCs. Phosphorus is a nutrient that can contribute to excessive weed growth whereas ammonia, at high concentrations, can be toxic to animal life. During the year, we have completed improvements at four WRCs for further phosphorus removal and six WRCs for reductions in ammonia.

The National Environment Programme also included a series of 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. These were completed last year and we have used the results to assist us in the next investment period 2020-25 where we are planning for a further 64 potential phosphorus improvement schemes.

Catchment and community based strategies

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

We use catchment-based strategies to protect our service levels; often this means we can 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 taking catchment-based approaches to reducing nitrate run-off into Poole Harbour rather than installing nitrate removal at a water recycling



Environment continued

centre and finding innovative ways to maximise the benefits achieved at the lowest cost to customers.

We actively support customers to take part in water saving - in the past year we have undertaken more than 10,000 Home Check visits to fit water saving devices and offer bespoke behavioural advice. Savings average more than 40 litres per household per day and the scheme is proving very popular with customers.

We linked this programme to our abstraction incentive mechanism site in Mere this year to encourage the uptake of water saving in a community where there is a particular concern about abstraction.

In December 2017 we launched our new Money Back guarantee scheme to encourage the uptake of optional metering by customers.

We have also designed a 'water citizenship' project that will shortly begin in Chippenham where we will work with the local community to enhance their relationship with their local water environment. The project will help us tackle multiple issues including water saving, sewer misuse and wet wipes/FOGs, and hydration and water refill.

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 pipework. This maintains the resilience of our services, helps to keep bills affordable and leaves more water in the environment.

During 2017-18 we reduced leakage to below 68 MI/d which meets our target for the year, despite the short-term increase in leakage during the adverse weather in March. We also met our target of fixing 70% of leaks reported to us in the same day.

We expanded our Home Check water efficiency programme and made more than 10,000 visits to customer properties to fit water saving devices, fix simple plumbing leaks and offer tailored behavioural advice. We 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 143 litres per person, which is above our target. Per capita consumption is influenced by many variables which are outside our control, not least the weather conditions - we attribute the rise in consumption this year in part to the particularly dry spring and 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

Rainfall last year varied - a wetter than average summer was followed by a particularly dry autumn which delayed the start of reservoir and groundwater refill. However, the year ended with a very wet March, taking rainfall over the full year to 101% of average. The improvement in resource availability arising from the wet March put us in a good position for starting 2018-19.

Environment continued

We successfully met our performance commitment regarding the abstraction incentive mechanism at Mere in 2017-18. During the time the groundwater level was below the trigger level we exported only 30 MI of water from the local catchment against a target maximum level of 100 MI.

Last year was the 42nd since we imposed any customer restrictions on water use, such as hosepipe bans.

In November we submitted a new draft water resources management plan to Defra which set out how we will maintain a balance between supply and demand while protecting the environment for the next 25 years.

We forecast a surplus for the full planning period and set out ambitious proposals to extend our water efficiency work with customers, pursue greater levels of metering and continue to deliver leakage reductions.

Environmental investigations

Our environmental investigations programme enables us to better understand our regional environment and the impacts our activities have. This means that we can base any future investment decisions on sound data and evidence, giving us confidence that issues will be addressed at the best value to our customers. As part of this programme we trial innovative and alternative solutions, aiming to deliver multiple environmental benefits from our actions.

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

- the occurrence and removal of hazardous and emerging substances from sewage effluent
- the effectiveness of green and social prescribing to reduce pharmaceutical concentrations in sewage
- trialling new, sustainable treatment solutions for phosphorus and chemical removal
- understanding the ecological impact of our reservoirs and abstractions
- understanding the impact 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 the grassland and woodland habitats to improving connectivity for species to disperse across the local landscape.

Many of our investigations are ending because data must be collected for our next business plan. Several of the investigations have been industry firsts, testing new ways of working or different technologies. A summary of the findings is available on our website: [wessexwater.co.uk/About-us/Environment/Environmental-investigations](https://www.wessexwater.co.uk/About-us/Environment/Environmental-investigations)

Our Bristol Avon catchment permitting trial, a UK first, took a catchment approach to limit phosphorus discharges from our assets and manages the discharges from 66 sewage treatment works/water recycling centres in combination, rather than individually.

During 2017, we have removed 37 tonnes of phosphorus, against a target of 25 tonnes. By optimising our existing assets, and only constructing new phosphorus removal treatment where it can be demonstrated to have a quantifiable benefit to the river, we are delivering the same phosphorus reduction at a cost to customers £24m lower than a traditional single site based approach.

Our public health project is working with B&NES Council public health department, the University of Bath and delivery providers such as Avon Wildlife Trust, Bath City Farm, Developing Health Independence and Timebank.

We are trialling an approach with a local NHS doctor's practice to prescribe green or social interventions, rather than pharmaceuticals to certain 'at risk' patients, with the aim of reducing the amount of chemicals reaching our sewers.

Through chemical analysis of the sewage, we are testing whether these interventions achieve reductions in the levels of certain pharmaceuticals in sewage. This is another industry first and will help to inform the proposed government chemicals strategy.



Environment continued

The outcome of all our investigations is being fed into our next business plan, to deliver the most cost effective and sustainable solutions for our customers with the best environmental results. This includes:

- working with the EA to demonstrate where data shows phosphorus removal will contribute to water quality benefits, and where it won't
- demonstrating where else a catchment permitting approach could be successful, and linking with catchment offsetting to deliver wider natural capital benefits
- demonstrating the effects of abstractions to inform where licences should be changed and to what extent
- highlighting where additional treatment is required to remove certain chemicals - for example, zinc at Shepton Mallet water recycling centre.

Wildlife and conservation

Our proactive conservation programme is set out in our Biodiversity Action Plan (BAP), through which we aim to halt or reverse biodiversity loss on our land. Our compliance with the national Site of Special Scientific Interest (SSSI) target is now at 99.5% of 293 ha of SSSI-designated land in favourable or recovering condition - of which 62.5% is in favourable condition. This exceeds the national target of 95% in favourable or recovering condition, with at least 50% in favourable condition.

This year we have made great progress towards fulfilling a company performance commitment to assess 100% of our landholding for biodiversity by 2020, with a view to bringing as much as feasible into appropriate management. By the end of 2017-8 we had:

- assessed 90% of 2,157 ha of eligible land
- mapped more than 1,500 ha terrestrial habitats
- found 270 ha of UK priority habitats at 85 locations, all mapped and given a condition rating where appropriate.

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.

Our drop-in National Meadows Day celebration event at Sutton Bingham reservoir was a great success. Activities included a meadow iSpot, a meadow trail and quiz, sow your own wild flower and a 'meadow mayhem' giant board game.

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 122 kilotonnes carbon dioxide equivalent in 2017-18.

This was our lowest since 1999-2000 and meant we met our performance commitment for the year. As in previous years it was achieved through a combination of energy efficiency improvements, renewable energy generation and the falling carbon dioxide intensity of UK grid electricity.

While our electricity use increased slightly from 2016-17 due to wetter conditions, it remained in line with the downward trend from its peak in 2007-08; this is largely through concerted energy efficiency work which is delivering around four gigawatt hours of savings each year.

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

Meanwhile, our operating division GENeco continues to export biomethane to the local gas grid, and struck an agreement with Bristol Energy, in addition to the sale of green gas certificates to Unilever.

Innovation

OUR VISION IS TO BE AN ACKNOWLEDGED LEADER AND EXEMPLAR AT INNOVATION, INTRODUCING NEW WAYS TO BENEFIT THE PEOPLE WE SERVE AND THE ENVIRONMENT AROUND US.

Our innovation strategy involves four broad themes:

- projects that break new ground
- partnering with others who can introduce us to innovative thinking, practices and technologies
- staff who explore ways to do things differently and a culture that allows appropriate levels of risk taking, while embedding innovation into regular practice
- systems and processes that are robust but do not stifle creativity.

Trials of new technologies and products offer a relatively quick and low risk way to understand the suitability of others' innovations. These commonly originate from contacts with technology developers or intermediaries such as Isle Utilities. We have achieved some significant savings in recent years in areas such as trenchless sewer rehabilitation.

Our current environmental investigations programme is the biggest to date. As well as acquiring the knowledge needed for decisions over future investment, the programme includes projects where we are trialling relatively new techniques.

We are increasingly interested in customer and community-facing innovation. This includes better ways to conduct day to day interactions (which increasingly take place online); community engagement and awareness-raising; and improving our assistance for low income households and vulnerable customers.

We are building a culture of innovation throughout the organisation. At the centre of the innovation 'community' within Wessex Water is a cross-departmental innovation and technology forum which oversees smaller trials, while our employee suggestions scheme, Eureka, is a long-standing method for rewarding ideas based on impact and originality.

Research partnerships include work with academia (notably with the University of Bath) and involvement with UK Water Industry Research - the main vehicle for collaborative research between water companies.

In brief

- Winner of the 2017 Institute of Water national innovation award for two innovative approaches to catchment management.
- Novel methods for getting customers' views on our current and future work, and for engaging customers experiencing difficulties of various sorts.
- A range of new methods that are being used in our extensive environmental investigations programme.
- Our inaugural innovation day, featuring contributions from Ofwat and a number of household names from the business world.
- Winner of the Queen's Award for Enterprise for a third time - the UK's highest accolade for business success.

WE ARE INCREASINGLY
INTERESTED IN CUSTOMER
AND COMMUNITY-FACING
INNOVATION

Innovation continued

In detail

Customers and communities

In recent years we have introduced new ways to improve our customer service for all, such as our online interactive map showing all the live jobs that we are carrying out in our region, our Go the extra mile programme which encourages staff to find ways to wow the customers they encounter, and the cash back meter option guarantee devised with our Young People's Panel. We are

currently trialling further improvements, such as real-time feedback dashboards for call centre staff and an improved online portal through which customers can pay bills and see their water consumption data.

The second of these complements our own efforts for improving water efficiency and reducing leakage, such as the roll out of 'hydrophones' which are acoustic devices that spot leaks from water mains from their particular sound signature. The completion of the integrated water supply grid also

includes an innovative control system - the optimiser - which can work semi-autonomously to keep pumping costs down and ensure security of supply.

In 2017-18 we increased the use of mapping tools and other analytical methods that plot areas of deprivation, allowing more targeted contacts with low income households. We are developing an online portal for use by partner charities and are sharing data with energy providers where it helps the most vulnerable customers.

The interactive online game to support the 2019 business plan represents a more innovative way to understand customer priorities compared to methods we have relied on in the past. Meanwhile, we are investigating novel methods

for helping our customers through digital platforms and, in the longer term, smart home technologies using artificial intelligence.

Early work to improve drinking water treatment at Durleigh reservoir has benefited from our use of an 'Igloo' - a wrap-around virtual reality pod in which several people can simultaneously view digital models of sites. Also at Durleigh, we are working with University of Bath researchers on methods for preventing discolouration of water due to manganese, and installing a constructed wetland to reduce influxes of sediment to the reservoir. Elsewhere we are working to introduce the use of ultraviolet light as an alternative form of disinfection in water treatment and are using a remotely operated vehicle cleaning unit to clear silt from service reservoirs that cannot be cleaned by more conventional means.

Environment

We won the 2017 Institute of Water national innovation award for the catchment permitting programme we have co-designed with the Environment Agency in the Bristol Avon and our innovative environmental trading scheme EnTrade.

Some of the new techniques trialled this year, some of which are part of our extensive environmental investigations programme, included:

- the use of brief spate flows from Durleigh reservoir into the downstream watercourse to remobilise phytoplankton that had settled, causing poor ecological results
- monitoring sediment movement downstream of Sutton Bingham reservoir using radio frequency tags and time lapse photography
- mobile kiosks housing river quality analysers that upload data every half hour
- novel treatment methods for reducing phosphorus in effluent, including the use of Bio-mag, a material that uses magnetite (an oxide of iron) to improve settlement in sewage treatment and an algal pond designed by the University of Bath, populated by locally dominant varieties of algae
- working with local public health practitioners on ways to encourage people to take more exercise and have more contact with the environment, which could in turn alter medicine prescribing and reduce the impact of pharmaceutical residues on the water environment



Innovation continued

- the use of a short lived bacteriophage dosed at Taunton water recycling centre to determine the time treated effluent takes to travel to Burnham Jetty bathing water via the river Tone. At Highbridge water recycling centre we have installed ultraviolet disinfection of the overflow from storm tanks for the first time. We have also been involved with community engagement projects such as Litter Free Coast and Sea, which promote behaviour that benefits beaches and their immediate surroundings.

We continued to introduce innovative methods for surveying and repairing sewers including:

- a cured in place liner for a rising main (a UK first)
- million point photographic scanning which produces very accurate imagery that we use when surveying tunnels
- the use of calcium aluminate cement as a means of preventing corrosion in concrete from hydrogen sulphide
- a hydrodemolition cannon that is used to clean calcite from sewers or cut through concrete using needle point water pressures of up to 15,000 psi.

Partnerships

Our partnership with the University of Bath was founded on an initial research programme focusing on sustainable water and waste water management; and the creation of the Water Innovation Research Centre. Other key elements include:

- work with PhD students - many of whom are funded by EPSRC in the Water Informatics: Science & Engineering Centre for Doctoral Training
- hosting science and engineering undergraduates on one-year placements
- ad hoc projects such as work in Bath to explore environmental and social alternatives to pharmaceutical prescribing and efforts to control reservoir water quality.

Our innovation culture

Last year our Eureka programme received 62 suggestions, with four deemed suitable for further development or reward.

We held our inaugural innovation day, with participation from PWC, Vodafone, Microsoft, the University of Bath, Isle Utilities, Wessex Water Services Ltd and companies in the wider Wessex Water group.

On the day there were more than 600 individual session attendances and online views, and we followed up with a series of breakfast roadshows, taking excerpts from the day to five other sites around the region.

Meanwhile, we have been developing a number of tools in-house to improve our innovation process. These include:

- an innovation capability maturity model to help clarify our current capabilities and gaps that should be addressed
- a 'funnel' framework to keep track of innovation projects across a series of stages, and a database of past projects.

In April we celebrated a royal seal of approval after being awarded the Queen's Award for Enterprise for a third time. We were nominated in the Sustainable Development category of the awards, which are the UK's highest accolade for business success. We first committed to becoming a sustainable company in 1996, and our sustainability vision is embedded into all planning, targets and day to day work. The award recognises the further progress made since we last received the same accolade in 2013.

We pride ourselves on going beyond business as usual in all areas, from our work on social tariffs and debt advice to catchment permitting and online nutrient trading.

WE ARE INCREASINGLY INNOVATING
THROUGH CONTACTS WITH CUSTOMERS



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 actively encourage and provide opportunities for our people at all levels within our business to consolidate their learning and upskill to a national standard through further education or professional development programmes. This ensures employees can enhance their competency, skills and expertise to enable them to perform at the highest levels. Our workforce is highly motivated and engaged and consistently provides outstanding and industry leading levels of customer service.

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 more than 8% of our workforce are undertaking long-term learning and development through apprenticeships, further or higher education.

Due to this success, we have joined the government's 5% Club which recognises that, as an employer, we provide opportunities to develop the skills and talents people need to become more employable and create meaningful careers. Through this membership we have committed to always have a minimum of 5% of our workforce enrolled as apprentices, sponsored students or on a graduate development scheme.

This year we have created an early careers team dedicated to providing career development opportunities throughout the group. We have designed and implemented a dedicated operations graduate programme and in addition arranged and coordinated an industrial placement programme for six areas in engineering and construction.

Our aim is to develop a cohesive early careers and graduate community across the business, bringing together all our talent and senior managers, from all business areas, on a regular basis to support, share knowledge and learn from each other. Thus ensuring we have a strong and robust talent pipeline for the future and an innovative and flexible approach to development that ensures we continue to have a highly competent workforce.

We recognise the importance of nurturing talent across the business and continue to deliver and develop a range of initiatives that support career progression, including development centres, new management development programmes, coaching and mentoring.

In brief

- We continue to have a strong, positive and engaging culture.
- We invested an average of 3.4 days' development training for all staff.
- We have an established apprenticeship strategy to deliver entry talent programmes and long-term staff development training.
- Voted a Top 100 employer for 2017, which demonstrates our commitment to developing successful career opportunities for current and prospective apprentices.
- We joined the government's 5% Club which recognises that we provide opportunities to develop the skills and talents people need to become more employable and create meaningful careers.
- 17% of our apprentices recruited in the past year are female. This reflects the work we do to bring young women into our sector.
- We have continued developing inclusion and diversity initiatives with a focus on flexible working.
- Our People Programme continues to provide for current and future people priorities.

Employees continued

This year, we launched our People Programme, a five-year plan to oversee and invest in a series of activities to benefit our people and help build a sustainable workforce for the future. Some of the areas we have focused on have included wellbeing, launching our new e-learning platform, iLearn, and developing a blended approach to learning.

Promoting and encouraging diversity and inclusion has again been a key focus 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 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 detail

Training

Training and development continues to be an important focus and we have delivered more than 800 courses with an average of 3.4 days' development training per employee.

We continue to work in partnership with selected local colleges and universities to enhance our management development programmes. In partnership with the University of the West of England, we delivered our third cohort of Institute of Leadership and Management (ILM) Level 5 programmes and one cohort of ILM Level 7 programme in Strategic Leadership.

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

We continue to deliver in-house development programmes for new and experienced managers as well as a full soft skills training programme. Our new e-learning system, iLearn, has been developed to complement, reinforce, and further embed a culture of learning.



Coaching and mentoring initiatives continue to enhance and benefit individuals at all levels. We ran a mentoring programme in partnership with a local secondary school to offer students the opportunity to work on a one to one level with our people.

Apprentices

We continue to engage our local young people in apprenticeships, holding two apprenticeship open days this year, with one held in November to coincide with National Engineering Week where we promoted the company and the career opportunities available to young people in our business.

In addition to our education team, our apprentices have visited 28 schools and career fairs around the region, encouraging young people to consider apprenticeships as a career option, and the water industry as a future career avenue. All this has led to an increase in the demand for apprenticeship positions this year.

Employees continued

We are proud that 17% of our apprentices this year are female, reflecting the work we do to engage young women in our sector.

Aiming to ensure the best use of the government apprenticeship levy, we have this year introduced career development apprenticeships for existing members of staff. These apprenticeships are open to staff within the business to enable them to reach their potential and progress their careers within the company.

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 emphasise the promotion of 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.

Diversity and inclusion remain a key focus for us and our aim is to reflect the community we serve.

Diversity scorecard

In March 2018, there were 2,370 employees, of whom 518 were women and 1,852 were men. There are 13 board directors of whom 11 are men and two are women, and 57 senior managers of whom 9 are women and 48 are men.

Last year, the number of women employees in our workforce was 22%, while in leadership roles the number of women managers increased by 1% to 19%.

Culture

We 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 84% of employees rated us a good company to work for and 76% rated us a great place to work. Our staff engagement was 80%. Our employees are important to us and we listen to their feedback and put action plans in place to address key areas.

WE VALUE THE DIFFERENCES
THAT A DIVERSE WORKFORCE
BRINGS AND ARE COMMITTED
TO CREATING AND PROMOTING
AN INCLUSIVE WORKPLACE

Gender pay gap

From April 2017, it is a requirement for all companies employing more than 250 employees to report on their gender pay gap. The following data represents our gender pay gap figures as at 5 April 2018.

The gender pay gap is the difference in average hourly pay received by men and women at Wessex Water on 5 April 2018. It should be noted the gender pay gap is different to equal pay, the right for men and women to be paid the same rate of pay for doing work that is equal value.

Gender pay data

2018

Mean gender pay gap	5.4%
Median gender pay gap	1.5%
Mean gender bonus gap	12.5%
Median gender bonus gap	-2.4%
Proportion of males paid a bonus	80.2%
Proportion of women paid a bonus	63.3%



Employees continued

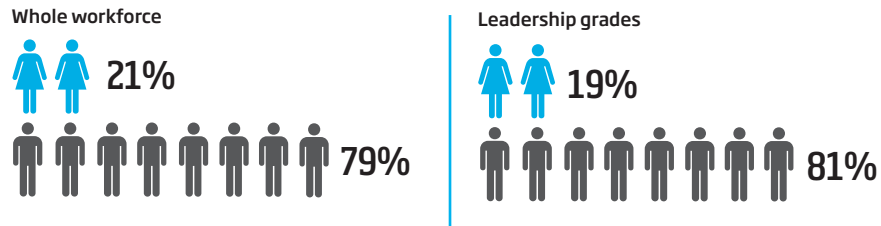
What is the mean?

The mean gender pay gap is the difference in average hourly pay for men compared to women at all levels across Wessex Water.

What is the median?

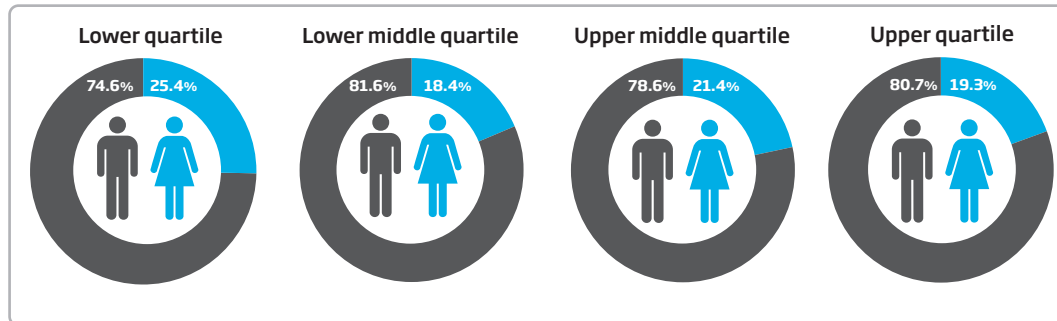
The median represents the midpoint across a list of values in numerical order. If we list the average hourly pay in numerical order, the median is the middle number. The median pay gap is the percentage difference in average hourly pay for the middle man compared to the middle woman across Wessex Water.

Workforce gender distribution



Pay quartiles by gender

Distribution of men and women in each of the salary quartiles.



Over the last year, the percentage of women in the lower pay quartile has reduced while the percentage of women in both the upper middle and upper pay quartiles has increased, and this has contributed to our mean and median gender pay gap reducing to 5.4% and 1.5% respectively.

Our gender pay gap remains significantly lower than the UK average* and reflects gender distribution in job roles across our workforce rather than any equal pay issues. Our results are an improvement on last year but we recognise that there is further room for improvement.

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

The water industry, in common with many businesses with a predominance of STEM skills, such as engineering, has been male dominated. We recognise that diversity is a strength and we are working to create an inclusive environment to improve the representation of women within the industry and our own business.

We value the differences a diverse workforce brings and are committed to creating and promoting an inclusive workplace for employees and all those who work with the company.

We have clear areas of focus which we believe will contribute to reducing our gender pay gap. We have arranged unconscious bias training for our people managers and recruiting managers.

Areas of focus include:

- reflecting the community we serve
- community education
- apprenticeships and graduates
- flexible working
- developing female role models
- improving all forms of diversity at all levels.

We are committed to better gender distribution, particularly at a senior level. These areas of ongoing focus will have a positive impact on reducing our gender pay gap over time.

*ONS median pay gap 2017 - 18.4%



Employees continued

WE MAINTAIN OUR POSITION AS A RESPONSIBLE, SAFE EMPLOYER WHERE ALL EMPLOYEES CAN WORK SAFELY AND REACH THEIR FULL POTENTIAL

Health and safety

The management of health and safety is critical to our success and embedded across all business areas to ensure we maintain our position as a responsible, safe employer where all employees can work safely and reach their full potential.

Protecting the health, safety and welfare of our staff, contractors and customers is a shared responsibility and we continue to build a strong health, safety and welfare culture in our day to day operations.

Our target is for zero accidents and we monitor all accidents, incidents and observations reported by employees. The information we collect assists in determining problem areas or emerging trends and allows resources to be allocated to prevent accidents or illnesses.

In support of this we have introduced a health and safety incident and observation app that allows staff to quickly and easily report safe and unsafe conditions. All reports are reviewed and any that raise significant concern are subject to additional investigation and remedial action.

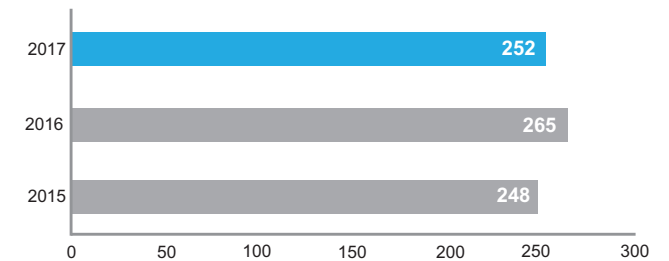
Position for the 12 months to 31 December 2017:

- 551 incidents reported (a slight increase of 2% from 2016)
- one reportable dangerous occurrence and two reportable diseases
- 11 incidents were notifiable to the Health and Safety Executive (an increase of one from 2016)
- 263 working days lost through notifiable incidents (an increase of 14% from 2016)
- overall reduction of 32% in total lost-time accidents across the company
- no enforcement action from the Health and Safety Executive.

All incidents

Overall, 551 incidents were reported in the 12 months to 31 December 2017, including 145 near misses and 110 service strikes. The principal cause of all incidents after near misses and service strikes remains as slips, trip and falls. This is in line with other companies and the national picture.

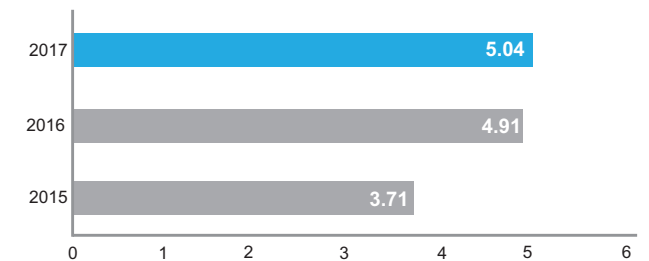
All incident rate per 1,000 staff



Reportable incident rate

This is the measure of the number of reportable incidents per 1,000 staff.

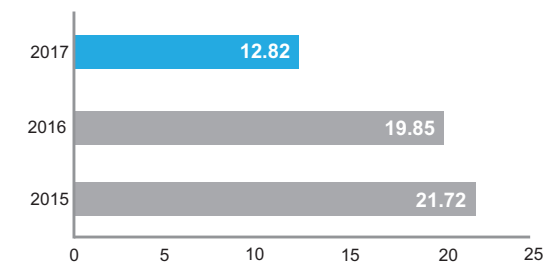
Reportable incident rate per 1,000 staff



Lost time incident rate

This includes all reported incidents involving staff that resulted in absence from work of one or more days. In 2017 there were 27 lost time incidents, an overall reduction of 32% from 2016. The principal causes of lost time in 2017 were slips, trips and falls, and manual handling.

Lost time incident rate per 1,000 staff





Employees continued

Take 5 to Check 5

Take 5 to Check 5 (T5C5) was launched at staff seminars in April 2017 which all staff were invited to attend. T5C5 is a simple to use, dynamic risk assessment that allows staff to stop and get advice wherever they feel that it is not safe to continue work. To promote safety outside work, staff were shown how easily T5C5 can be used in the home for DIY, gardening, etc.

Health and safety incident and observation reporting app

An enterprise-wide Wessex Water health and safety incident, near miss and observation reporting app has been introduced and will replace existing paper based systems used for reporting incidents, near misses etc.

The app, based on Power Apps, was developed by the IS offshore development centre in Kuala Lumpur and can be used on smart phones, tablets and laptop/pc. Staff can now quickly report safe or unsafe observations and include photographs where appropriate. The app is now in use within operations, engineering and construction and GENeco. It will be rolled out to the rest of the company in 2018.

Lone worker safety

A review of the existing system for lone worker protection identified a need to provide an improved and more robust solution using modern technology. During the year we have reviewed the requirements for a lone worker protection system.

A Wessex Water standard specification has been developed and used to identify a fit for purpose corporate solution for the next 10 years. After extensive field trials and competitive tendering, Lone Worker Solutions have been selected to provide lone worker services for Wessex Water. The new system is being rolled out across the company and will be completed in May 2018.

Mental health

Stress, anxiety and depression remains a minority reason for overall absence although it is on the increase. The priority we place on the wellbeing of our people has been strengthened and is an integral part of our People Programme.

During 2017 staff attended resilience building training trials to determine its suitability for wider implementation across the company. Feedback from staff was positive and seen to be beneficial and we plan to offer staff this training over the coming year.

Health and safety awards

Our commitment to safety and performance has again been recognised by RoSPA.

Engineering and construction were awarded the 2017 Construction Engineering sector award. These awards are presented annually for the most outstanding performance in health and safety by a company or organisation within a particular industry or sector. Winners must demonstrate a robust and high quality safety management system together with a minimum of four years' consistently excellent or continuously improving health and safety performance.

Engineering and construction were also nominated for the prestigious Sir George Earle trophy that we won in 2016. Despite a strong performance we were unsuccessful this time.

The company was also recognised in the Utility Week awards with the Health and Safety Initiative of the Year award for collaborative work in the utility sector. Our winning roadworks safety campaign is in collaboration with the charity SafeWise and includes a hard hitting video designed to influence driver behaviour near roadworks.

We have continued to work with SafeWise to promote safety at roadworks and look for new areas to work with them to influence the behaviour of customers and children who interact with our daily activities.

Financial performance

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

Gearing, as measured by net debt to Regulatory Capital Value (RCV), stands at 64%. On a pensions-adjusted basis, this figure rises to 68%, which the board still finds an acceptable level. During the year the board has continued to pay particular attention to the projected level of the company's gearing ratio with a view, when declaring dividends, to protect the company's existing credit ratings. The board remains committed to maintaining good investment grade credit ratings for the company at all times.

The latest actuarial valuation of the company's pension scheme took place on 30 September 2016, showing a deficit of £160.9m. Following this valuation, the company and pension trustees sought to take action to reduce the scheme deficit. A consultation was undertaken with scheme members which agreed that from April 2020 pension increases for active members would be measured using the Consumer Price Index (CPI) rather than the Retail Price Index (RPI) which had historically been used. The impact of this change in the year to March 2018 was a £32.9m reduction in the scheme deficit.

The company has agreed with the scheme's trustees a payment recovery plan in respect of the deficit comprising employer contributions of 21.7% and special contributions to reduce the deficit. The special contributions are £11.0m on 31 March 2018 and £11.0m plus inflation annually through to 31 March 2024. The company is committed to honouring the special contribution obligations it signed up to.

The company has an adequate liquidity position comprising cash and cash equivalents held on the balance sheet along with undrawn bank facilities, giving the company instant

access to funding if needed. The company is also in negotiation to secure a new £140m bank loan to replace an existing one that matures in December 2018.

Taxation strategy

Attitude towards UK tax planning

The company's approach to tax is fully aligned with the company's overall objectives. The company complies with the spirit and letter of UK tax legislation and claims all tax reliefs and allowances to which it is entitled. The company will consider reasonable tax planning opportunities which are in line with its risk appetite. As a general rule, the company does not enter into complicated structures nor engage 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, the company will seek external advice when required.

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

The finance director is ultimately responsible for the tax strategy and engages with relevant individuals within the company to ensure the tax strategy is implemented and monitored. The board reviews and approves all significant decisions relating to tax and is regularly updated regarding any significant matters relating to tax. The Audit Committee considers significant tax related matters as part of its review of the financial reports of the company.

As a UK regulated business with a significant capital programme, the company considers obtaining tax relief on capital expenditure as being a key factor affecting its tax liability. Other factors such as changes in tax legislation or changes in interpretations may also affect the amount of tax due.

In brief

- Operating profit (excluding exceptional items) increased by £8.4m from £226.3m to £234.7m.
- Turnover increased by £15.3m or 2.9% while underlying operating costs increased by £6.9m or 2.3%.
- There was also an exceptional increase in operating profit of £32.9m in respect of a change in the measurement of inflation in the pension scheme.
- The cost of debt increased from 3.7% to 4.2%. We maintained a balanced mix of financial instruments, but the increase in interest rates was primarily on index linked instruments this year.
- Capital expenditure delivered in the third year of AMP6 was £250.4m, an increase of £36.4m over £214.0m last year.
- Profit before tax (excluding exceptional items) fell by £1.1m from £152.4m last year to £151.3m, although including the exceptional credit profit before tax increased by £31.8m.
- Gearing, as measured by net debt to regulatory capital value, has fallen from 64.7% last year end to 63.9% this year end.
- 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

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

As documented in the company's finance policy, the company adopts a risk averse and cautious approach to tax. In addition, tax is included as part of the company's risk assessment framework. The overall risk framework is monitored by the company with regular updates provided to the board.

Approach towards its dealing with HMRC

The company has an open, regular and professional dialogue with HMRC. As part of its Business Risk Reviews, HMRC regards the company as being low risk. 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 company will also engage with HMRC on industry-wide matters through its membership of Water UK.

This Tax Strategy is provided in compliance with the requirements of paragraphs 16(2) and 19(2), Schedule 19 Finance Act 2016.

The company's tax contribution

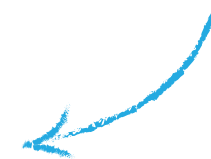
The corporation tax charge in relation to the current year was £22.9m. This is lower than the statutory rate of corporation tax of 19% due to the availability of tax relief on capital expenditure. There is also a £0.7m prior year credit for corporation tax.

In addition to corporation tax, the company is also liable to several other taxes which represent a cost to the business. These taxes include, employers National Insurance contributions of £9.2m, business rates of £25.4m, Carbon Reduction Commitment payments of £1.3m, Climate Change Levy costs of £1.2m and Insurance Premium Tax of £0.2m.

MONEY MATTERS



INVESTMENT IN OUR WATER SUPPLY GRID HAS ENSURED FUTURE RESILIENCE AND UNINTERRUPTED WATER SUPPLY FOR OUR CUSTOMERS



In detail

Financial performance

The third year of the AMP6 price review period saw an increase in profitability, with operating profit (excluding exceptional items) rising by £8.4m from £226.3m to £234.7m. However, profit before tax fell slightly from £152.4m to £151.3m (excluding exceptional items) as a result of increased interest charges. The increase in turnover was £15.3m, while at the same time there was a small increase in operational costs of £6.9m. Our results also include two exceptional items identified in the year, a pension credit of £32.9m resulting from the agreement of the pension scheme to change the measurement of inflation from RPI to CPI and a deferred taxation charge of £22.2m arising from the pension credit (£5.6m), and an alignment with group methodology in relation to industrial building allowances (£16.6m).

Turnover

Turnover increased by £15.3m or 2.9% from £525.3m to £540.6m. At April 2017 the market was split between household and non-household customers, and from 1 April 2017 there was a price increase of 0.4% plus November RPI of 2.2% for household and an increase of 3.4% for non-household.

The turnover increase was in line with the price increase allowed by Ofwat as the impact of tariff switching and economic conditions was broadly neutral.

Finance continued

Operational costs

Underlying operational costs increased by £6.9m from £299.0m to £305.9m. There were increases in retail services, site operations and Environment Agency charges offset by a decrease in repair costs and a £2.5m decrease in depreciation.

There was an exceptional credit to operational costs of £32.9m that arose from the agreement of the pension scheme to change the measurement of inflation for pension increases from 2020. These increases are currently measured using the Retail Price Index (RPI) and will be changed for active members to use the Consumer Price Index (CPI), reducing the IAS19 valuation of retirement benefit obligations by £32.9m.

Interest charges

Interest charges increased by £9.5m from £73.9m last year to £83.4m this year, with an increase of £8.7m in interest payable, a £0.6m decrease in interest receivable and a £0.2m increase in pension related interest costs.

The increase in interest payable arose because of a rise in the cost of debt from 3.7% to 4.2% in respect of floating rate and index linked borrowings, and an overall increase in net debt during the year from £1,903.6m to £1,985.5m.

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 £1,875m of debt maturing after 2020.

Taxation charge

The corporation tax charge was £22.2m, a decrease of £1.0m over £23.2m last year. There was a £2.4m reduction in current year tax from £25.3m to £22.9m and a £1.4m reduction in the prior year credit from £2.1m to £0.7m. Profit before tax excluding the exceptional item fell slightly from £152.4m to £151.3m. The corporation tax rate reduction from 20% last year to 19% this year was the main reason for the reduction in the current year charge. 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 £16.9m last year to a charge of £6.3m (before exceptional items) this year. The deferred tax credit

last year arose because the rate at which deferred tax is calculated had fallen by 1% last year from 18% to 17%, but remained at 17% this year.

In addition to the normal deferred tax charge of £6.3m there are two exceptional deferred tax charges of £16.6m relating to a change of methodology in the treatment of industrial buildings, and £5.6m arising on the exceptional credit for pension accounting.

Dividends

Wessex Water's dividend policy is to declare dividends consistent with the company's performance for customers and the environment, and prudent management of the economic risk of the business. The board has agreed to ensure that pensions-adjusted gearing stays at or below 70% in order to maintain credit ratings and give the company continued access to the capital markets.

Cash flow and gearing

Net debt increased by £81.9m from £1,903.6m to £1,985.5m. The cash inflow from operations of £335.9m was reduced by capital investment of £203.5m, interest and tax payments of £82.5m, dividend payments of £92.0m and working capital outflows of £39.8m.

Liquidity at the year end was £185.8m comprising £35.8m of cash and cash equivalents and £150.0m of bank facilities not yet drawn down.

The regulatory capital grew by £167m, from £2,942m to £3,109m, increasing by £101m in relation to inflation and £67m for growth in assets. Gearing, excluding pension liability, at 31 March 2017, calculated as net debt divided by regulatory capital value, was 63.9%, a reduction from 64.7% last year because the regulatory capital value increased by more than the increase in net debt.

Capital investment

In 2017-18 we delivered gross capital expenditure for the third year of the AMP6 programme of £250.4m, which is £36.4m higher than the £214.0m delivered last year (figures include infrastructure renewals expensed through the P&L). This profile is typical of a five-year capital programme where there is lower expenditure in the first two years of the new AMP period as the new programme of work is commissioned, with the highest capital expenditure in the third and fourth years.

Governance and assurance

Principal risks

Our industry-leading customer and environmental performance has been achieved through focusing 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 assessment and management is subject to regular review by the board. Identification and management of risk is delivered through a hierarchy of risk management reviews from operational staff, senior management and Wessex Water Services Limited executive directors. The board reviews and holds ultimate responsibility for the risk process and for identification and mitigation of risks.

The Risk and Resilience Management Group meets throughout the year and every six months submits the current risk register and summary report to the Risk Management Advisory Group, comprising the executive directors.

This group scrutinises and challenges the risks included in the register and identifies any additional work necessary to better classify the risk or explore other available mitigation methods. Any significant new risks are reported to the advisory group and the board as they arise.

The managing director 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 emerging risks that have been identified.

Since the last annual review, the following changes have been made to demonstrate the increasing importance risk now plays:

- the Audit Committee has been re-named the Audit and Risk Committee
- the WWSL services management team now has a standing item on risk at each monthly meeting
- clearer lines of responsibility from the board, through executive directors to the Risk and Resilience Management Group
- detailed assessments of the effectiveness of each risk mitigation action have been developed
- the introduction of a process of reviewing whether the risks are currently in or out of tolerance.

The board has agreed the addition of one principal risk relating to the information management issues regarding the General Data Protection Regulation (GDPR) which was enacted in May 2018.

- 1. Government/regulatory action.** Market uncertainties reflecting the Brexit vote, political intervention 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.** 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 and monitors are being installed to mitigate the risk at critical locations.
- 3. Digital resilience.** Most activities undertaken by the business rely 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. While regular improvements continue to be made, the threat persists with an increase in attacks experienced. The quarterly Information Security Forum maintains the focus on mitigating this risk.
- 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. Health and safety is of paramount importance to us with processes and procedures implemented through staff training and regularly monitored to maintain compliance and protect people from harm. Our Take 5 to Check 5 initiative has been successful in maintaining the focus on health and safety and our approach continues to be recognised through national awards.
- 5. Resourcing and skills.** There is already a recognised shortfall in STEM skills (Science, Technology, Engineering and Maths), compounded by uncertainty from the Brexit vote and heightened in our region by the impact of the Hinkley Point C programme. As expected this situation is becoming more challenging and our People Programme is helping to mitigate this risk.

Governance and assurance continued

6. **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. Further mitigation plans are being developed to counter what is one of the most significant risks on the national risk register.
7. **Information management (GDPR).** The programme plan will achieve compliance with the regulations. Further cultural, process and systems improvements will continue to be made to improve our resilience.
8. **Anti-competitive behaviour.** We remain vigilant after the opening of the non-household market. Our competition team meets monthly to consider emergent issues and risks and appropriate actions to ensure we continue to comply with the Competition Act.
9. **Availability of new finance.** The bond markets are used extensively to fund new investment. The current economic climate post the 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.
10. **Outcome delivery incentive failure.** The business is focused on achieving the targets. While processes, data and culture are all embedded, risks remain following another year of generally benign conditions. As well as reputational risk there are also financial penalties which can be incurred if we do not remain vigilant and continue to stretch ourselves to improve the service to our customers.

11. **Widespread unfit water.** Completion of our integrated water supply grid and the removal of standalone sources for most of our customers means we have improved our resilience against the risk of a major failure of process or contamination of the water supply. Nevertheless, we continue to challenge ourselves to improve and risk assessments are formally reviewed at the monthly risk meetings and, where appropriate, mitigation action is implemented throughout the year.

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

Board endorsement of the Annual Review

22 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 6 July.

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

Francis Yeoh
Chairman

Gillian Camm
Senior Independent
Director

Andy Pymer
Managing Director

Sustainability accounting

For the year to 31 March 2018

Since 2002 we have produced accounts that integrate sustainability thinking into the financial accounts. 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 involves 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 that in many cases 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 £8m for these in 2017-18.

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 2017-18 greenhouse gas emissions using UK shadow prices ranges between £0.5m and £8.0m (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 we are continuing to develop our own system called EnTrade, which was initially developed 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 2017-18.

	2018 £m	2017 £m
Customers and communities		
Mandatory	116	133
Discretionary	1	1
Environment		
Mandatory	111	79
Discretionary	-	<1
Employees		
Mandatory	52	53
Discretionary	10	11
Totals		
Mandatory	279	265
Discretionary	11	12

Income statement – For the year ended 31 March 2018

	2018 £m Before exceptional items	2018 £m Exceptional items	2018 £m Total	2017 £m
Revenue	540.6	-	540.6	525.3
Raw materials and consumables used	(33.7)	-	(33.7)	(30.2)
Staff costs	(69.5)	32.9	(36.6)	(59.3)
Depreciation and amortisation	(101.2)	-	(101.2)	(103.7)
Other expenses	(101.5)	-	(101.5)	(105.8)
Total expenses	(305.9)	32.9	(273.0)	(299.0)
Operating profit	234.7	32.9	267.6	226.3
Financial income	0.4	-	0.4	1.0
Financial expenses	(83.8)	-	(83.8)	(74.9)
Net financing expense	(83.4)	-	(83.4)	(73.9)
Profit before tax	151.3	32.9	184.2	152.4
Taxation	(28.5)	(22.2)	(50.7)	(6.3)
Profit for the year	122.8	10.7	133.5	146.1

The table above is extracted from the company non-statutory accounts.

Balance sheet – At 31 March 2018

	2018 £m	2017 £m
Non-current assets		
Property, plant and equipment	3,555.5	3,427.9
Investments in subsidiaries	-	-
	3,555.5	3,427.9
Current assets		
Inventories	5.7	7.2
Trade and other receivables	185.0	175.3
Cash and cash equivalents	35.8	103.5
	226.5	286.0
Total assets	3,782.0	3,713.9
Current liabilities		
Other interest-bearing loans and borrowings	(145.4)	(5.1)
Trade and other payables	(196.1)	(188.2)
	(341.5)	(193.3)
Non-current liabilities		
Other interest-bearing loans and borrowings	(1,875.9)	(2,002.0)
Other payables	(0.4)	(0.4)
Employee benefits	(153.7)	(194.7)
Deferred income	(259.7)	(249.7)
Provisions	(0.1)	(0.1)
Deferred tax liabilities	(348.9)	(319.2)
	(2,638.7)	(2,766.1)
Total liabilities	(2,980.2)	(2,959.4)
Net assets	801.8	754.5
Equity		
Share capital	-	-
Retained earnings	801.8	754.5
Total equity	801.8	754.5

The table above is extracted from the company non-statutory accounts.

Cash flow statement – For the year ended 31 March 2018

	2018 £m	2017 £m
Cash flows from operating activities		
Profit for the year	133.5	146.1
<i>Adjustments for:</i>		
Depreciation, amortisation and impairment	101.2	103.7
Financial income	(0.4)	(1.0)
Financial expense	83.8	74.9
Taxation	50.7	6.3
	368.8	330.0
(Increase) in trade and other receivables	(9.1)	(4.3)
Decrease/(Increase) in inventories	1.5	(0.1)
(Decrease) in trade and other payables	(7.2)	(0.6)
(Decrease) in provisions and employee benefits	(38.7)	(4.4)
	(53.5)	(9.4)
Tax paid	(21.4)	(24.4)
Net cash from operating activities	293.9	296.2
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	2.9	1.5
Proceeds from sale of intangible assets	4.4	-
Interest received	0.4	1.0
Acquisition of property, plant and equipment	(220.3)	(192.9)
Proceeds from infrastructure charges and capital contributions	9.5	8.9
Net cash from investing activities	(203.1)	(181.5)
Cash flows from financing activities		
Proceeds from new loan	-	50.0
Interest paid	(61.5)	(61.5)
Payment of finance lease liabilities	(5.0)	(4.5)
Dividends paid	(92.0)	(90.5)
Net cash from financing activities	(158.5)	(106.5)
Increase in cash and cash equivalents	(67.7)	8.2
Cash and cash equivalents at 1 April	103.5	95.3
Cash and cash equivalents at 31 March	35.8	103.5

The table above is extracted from the company non-statutory accounts.

Wessex Water Services Ltd - Board of Directors

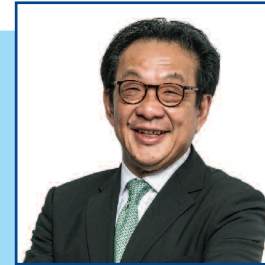
Chairman

Francis Yeoh CBE

Francis has been managing director of YTL Corporation Berhad, Malaysia, since 1988. He was appointed to the board of Wessex Water Services Limited in May 2002.

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

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



Executive Directors

Colin Skellett - Chief Executive

Colin has worked in the water industry for more than 40 years in a range of management positions. A scientist and engineer by training, Colin led Wessex Water through privatisation and was instrumental in creating the UK's best water and sewerage company. He was appointed chief executive of Wessex Water in 1988 and appointed to the board of Wessex Water Services Limited in 1989. He is currently group chief executive of Wessex Water, chairman of The Gainsborough Bath Spa Hotel and Thermae Bath Spa, non-executive chairman of European Connoisseurs Travel and chair of YTL Land and Property UK.

Colin is vice-chair of Venturers' Educational Trust and chair of Merchants' Academy. Colin was involved in the formation of the charity WaterAid and served on its council for several years.



Andy Pymer - Managing Director

As managing director, Andy is responsible for the overall performance of the company and for providing strategic advice and guidance to the board to ensure we fulfil our mission, aims and values. A chartered civil engineer turned economist, he has more than 25 years' experience in the water sector, holding roles both overseas and in the UK. Andy was appointed managing director in 2016 having previously been Wessex Water's director of regulation and customer services since 2012 and head of regulation, policy and audit since 2002.

Andy was appointed to the board of Wessex Water Services in August 2012. Co-chair of Wessex Water's joint venture billing company, Pelican Business Services, he is also a council member for the industry trade association, Water UK. He is chair of Wessex WaterAid, which has raised more than £1.5m for the charity over the past 10 years.



Wessex Water Services Ltd - Board of Directors

Executive Directors

Mark Watts - Finance Director

Mark is group finance director of YTL UK with overall responsibility for accounting, treasury, tax, pensions, procurement, risk and investment and unregulated businesses within the group. A member of the Association of Corporate Treasurers, Mark has extensive experience in international banking, treasury, fundraising and corporate finance. He worked for a decade at Barclays International Bank before spending 19 years in the treasury department of Wessex Water followed by seven years as finance director.

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



James Rider - Chief Operating Officer

As chief operating officer, James is responsible for the delivery of regulated operational activities including water supply, waste water, electrical and mechanical maintenance, capital maintenance and strategy, and control and scheduling activities. James has held a wide variety of senior roles at Wessex Water in a range of business areas, including operations, engineering, construction, information systems, billing, debt management and customer services.

He describes himself as a generalist with leadership experience in a wide range of business disciplines and has developed successful strategies to deliver organisational change and operational performance. Appointed director of operations in 2015, James became chief operating officer in August 2016. He is also a trustee of the Wessex Water pension scheme and a fellow of the Chartered Institute of Water and Environmental Management.



Non-Executive Directors

Gillian Camm - Senior Independent Director

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

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

Gillian is chair of the Leadership Foundation for Higher Education, a vice-president of Quartet Community Foundation, a member of the Merchant Venturers and the Honourable Gloucestershire Company and a deputy lieutenant of Gloucestershire.



Fiona Reynolds DBE - Independent Director

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

She was appointed to the board of Wessex Water Services in August 2012. In the same year she became Master of Emmanuel College, Cambridge after a long career in the voluntary conservation movement, latterly as Director-General of the National Trust from 2000-2012. She was Director of the Women's Unit in the Cabinet Office (1998-2000). At Wessex Water, she is chair of the Futures Panel and a member of the audit committee, the corporate responsibility committee and the nominations committee.



Wessex Water Services Ltd - Board of Directors

Non-Executive Directors

Huw Davies FCA - Independent Director

Chief financial officer and company secretary of the Wates Group for the last 10 years, Huw was previously head of corporate finance at Taylor Woodrow plc. He has also held key positions with KPMG, Ernst and Young and the government of Oman. Huw was formerly an independent non-executive director of West Bromwich Building Society, Hydro International plc and WSP plc.



He has extensive experience in UK and international corporate finance, risk management and corporate governance with a number of sectors including construction and engineering, residential and commercial development, property investment and financial services.

Huw was appointed to the board in September 2014 and is chair of the audit committee and of the Wessex Water Services pension scheme. He is a member of both the remuneration and nominations committees.

Richard Keys - Independent Director

A chartered accountant and a former senior partner at PricewaterhouseCoopers, Richard has extensive business and financial experience developed during a 37-year career at PwC, encompassing corporate governance, audit, accounting, financial reporting, risk management, transaction support and consulting across many sectors including utilities (electricity and water), air transport, heavy industry and manufacturing and natural resources.



Richard was appointed to the Wessex Water Services board in May 2016 and is a member of the audit, nominations, remuneration and corporate responsibility committees. He is also a non-executive director of Merrill Lynch International, NATS Holdings Ltd, non-executive member of the departmental board at the Department for International Development and at the Department for Transport. He is chairman and non-executive director of Glaziers Hall Ltd.

David Barclay - Group Director

As an investment banker, David assisted YTL Corporation with its acquisition of Wessex Water in 2002, and since then has been a director of Wessex Water Services Limited. His aim is to promote and defend high standards of integrity and corporate responsibility in the boardroom.



David is also a director of Wessex Water Limited, the holding company for Wessex Water Services, and YTL Land and Property Limited. A one-time chairman of the audit committee, he continues to serve as a member of the remuneration and nominations committees. David is currently deputy chairman of the British Library and a senior independent director of Wates Group Limited.

Mark Yeoh - Shareholder 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. 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 YTL Vacation Club Berhad.



Mark is a director of YTL Corporation Berhad, YTL Power International Berhad, YTL Land & Development Berhad, YTL Cement Berhad and YTL PowerSeraya Pte Limited in Singapore. He is also executive director of Pintar Projek Sdn Bhd. 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.

Wessex Water Services Ltd - Board of Directors

Non-Executive Directors

Hong Yeoh - Shareholder Director

A director of YTL Corporation Berhad, Malaysia since 1985, Hong is executive director of YTL Power International Berhad and is responsible for YTL Group's utilities and construction divisions.

He has been a director of Wessex Water Services Limited since May 2002 and is chairman of the remuneration committee. He is a trustee of the YTL Foundation.



Hann Yeoh - Shareholder Director

Hann is executive director of YTL Power Generation Sdn Bhd and part of the business development team of YTL Power International Berhad. He has been a director of Wessex Water Services since August 2012.

A graduate of Oxford University with a master of engineering in engineering science, Hann is executive director of YTL Power Generation Sdn Bhd 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.

