Annual review 2015
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About Wessex Water

Wessex Water continues to be a leader amongst water and sewerage companies and is committed to delivering the highest levels of customer service and environmental performance at a price that customers can afford.

We treat and supply:

- 280 million litres of water a day to 1.3 million customers (on average more than a ton of water to every customer weekly)

We take away and treat:

- 470 million litres of sewage from 2.7 million customers every day

We have:

- 209 water sources and water treatment works
- 200 booster pumping stations
- 300 service reservoirs and water towers
- 11,600 kilometres (7,200 miles) of water mains

We have:

- 34,500 kilometres (21,500 miles) of sewers
- 407 sewage treatment works
- 1,600 sewage pumping stations
- 15 catchments actively managed to improve environmental impact

For further information about Wessex Water see our website

www.wessexwater.co.uk
Chairman’s foreword

On behalf of the Board of Directors of Wessex Water, I am pleased to present the Annual Review and Accounts for the financial year ending 30 March 2015.

In the 13 years since YTL acquired Wessex Water I have seen the industry evolve considerably. I remain very positive about UK water regulation, and see it as the global gold standard for regulatory regimes in terms of strong, independent regulation and the stability it provides for investors.

Wessex Water has an unparalleled record in customer and environmental performance. The ongoing improvements have put the business in a good position to meet the challenges of climate change, a growing population and increasing customer expectations.

Our biggest long-term environmental challenge is indeed climate change. In 2014 the Intergovernmental Panel on Climate Change concluded that warming of the climate is unequivocal and that human influences – mainly from burning fossil fuels – were the dominant cause of the warming seen in the last 60 years. The main impacts for Europe are expected to be extreme heat events, increased water restrictions and increased flood losses.

Between 2010 and 2014, communities in the Wessex Water region experienced very cold, very dry and very wet weather events that were far removed from average conditions. With global warming we can expect to see such extreme events happening more frequently than in the past, and already there is growing evidence that extreme rainfall events are occurring more often in the UK.

For Wessex Water, a major focus of our investment programme is to maintain the resilience of our excellent water and sewerage services during extreme weather. The major investment that is already underway to create a more integrated water supply grid will significantly improve our ability to deliver services in extreme conditions in the future and to maintain our record of no water restrictions for 38 years.

The 2015 UN Climate Change Conference in Paris is critical for international efforts to reduce greenhouse gas emissions. For our part, we continue to work hard on energy efficiency and renewable energy generation. Our new gas-to-grid connection at Bristol sewage treatment works has diversified how we can use biogas produced by the anaerobic digesters. During the next five years we will be upgrading sludge digesters at other sites, increasing the amount of renewable biogas we produce overall. This is part of our aspiration to be an environmental leader in our sector and contribute to the environmental leadership goals of the wider YTL group.

Customers remain at the heart of everything we do. Our business plan to 2020 was developed with the help of more of our customers and stakeholders than ever before. This ‘more for less’ plan kept bill rises below inflation while delivering higher levels of service alongside continued environmental improvements, and acts as a stepping stone to achieving our long-term vision of being a fully sustainable water company.

YTL have already demonstrated a long-term commitment to the sector and I remain determined that we will continue to invest for customers and the environment, to deliver the highest standards, and to continually innovate in the pursuit of service excellence.

I thank God for His continuous blessings and all at Wessex Water for their continual passion and commitment to providing the best in class customer service and also all our customers for their continuing support.

Dr Francis Yeoh CBE
Chairman
Overall performance
The year covered by this report was the last in the five-year regulatory control period that began on 1 April 2010. These five years have been the most challenging since Wessex Water was privatised just over 25 years ago, driven by both the economic climate and the growing impact of the changing physical climate.

Our focus has been on understanding the changing needs of our customers and responding to the pressures that many have been under as a result of the recession. At the same time we have maintained the highest levels of environmental and quality compliance, continued to invest in creating greater resilience to climate change and supported economic growth across the Wessex Water region.

Throughout the period we have delivered first class customer service, with very high levels of customer satisfaction, enabling us to top the customer service league tables for water and sewerage companies for the seventh consecutive year.

We have continued to provide more choice to customers in the way they interact with us, including greater use of social media and text messaging, the introduction of online billing and a complete relaunch of our website.

We also provide tailored assistance programmes for customers who struggle to pay their bills with more than 18,000 customers now benefiting from our social tariffs or restart programmes.

Average bills were frozen in real terms for 2014-15 and reduced by 5% from 1 April 2015.

Service standards remain high; it is 38 years since restrictions on water use were last imposed in the Wessex Water supply area.

For the reporting year our drinking water compliance was 99.97% and sewage treatment compliance was 99.7%. Whilst the varying weather patterns caused problems, we achieved a reduction in the total number of pollution incidents and halved the number of serious incidents. However, we know more needs to be done to deal with the changing rainfall patterns – longer dry periods and more intense rainfall – so we have committed to further major investments over the coming years.

Investing for customers
Through careful planning, innovative approaches and greater use of in-house resources we delivered our largest ever investment programme. We met all regulatory outputs, which included major customer focused programmes to reduce leakage and sewage flooding. Our overall investment programme was delivered under budget and the efficiency savings shared between customers and investors.

We are now more than halfway through the construction of our integrated water supply grid, which will improve resilience of supplies to customers and deliver improvements in the water environment. As part of this project we have developed an innovative system to optimise the supplies of water across the region, so minimising future operating costs. The whole grid project is on track for completion in 2018.

Innovation is a key element of our investment programme. We use industry leading no-dig techniques to replace and renew below ground assets, so minimising the impact on customers and communities. Many new ideas come from our employees; these are supplemented by trials of new technologies and our joint research programme with the University of Bath, as part of which we have developed a centre for water research and innovation based at the university.

We invest for the long term and take very seriously our role to maintain our assets for future generations. This was recognised by our regulator and all our assets achieved a stable serviceability rating throughout the last five years, a period that included the transfer to us of private sewers, which doubled the length of our sewer network. The transfer was completed without any additional funding and with no impact on services to customers.
Working in partnership
While we play a major part in the provision of essential services, we are not the only contributors. We recognise our place in the wider community and within the environment and have continued to work with stakeholders to develop partnership arrangements.

These include a multi-agency bathing water group set up to improve the bathing waters at Burnham, and working with local councils in developing surface water management plans, such as the ‘super pond’ constructed at Weston-super-Mare.

We have also introduced focused customer information campaigns to improve awareness of water and environmental issues. This has included our Be Smart Love Your Loo campaign to inform customers about the problems caused by non-flushable wipes.

We are passionate about sharing our know-how with young people and last year more than 24,000 students benefited from school visits and trips to our sites. We are also a science, technology, engineering and mathematics (STEM) ambassador and have helped run workshops to promote science and engineering to young learners.

Our Watermark award scheme has been operating for more than 20 years to support organisations with their environmental projects across the region. We also work closely with wildlife trusts and local nature partnerships on areas such as biodiversity.

We argued hard to remove the historical boom-bust investment cycle between five-year price review periods, which was both inefficient and a source of frustration for suppliers. We have implemented a programme which has allowed us to successfully smooth our investment and secure local jobs for the long term.

Not only has this programme helped our supply chain but, as a major regional employer, it has also allowed us to invest in more apprenticeship and trainee programmes.

The quality and dedication of our employees is key to our success. We are developing our future leaders to ensure we have the diverse, fully skilled and fulfilled employees we require to successfully provide on-going outstanding service to our customers, communities and environment.

We take our responsibilities to protect our staff, contractors and customers extremely seriously and continue to embed a strong health, safety and welfare culture in all our operations.

Financial results
Turnover for 2014-15 was £540.3m and profit after tax £140.7m. Capital investment in the year was £198.4m. Operating costs rose by £8.5m to £291.9m, largely as a result of new plant coming on stream to meet new obligations.

We have a simple corporate structure, pay the expected level of corporation and other taxes and are classed by the Inland Revenue as low risk.

Planning for the future
The latest price review covering the five years from 1 April 2015 was extremely tough, reflecting the difficult economic climate. Bills for customers will come down in real terms, investment will be at the highest level ever and we will need to be even more innovative to deliver all the outputs, maintain our industry leading service standards and deliver satisfactory returns to investors.

Our customers were at the heart of the price review; over 24,000 customers and more than 90 organisations were consulted. Our customer liaison panels and the independent customer scrutiny group played major roles and I am grateful to all those involved.

Customers and partnerships will continue to be central to all we do over the next five years as we deliver the commitments we have made, prepare for the opening of a competitive retail market for business customers and tackle the challenges of upstream reform and ongoing climate change.

Wessex Water is extremely fortunate in having an excellent long-term owner, YTL, a loyal, skilled workforce and a first class board of directors. I must particularly thank Peter Costain, who retired from the board during the year after many years of dedicated service. Peter provided wisdom, expertise and an acute sense of the right question to ask.

We are fortunate to have as Peter’s replacement Huw Davies, who brings a wealth of financial and construction expertise to the board.

To prepare for the period ahead we have restructured our business and renewed our mission, aims and values. Providing customers with first-class affordable services remains our key aim. Wessex Water is in excellent shape and fully ready to take on the challenges of the next five years.

Colin Skellett, Chief executive
Customers and communities

We put customers and the communities we serve at the heart of everything we do.

We aim to deliver the highest levels of customer satisfaction and increase customer loyalty. We do this by providing what is important to our customers: excellent water and sewerage services, choice in the way they can communicate with us, a real person to answer the telephone, resolving problems quickly and first time, keeping them informed at all times, checking they are happy with the outcome if they have a problem and compensating where things go wrong.

It’s often the little things that matter so we encourage our staff to go the extra mile whenever they can.

We remain the top performer in the water sector on customer service and our standards of service and package of customer guarantees are among the best in the industry.

Day to day feedback shows customers are generally very satisfied with our service and see it as good value for money. But we know there is more to do, particularly as new channels of communication become more popular and customers increasingly compare us to the best service providers outside the utility sector.

We also need to recognise that any customer can become vulnerable and so we are committed to ensuring our services are accessible and inclusive for customers at all times. This commitment, combined with effective working partnerships with vulnerable customer organisations and our leading support for customers in financial difficulty, has helped us to build customer confidence and trust.

In brief

- Maintained high levels of customer satisfaction and retained our government Customer Service Excellence award.
- Once again reduced the number of complaints we received – the fewest of any water and sewerage company.
- Topped the water and sewerage company league table in Ofwat’s trials of the new look service incentive mechanism (SIM).
- Launched our new look website including a new interactive map detailing where we have projects in progress.
- Used our online customer panels to seek their views on our Wessex Water Promise, free leak repair scheme, sewer misuse and water efficiency.
- Worked with University of Bath on a behaviour change campaign in Salisbury encouraging customers to Be Smart Love your Loo.
- Made great progress on our affordability action plan leading to a 20% increase in the number of low income customers receiving support with their bills.
- Shortlisted for a national Money Matters award for improving financial literacy and money management.
- Demonstrated our commitment to accessible and inclusive services for all by our attainment of the British Standard for Inclusive Services (BS 18477) and the award of the Louder than Words charter mark.
- Ran our Sewage Week during which thousands of customers visited our sewage treatment works.
In detail

Drinking water quality
We are committed to ensuring that the highest quality drinking water remains at the forefront of all we do.

Our overall performance in 2014 was 99.97% – the same as in 2013 and achieved despite the tightening of the standard for lead that took effect at the end of 2013. Compliance has not fallen below 99.95% for the last 10 years.

We successfully completed mains rehabilitation work in Taunton during the year, resulting in significant improvements to local water quality. And we commissioned a multi million pound refurbishment of Sutton Bingham water treatment works, which supplies Yeovil and the surrounding area.

Throughout 2014 customer contacts about water quality were in line with expectations with similar numbers received as previous years. Further reductions in the number of contacts we receive from our customers will be achieved through ongoing investment in our distribution system and improved ways of keeping customers informed.

Customer service
Last year Ofwat trialled its new look SIM and, once again, we emerged as the top water and sewerage company – a result supported by our own satisfaction and value for money surveys.

However, there is more to do and we need to meet customers’ growing and more diverse expectations. So it is important that we listen to them and use their feedback to identify ways to improve our services, processes, training and communication, and deal better with those experiencing recurring problems.

To make sure we get this right, we are introducing measures that compare us to the best service providers outside the utility sector.

Alternative communication channels are becoming more and more popular and while we embrace these we do also remain committed to offering choice. So we have retained personal telephone answering, which customers really value, while at the same time expanding self-service opportunities, text messaging and Live Chat.

We continue to work even harder to keep customers better informed when we have problems either on our network, such as a burst water main,
or when we are fixing a problem at their own home or premises. Text messaging has proved a great way to keep in touch and let customers know what the problem is, what we’re doing to resolve it and by when.

We have also expanded our customer care team so we can give customers a key point of contact while we resolve their problem and can make sure they are happy with the outcome.

Our new look website features employees from across the company so customers can discover more about the people who are delivering high levels of service to them.

The site features a new interactive map enabling customers to find details of local projects in progress.

Complaints fell again, this year by 5%. We are also resolving more complaints first time and have seen a reduction of 5% in escalated complaints.

We retained our government Customer Service Excellence award for our approach to customer services and continue to have the best overall package of customer guarantees in the industry.

To complement our Wessex Water Promise we have introduced Simply Thank You, a service enabling us to send bespoke gifts to customers where our service has fallen short of expectations.

We know that our customers have a wide range of needs, abilities and personal circumstances and that a customer can become vulnerable at any time.

Our commitment to accessible and inclusive services for all is demonstrated in our attainment of the British Standard for Inclusive Services (BS 18477), and the award of the Louder than Words charter mark.

And our staff have worked with Wiltshire Mind on mental health awareness training and with the Money Advice Trust on how best to spot signs of financial difficulty.

Customer engagement

Through our online panels we asked customers what they thought about our Wessex Water Promise, free leak repair scheme and saving water.

We want to make sure our policies in these areas meet their needs and after each survey we sent a newsletter to participants explaining the findings and what we are doing as a result.

Affordability, tariffs and debt recovery

For the great majority of customers our bills are affordable but this is often not the case for those on the lowest incomes.

Through our assistance programme, tap, we are helping more than 18,000 vulnerable customers to pay ongoing charges and repay debt, while offering practical help to reduce water and energy bills.

Working closely with debt advisers we give each customer a tailored solution to meet their own financial circumstances. In 2014-15 we increased our work with organisations who offer customers telephone and online advice, such as StepChange and National Debtline.

Under the guidance of our expert affordability advisory group we have focused on delivering our affordability action plan to raise awareness of our work and increase take-up of our schemes and low rate tariffs.

The action plan includes a growing number of partnerships with community based organisations and advice agencies and as a result we have increased uptake of our schemes by 20%.

We also made Money Matters awards to a further five organisations running community based financial literacy and money management projects involving young people and vulnerable customers.
Retail competition
We have long supported moves to extend customer choice in the sector and are in the process of preparing for full retail market opening for business customers.

During the year our joint venture billing and customer services provider, BWBSL, separated its business customer operations from its domestic so there is clear separation of costs. We have also formed a shadow board as we move to a greater level of separation.

We have been actively assisting Ofwat and others with the development of the future market rules and have applied to Market Operator Services Ltd which will procure the centralised systems that will allow the market to function smoothly.

Education and water saving
We help customers of all ages to conserve water and with their assistance we have continued to reduce leakage – our aim is to fix all visible leaks within one working day.

We offer free water saving devices through our online shop and a free water home check service and include information in our customer magazine and a range of other leaflets.

We continue to raise awareness of the causes behind sewer blockages and are encouraging people not to flush items such as wet wipes down the toilet.

Last year alone we dealt with 13,000 blockages which cost £5m to clear. Our Be Smart Love Your Loo campaign aims to raise the alarm on this issue and asks customers to do their bit to prevent blockages.

We worked with the University of Bath on a behaviour change campaign in Salisbury to encourage customers not to flush wet wipes.

During the last year more than 24,000 students across our region were among those to benefit from school visits and trips to water and sewage treatment works.

Watermark awards
For more than 20 years our Watermark award has supported organisations across our region with their environmental projects. Organisations that have benefited include the Butterfly Conservation’s Munching Caterpillar education project.
Finance

The UK group structure has remained the same since 2002 with the company wholly owned by Wessex Water Limited which is in turn wholly owned by YTL Utilities (UK) Limited. Both these entities are holding companies and neither provides any intra-group funding to the company. Virtually all of the debt raised in the UK group sits within the company and all borrowings are at market rates provided by financial third parties.

Gearing, as measured by net debt to RCV, stands at 62% at the end of AMP5 but incorporating Ofwat’s AMP6 opening adjustments and the pension deficit is 70% at the start of AMP6, albeit still at an acceptable level.

During the year the board has continued to pay particular attention to the projected level of the company’s gearing ratio with a view, when declaring dividends, to protect the company’s existing credit ratings at all times. The board remains committed to maintaining the current level of credit ratings and regards anything below BBB+, or equivalent, as unacceptable in terms of securing ready access to the capital markets as and when required.

With respect to its tax affairs, the company’s relationship with HMRC remains open and transparent and HMRC continues to view the company as a low risk taxpayer. Any tax rebate or credit that the company benefits from has been fully discussed in advance with HMRC and is only recorded in the company’s accounts after mutual agreement regarding its specific treatment.

For the year just ended the company is reporting a tax credit of £14m which has arisen purely from the first-time adoption of IFRS. The company decided to adopt IFRS one year earlier than the mandatory date to do so.

The company continues to enjoy strong relationships with the banking community including the European Investment Bank and the major UK banks. Financing transactions concluded over the last 18 months, in addition to cash on the balance sheet, means that the company commences AMP6 with a very healthy liquidity position.

In brief

- Operating profit increased by £6.9m to £248.4m with the allowed turnover increases exceeding the additional operating costs in the year.
- The cost of debt fell from 4.3% to 4.1% as we maintained a balanced mix of financial instruments, further increasing profit before tax.
- Profit before taxation of £171.8m incurred a corporation tax charge of £12.8m which was after a £14.3m tax credit arising on first-time adoption of IFRS. The credit related to items of infrastructure income taxed in previous years now recognised as profit and taxed in future years under IFRS.
- Capital expenditure delivered in the year of £198.4m was £25.0m less than last year as we completed the AMP5 programme.
- Gearing, as measured by net debt to regulatory capital value, was 62.4% which is prudent in water sector terms.
- We achieved all our financial Key Performance Indicators (as stipulated by Ofwat) in the year and for the five-year price review period.
- Dividends in the year were declared in accordance with board policy which at all times is to preserve our existing credit ratings and access to new capital.
- This year’s financial results have been prepared for the first time under IFRS and the prior year comparative has also been restated under IFRS.
In detail

Financial performance
In the final year of the current price review period the company has delivered a solid set of results, with operating profit increasing by £6.9m or 2.9% from £241.5m to £248.4m. The turnover increase was £15.4m but there was pressure on the cost base, which saw costs increasing by £8.5m.

The company adopted International Financial Reporting Standards (IFRS) for the first time in 2014-15. The impact of adopting IFRS is shown in note 29 to the accounts with the accounting policies being found in note 1. In the first year of adoption the company is required to restate the prior year under the IFRS accounting convention.

Turnover
Turnover increased by £15.4m or 2.9% from £524.9m to £540.3m.

The price increase allowed by Ofwat at 1 April 2014 was 4.6%, comprising November 2013 RPI of 2.7%, a K factor of 1.5% and an allowance for rebalancing the tariffs of 0.4%.

The board of directors decided not to pass the 1.5% K factor increase on to customers and hence the allowed price increase for the year was 3.1%.

Turnover actually increased by less than 3.1% due to the impact of new customers and improving economic conditions in the region being slightly less than the impact of existing customers switching from un-metered to metered supply.

Operating costs
Operating costs (excluding depreciation, amortisation and disposal of assets) increased by £5.3m from £186.9m to £192.2m due to a number of cost pressures:
- the cost of meeting new obligations
- business rates continuing to rise through the central government valuation process
- inflation
- increased activity on non-tariff basket activities (matched by increased turnover)
- bad debts
- one-off central costs.
**Capital investment**

In 2014-15 we delivered gross capital expenditure of £198.4m, which is £25.0m lower than the £223.4m delivered last year. This profile is typical of a five-year capital programme where the largest expenditure is in year four to ensure all outputs are delivered by the end of year five.

However, in the year we also began design work on our AMP6 programme which has enabled us to maintain a smooth flow of work to our supply chain across the two price review periods.

At the end of the five-year price review period our capital expenditure represented 86% of the Final Determination allowance.

In 2014-15 we have delivered all regulatory outputs including major capacity and compliance projects at Taunton, Glastonbury, Wells and Mere. Our catchment management programme continued across 15 catchments and the integrated water supply grid is now more than 50% complete.

**Depreciation**

Depreciation costs increased by £3.2m from £96.5m to £99.7m. Under IFRS the infrastructure maintenance charge has been replaced by an IFRS repairs charge and depreciation of underground assets. There was a £3.9m increase in the depreciation of above ground and below ground assets and a £0.7m reduction in the cost of disposal of fixed assets.

**Interest charges**

Interest charges decreased from £81.1m last year to £76.6m this year. The £4.5m decrease was split between an interest payable reduction of £3.9m, a £1.1m reduction in the interest costs associated with pension accounting and a £0.5m decrease in interest receivable.

The £3.9m decrease in interest payable arose because the impact of the fall in the cost of debt from 4.3% to 4.1% in respect of floating rate and index linked borrowings was greater than the additional interest on the increase in net debt during the year, which rose from £1,840.3m to £1,847.9m.

There is a prudent mix of debt between fixed rate, index linked and floating rate instruments. At the year end the debt split was 45% fixed, 37% index linked and 18% floating, with the index linked debt based on either November or March RPI. The maturity of debt is generally long term with £1,575m of debt maturing after 2020.

**Taxation**

The corporation tax charge in the year was £12.8m, a small increase on £12.5m last year.

In 2014-15 there was a £14.3m tax credit on first time adoption of IFRS. The credit related to items of infrastructure income taxed in previous years now recognised as profit and taxed in future years under IFRS.

In the prior year there was a £16.7m credit which was a result of an industry-wide agreement with HMRC for the re-categorisation of capital allowances from Industrial Buildings Allowances (IBA) into Long Life Plant. The agreement followed the government decision to reduce the IBA over a period from 4% in the year to March 2008 to zero in the year to March 2012.

In addition the corporation tax rate reduced from 23% last year to 21% this year.

Corporation tax is paid to HMRC quarterly. 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.

We use an independent expert to ensure correct capital allowances are claimed. We take a prudent approach to tax affairs, claiming the tax relief to which we are entitled, but not submitting complicated tax schemes that could endanger our relationship with HMRC.

Deferred tax has moved significantly from a credit of £13.1m last year to a charge of £18.3m this year. Both of these years have been restated under IFRS which has no deferred tax discounting.

**Dividends**

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

Net debt increased by £7.6m from £1,840.3m to £1,847.9m. This comprised:

- earnings before interest and depreciation of £348.1m, less
- cash outflow from capital investment of £176.0m, less
- interest and tax payments of £66.7m, plus
- working capital and bond accrual inflow of £2.2m, less
- dividend payments of £115.2m.

Liquidity at year end was £135m comprising £35m of short-term bank deposits and an undrawn £100m term loan.

The regulatory capital value increased by £74m, from £2,886m to £2,960m, of which £26m related to inflation and £69m to growth in assets, less a £21m outperformance adjustment. Gearing at 31 March 2015, calculated as net debt divided by regulatory capital value, was 62.4%, a slight decrease from 63.8% last year.

Key performance indicators

The financial key performance indicators set by Ofwat are post-tax return on capital, credit ratings, gearing and interest cover.
Environment

We aim to provide high quality, sustainable water and environmental services, while protecting and improving the environment. Resources and services provided by the environment are central to our work and we take care to minimise our impacts on water, land, the atmosphere and biodiversity.

In brief

- 100% compliance with abstraction licences.
- 100% compliance with sewage discharge consents (sanitary standards) and 99.7% compliance with all standards.
- No prosecutions.
- Above average performer according to the Environment Agency’s annual Environmental Performance Assessment.
- Lowest number of total pollution incidents.
- Continuation of Frome and Piddle catchment initiative – a Defra sponsored collaborative project, to test the catchment based approach – and the launch of a similar initiative in the Bristol Avon.
- Awards for our gas to grid and Bio-Bus projects (Rushlight Awards), for energy demand reduction at Chilton Trinity sewage treatment works and for energy data collection and analysis (The Energy Awards).
- Findings of earlier environmental investigations built into our business plan for investment during 2015-20.

We maintained industry leading effluent discharge consent compliance from our sewage treatment works at **99.7%**
In detail

Environmental performance
Following an increase in pollutions in 2013, we implemented a pollution action plan which has seen the number of pollutions reduce in 2014. In particular, the number of serious incidents halved from six to three. However, we know that more needs to be done to deal with changing rainfall patterns and we have committed to further major investments over the coming years.

We maintained industry leading effluent discharge consent compliance from our sewage treatment works at 99.7%.

Bathing waters
Once again all bathing waters in our region passed the EU’s mandatory compliance standard.

The revised Bathing Water Directive takes effect in 2015 and means that our Coastwatch spill notifications to councils and beach managers are of increasing importance for compliance. We have worked with the Environment Agency (EA) and others to identify sites that will need further improvement between 2015 and 2020.

Planned work includes sewer improvements in Bridgwater and ultraviolet disinfection of storm spills at Highbridge, both of which will improve water quality at Burnham-on-Sea.

We have approached the EA to explore the potential for cost and carbon saving by switching off ultraviolet plants at certain sewage treatment works during the winter – sites where treatment has been provided purely to achieve bathing water compliance but the bathing waters are not used.

If the agency agrees in principle, we will first need to prove minimal use outside the bathing season by surveying the relevant beaches – this is planned for winter 2015-16.

In February 2015 we launched a consultation to collect the views of a wide range of interested parties. We are targeting bathing waters on our north coast, eg, Minehead and Berrow.

Catchment services
We have continued our catchment management work to try and solve the impact of nitrates and pesticides on drinking water quality by working with farmers rather than adopting the more traditional, but less sustainable and more expensive, approach of end-of-pipe treatment.

Following two very wet winters in 2012-13 and 2013-14 the last winter was a lot drier. This meant that we did not see the peak levels of nitrate in the water sources that we had seen during the wetter winters of previous years.

Our work to control the level of pesticides, and metaldehyde in particular, continues to be industry leading. The voluntary ‘no use’ approach that we have championed appears to be the only way to successfully avoid metaldehyde reaching rivers and reservoirs.

Water resources
Groundwater levels were above average for most of the year, although a very dry September meant that the winter recovery was slightly delayed. Reservoir storage was particularly healthy, never dropping below 67% full.

Our water resources management plan was published in June 2014. It sets out how we will balance water supplies with water demands while protecting the environment for the next 25 years.

The plan included changing abstraction licence conditions for five sources by 31 March 2015 to ensure that continued abstraction from these sources is environmentally sustainable. These changes have been made and further abstraction licence changes will be made on completion of the grid scheme.
In AMP6 the catchment work will be expanded to a further six nitrate sites and an additional two sites for pesticides. We will also be working with farmers in the catchments of our reservoirs to reduce the nutrient (nitrogen and phosphorus) load entering the reservoir. These nutrients encourage the growth of algae which make the water much more difficult to treat.

Environmental investigations

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

We delivered 27 environmental investigations covering a number of sites, river reaches and aquifers during AMP5, providing data and evidence to ensure that environmental investment decisions have been based on sound science.

The results of this work have informed our AMP6 business plan, providing the following innovative solutions and delivering the best environmental outcomes at the lowest cost to customers.

- The first catchment permitting trial in the UK. In the Bristol Avon catchment we will be piloting a catchment scale permitting trial to limit phosphorus discharges from our assets. This is £25m cheaper than traditional solutions but delivers the same level of Water Framework Directive compliance.
- The first nitrogen offsetting trial in the UK. In the Poole Harbour catchment we will be working with farmers to reduce nitrate runoff and leaching into the River Frome. This helps to reduce contributions at source rather than constructing a £6m nitrogen removal end-of-pipe treatment plant at Dorchester sewage works.
- Trialling different compensation flow releases at our reservoir sites to provide more naturalised river flows, enabling ecological potential in downstream waterbodies to be achieved.

Wildlife and conservation

We have extensively surveyed our key conservation sites over the last five years, resulting in changes to their management. The benefits of this work to wildlife and local communities include:

- implementation of Higher Level Stewardship (agri-environment agreements) at land surrounding Sutton Bingham reservoir, resulting in improvements to our hay meadows and woodlands
- improvements to the nature trail at Clatworthy reservoir and new visitor information highlighting the wildlife visitors may see at our major reservoirs, and improvements to the ancient hillfort
- two new pedestrian bridges at Sutton Poyntz to protect our Site of Special Scientific Interest (SSSI) and provide safe access for the public into our woodland
- improved management of SSSI heathland at Nutscale reservoir, agreed with Natural England, and a new bridge to facilitate access for this conservation work
- work at a significant scale to remove invasive non-native plants from our land.

In addition we have improved access to our Bleadon Levels nature reserve, adjacent to Weston-super-Mare sewage works. On this site, we manage nearly 19 hectares of saltmarsh and tidal creek habitat as well as a further eight hectares of grassland, reedbed and open freshwater lagoons. This year we have improved the footpaths, signage and displays and erected two new bird hides.

Our management of nearly 300 hectares of land designated as a SSSI ensured that the condition of these vital habitats exceeded government targets: 99.5% of our SSSIs were assessed as being in favourable or unfavourable but recovering status.

The wildlife projects funded by our Biodiversity Action Plan Partners Programme have also been very productive over the last five years. These include scientific research, partnership working and activities that align with our core services.
Highlights include:

- **South Wiltshire Farmland Bird Project:** a specialist adviser has worked with 119 farmers in southern Wiltshire to provide more than 800 hectares of farmland bird habitats, including safe nesting areas, summer insect food and winter seed food.
- **Dorset Wild Rivers:** 11km of river has been restored since 2010 and more than seven hectares of wet woodland have been planted with nearly 5,000 trees.
- **Buglife’s Wessex Springs and Seepages for Invertebrates:** identifying the habitats of rare insects such as the Cliff tiger beetle, Southern damselfly, Bog hoverfly and Southern yellow splinter to guide future management to help conserve populations.

We will be supporting the following projects between 2015 and 2020:

- **South Wiltshire Farmland Bird Project** – Cranborne Chase AONB
- **Dorset Wild Rivers** – Dorset Wildlife Trust
- **Wessex Chalk Streams Project** – Wiltshire Wildlife Trust
- **Restoring coastal and floodplain grazing marsh in the North Somerset Levels** – Avon Wildlife Trust.

**Carbon management**

One of our long-term sustainability goals is to be carbon neutral in our annual operations. This requires efforts to avoid greenhouse gas emissions, improve energy efficiency and increase renewable energy generation.

Nearly three quarters of our carbon footprint is due to electricity use, which increased steadily between the early 1990s and 2010 due to tighter sewage treatment standards. Through our energy management group we continue to work on improving energy efficiency and identifying unnecessary power use.

Much of this work involves close investigation of electricity consumption data to pinpoint sites using more power than we would expect, allowing focused maintenance and improvements to be carried out.

Our energy data hub initiative received an award at The Energy Awards 2014 for its success in gathering data from 2,500 sites and providing clear and accurate energy use information to managers and operators alike.

Our energy use is also closely linked to the weather. Dry conditions such as those experienced in 2011-12 result in less use of energy for pumping, while the very wet weather of 2012-13 and winter 2013-14 saw the opposite, with a lot of additional pumping needed to maintain a good sewerage service to our customers.

With rainfall close to the long-term average during 2014-15, the benefits of our energy efficiency work have been more evident, rather than being cancelled out by adverse weather conditions as in previous years.

We installed a 50 kW solar photovoltaic array on the roof of our refurbished water treatment works at Sutton Bingham in Somerset. We also completed a facility for exporting biomethane from Bristol sewage treatment works, operated by our subsidiary business GENeco, to the local gas grid.

The exported biomethane, produced from the biogas that originates in anaerobic digesters at the site, equates to the gas use of 8,300 homes. The biomethane is also being used to power a bus being operated by First West in Bristol, that is capable of running for 300km on a single full tank.
Wessex Water is proud of its people, their professionalism and their exceptional commitment. The efforts, skills and goodwill of our employees are central to our success and to maintaining our reputation as a leading and trusted employer. We take pride in equipping our employees with the skills and expertise they need to be successful in everything they do. We ensure they have the technical, legal, regulatory, leadership and management skills they require to provide an outstanding service to our customers, the company and each other.

We have continued to focus on attracting existing and new skills into the business with a commitment to developing staff to their full potential through a range of development programmes. Our Institute of Leadership and Management level 5 and Chartered Management Institute level 7 strategic programmes have been an outstanding success this year.

Our apprenticeship programmes continue to be a key focus and this year we had the first intake of our engineering apprenticeship scheme. We continue to develop new apprenticeship programmes with the objective of providing young people with career and skill development opportunities and building a strong and skilled workforce for the future.

Promoting diversity and inclusion in our workplace has been important again this year with the development of a diversity strategy, action plan and diversity scorecard.

We take pride in looking after the wellbeing of our employees and providing them with a variety of employee benefits.

Protecting the health, safety and welfare of our staff, contractors and customers remains vital with new programmes planned for next year.

In brief

- A strong and engaging culture.
- Leadership development programmes – two intakes studying Institute of Leadership and Management level 5 programme and one intake of the Chartered Management Institute level 7 extended diploma in strategic leadership.
- An average of three days’ development training for all staff.
- 99% retention rate of apprentices.
- Development of a diversity strategy, three-year action plan and diversity scorecard.
- Good safety performance with a renewed focus on behavioural safety and near miss reporting.
- A revised health, safety and welfare strategy ensuring we deliver continuous improvement and best practice over the next five years.
- We received health and safety awards from the British Safety Council (international safety award merit) and the Royal Society for the Prevention of Accidents (gold safety award).
- Continued focus on supporting employees with professional development through a range of professional and chartered institutes.
87% of staff rate Wessex Water a good place to work

In detail

Training
We are committed to offering all our staff the training and development they need to do their jobs to the highest standards. We encourage progression through learning and ensure that all those looking to build a career with us have the opportunity to do so at a level and pace that suits both them and the company.

Current and future management and leadership remains a priority for us and along with our accredited level 5 and level 7 management and leadership programmes, we run a range of management development schemes aimed at supporting our leaders from new manager to senior management level.

On average we deliver a ratio of three days’ training for each member of staff per year. The majority of our training schemes are health and safety, technical and craft programmes ensuring our people are highly skilled and competent, keeping themselves, their colleagues and our customers safe at all times.

Our apprenticeship schemes continue to flourish across the business and we continuously monitor and update our schemes in order to ensure young people are given the best training possible.

Our apprenticeship retention rate is 99%, supporting our mission to recruit, develop and retain competent people in order to build a strong and skilled workforce for the future.

We continue to actively support staff to complete professional development through a range of accredited professional development bodies relevant to our industry. We currently have 30 employees undertaking study to achieve professional qualifications.

Diversity
We value the differences that a diverse workforce brings and are committed to creating an inclusive workplace for all employees and others who work with the company as suppliers, contractors, consultants or customers.
This year a diversity taskforce of senior managers finalised a diversity policy and action plan aimed at ensuring there is continued and improving equality, diversity and inclusion in our workplace.

We have published our diversity and inclusion policy and action plan, introduced shared parental leave, reviewed maternity and paternity leave policies and developed a diversity scorecard and monitoring system.

The diversity and inclusion scorecard will be reported to our board’s corporate responsibility committee on a six-monthly basis and will be published on our intranet. The diversity scorecard records our progress in achieving the goal of strengthening our position as a diverse and inclusive company.

We currently have 2,306 employees, of whom 610 are women and 1,696 are men.

There are 13 directors, of whom 11 are men and two are women, and 46 senior managers of whom seven are women and 39 are men.

**Culture**

We have a strong, friendly and positive culture and staff enjoy working for the company and with each other. Our employees are highly engaged, with 87% of staff rating Wessex Water a good place to work.

This year, we reviewed our company mission, aims and values. Our mission is to be the best water and environmental services company.

“We have a strong, friendly and positive culture and staff enjoy working for the company and with each other.”

Our aims are to provide customers with excellent affordable services, protect and improve the environment, be a great place to work in which all employees can reach their full potential, and give our investors a good return.

Our values are:

- **behaviours** – we respect and value everyone’s contribution and always operate with integrity and openness
- **excellence** – we aspire to excellence in everything we do
- **service** – serving customers is at the heart of our business and we always go the extra mile
- **teamwork** – we are one team working together to deliver our mission.

We are launching a programme aimed at further strengthening and improving our culture and embedding and measuring our behaviours, ensuring we act as one team and keep customers’ interests at the heart of everything we do.
Health and safety

Protecting the health, safety and welfare of our staff, contractors and customers remains an established and shared responsibility that is essential to our reputation as a leading and trusted employer.

We continue to develop and embed a strong health, safety and welfare culture in our day-to-day operations, based around Safety, Quality, Time and Cost, that targets zero accidents. We acknowledge that this does not mean there won’t be another accident, but we aim to work for as long as possible without an injury.

In 2014 we saw an increase in the number of incidents that were reportable to the Health and Safety Executive, particularly in the period September to December 2014.

This is disappointing given that we have established controls to reduce levels of risk and injury. To ensure we learn from each of these incidents, all significant injuries or incidents with the potential to cause serious injury are investigated and root cause analysis is completed to allow areas of concern to be identified and to assist in developing our overall safety culture.

In 2014 the principal areas of concern were:
- risk perception and inattention of workers
- risk management and safe systems of work.

A number of safety initiatives have been put in place to improve these areas and include:
- near miss reporting in operations
- Make it right – a behavioural safety campaign in engineering and construction
- Check 5 – a dynamic risk assessment that provides an opportunity for everyone to challenge themselves and others to ensure safety comes first.

As we enter a new asset management plan period we have revised our health, safety and welfare strategy to ensure that we deliver continuous improvement. The strategy will further enhance our safety culture and be based around four integrated themes.

Progress against targets to deliver these four themes will be monitored and reviewed by our health and safety management group, who will be responsible for reporting performance to our board of directors.

Strong and visible leadership

Delivery of health safety and welfare improvements

Strong safety culture

Safe working environment

Communication and worker involvement
Infrastructure

We aim to manage and maintain our assets by ensuring they operate efficiently and effectively, providing high quality services to our customers and the environment. We fully integrate sustainability principles and practice into the delivery of our capital programme and selection of solutions.

In brief

- £198.4m invested to maintain and improve services to our customers and environment.
- Largest infrastructure investor in the region providing more than 1,000 jobs directly in constructing new assets and in the regional supply chain.

The last year saw the conclusion of the five-year investment programme that we began in 2010. Over the five years we have:

- met all our regulatory outputs
- progressed our water supply grid, a key component of our 25-year water resource plan
- completed our mains rehabilitation programme, including work in Taunton to improve the appearance of the water
- invested to reduce sewer flooding and worked in partnership with councils to reduce flood risk
- renovated more than 50km of water mains and 20km of sewers
- completed a major investment scheme at our Weston-super-Mare sewage treatment works (STW) to help improve the bathing water quality. Invested in additional treatment at seven STWs to remove nutrient (phosphorus) and a further six STWs to improve river water quality
- completed a major investment scheme at Trowbridge sludge treatment centre to provide a new advanced digestion plant and at Berry Hill and Taunton to extend and improve the existing conventional digestion.
In detail

Leakage
We met our leakage target for the year despite the long hot summer of 2014 causing challenges because of ground shrinkage. We deployed extra detection and repair resources through the winter to achieve a satisfactory position by year end.

Sewage flooding
Last winter saw typical levels of rainfall which provided a respite from the two wettest winters of 2013 and 2014. We have produced emergency plans so that in future we are better prepared to deal with emergency flooding conditions caused by groundwater inundation.

We are delivering a prioritised programme of infiltration reduction plans at catchments that have suffered, although many of the problems can only be resolved through a partnership approach with other flood risk management authorities, such as local authorities and the Environment Agency (EA).

Work continues with unitary and local councils in developing surface water management plans and flood management strategies. This included a scheme in Weston-super-Mare where we worked with North Somerset Council and the EA on the construction of a ‘super pond’ to make space for flood water.

We have invested more than £9m to reduce the probability of flooding at 129 properties and external areas in the past year. Our £40m AMP5 flooding programme successfully achieved our regulatory commitment of removing more than 527 properties and areas from the flooding risk.

Asset management
Our asset management framework has helped us develop a more integrated approach to risk and investment decision making. We have maintained our certification to the new international standard for asset management, ISO55001:2014.

A key component of this framework has been the implementation of work and asset management systems and these are being extended to all parts of the business to enable us to continue improving our asset knowledge and operational efficiency.

For the eighth consecutive year serviceability was assessed as stable using Ofwat’s criteria. We have retained two of the underground asset condition indicators (mains bursts and sewer collapses) as part of our performance commitments for the next five years.

Infrastructure improvements
In Taunton we completed our £16m investment to modernise ageing water mains. The work has both improved the appearance of the water and provided increased security of supply. This completes our AMP5 mains rehabilitation programme.

We continue to use no-dig techniques to replace water mains, thus minimising the impact on customers and businesses during construction. In total over the past five years we have replaced more than 250km km of our underground water mains.

Implementation of our water supply grid has passed the half-way point. During the year we completed construction of four new service reservoirs in Dorset and pumping stations at Monkton Deverill and Sturminster Marshall are well advanced.

Large sections of the transfer pipeline have been laid, including a crossing over the River Stour. We completed four schemes to eliminate the standalone nature of some of our sources and the overall project is scheduled to be completed by 2018.

With respect to our sewerage networks, in 2014-15 we completed 11km of structural renovation and a further 9km of sewer sealing to make our sewers watertight against groundwater inundation. In total over the past five years we have completed 75 km of proactive sewer improvements.
We have completed our AMP5 combined sewer overflow (CSO) improvements in Bristol. This £30m programme improved 63 CSOs in the period 2010-2015. In 2014-15 we invested almost £5m to improve 12 CSOs including an innovative solution using real-time control.

We completed schemes at sewage treatment works in Glastonbury and Wells, to reduce levels of phosphorus discharged into rivers on the Somerset Levels.

We also installed phosphorus removal at Paulton STW to further protect the River Avon. At Taunton, Mere and Iwerne Minster sewage works we completed major schemes to improve the quality of the effluent discharged to the rivers from these works.

We also completed construction of major extensions to Christchurch sewage works to provide additional treatment capacity.

At Wimbleball dam in Exmoor we successfully completed a complex project to replace the grout curtain under a 50 metre high concrete dam. Leakage under the dam is now at its lowest level since its construction in the late 1970s. This work was undertaken in conjunction with South West Water.

Innovation

Innovation is a central theme across our business. Many of the most promising innovations come via our employees, through their work to improve the efficiency of our operations and the decisions taken for asset investment. Our Eureka! programme directly rewards staff who have implemented projects that save money, improve service to customers, reduce risk and improve our working methods in general.

The most successful ideas in 2014-15 involved new gear boxes in the mixers at Maundown water treatment works; a method for improving the efficiency of the methanol dosing system at Poole sewage treatment works and an upgrade to the pumping system at Tucking Mill to avoid importing higher cost water from Bristol Water.

We also carry out trials of new technology that are being introduced by other companies. Trials in the last year or planned for the year ahead include remote methods for chemical dosing at sewage treatment works (using programmable pumps and temperature sensors); units that measure the uptake of oxygen within activated sludge chambers in order to optimise aeration; a ‘double-packer’ that allows sewer rehabilitation work to continue during wet weather when there are high flows of rainwater in the sewer; and a solar powered unit that emits ultrasound waves to inhibit the growth of algal blooms in water supply reservoirs.

One trial in 2014-15 has been recognised as a world first. This involves a waste water meter developed in conjunction with Dynamic Flow Technologies Limited and Elster Water Metering. This uses non-invasive microwave technology to measure trickle flows as low as 0.02 litres per second, up to virtually full bore flows. If successful, this innovation would greatly assist customers who would prefer to pay for sewerage services based on measured volumes of waste water that they generate, instead of estimates.

Our joint research programme with the University of Bath continued during 2014-15. The five main themes are:

- low energy nutrient recovery from sewage
- methods for increasing biogas from sewage sludge digesters
- emerging pollutants in waste water
- customer engagement to discourage disposal of inappropriate items in toilets
- and improved techniques for comparing the whole life costs of physical assets and catchment management.

This year also saw the launch of a water innovation and research centre at the university. This will enable further research into water technologies and resource management, contributing to future water policy and the development of innovative sustainable water treatment systems.
Looking ahead to 2020

Our business plan was submitted to the water regulator Ofwat in June 2014 following an in-depth customer consultation exercise which involved obtaining the views of more than 24,000 customers and 90 organisations such as Which? and Citizens Advice – our biggest ever consultation with customers.

The plan set out how we expect to perform against nine long-term promises that we developed in consultation with customers. This consultation was overseen by an independent customer scrutiny group which submitted its views on the plan.

Ofwat published its final decision in December 2014 explaining the levels of bills and the service levels it required between 2015 and 2020.

A new business model
The business model developed at privatisation has been effective over the past 25 years and has brought significant benefits for customers and the environment.

Now is the time for a change to a new business model and the industry needs a new sustainable direction.

In the period up to 2020 we will:

- deliver higher levels of service alongside continued environmental improvements through a £1.2bn investment programme
- meet or exceed all our statutory obligations while keeping investment as low as possible through innovation.
Benefits for customers

We will:

- keep average bill rises below inflation for the next five years
- continue to provide the highest levels of satisfaction and service in the industry
- extend tap – the most extensive range of affordability measures in the UK
- give customers more choice in the way they deal with us and further extend our interactive digital communications
- complete our water grid and provide greater security of supply together with the opportunity to trade water
- improve the resilience of our services, halving the number of properties fed from one source and solving flooding problems
- reduce leakage further and aim to fix reported leaks within a day
- replace customers’ leaky and lead pipes free of charge
- maintain and operate pumping stations previously owned by customers
- provide more on-site services and tariff choices for business customers
- introduce an independently chaired customer advisory panel made up of consumer organisations to hold us to account.

Benefits for the environment

We will:

- reduce water abstracted from sources affecting rivers with low flows by 25Ml/day
- remove more than 250 tonnes of unwanted nutrients from rivers in our region
- aim to have no significant pollution incidents from our assets
- extend our innovative catchment services to achieve environmental improvements in a less costly and more effective way
- improve bathing waters
- ensure greater biodiversity in our landholdings
- reduce our carbon footprint by 20%
- continue to target 100% compliance with our environmental permits
- introduce an independently chaired catchment panel to monitor our environmental performance and encourage catchment based solutions.
Impact on our investors
Returns to our shareholder through dividends will be reduced and our shareholder is accepting greater risks in the implementation of our plan.

How we are delivering our plan
As well as sharing with customers the efficiencies we have delivered in the last five-year period we are taking further steps as part of a new business model, including:

- meeting tough efficiency targets
- using innovative catchment services approaches to achieve environmental improvements in a less costly way, supported by improved incentives to encourage customers to save water
- taking opportunities to programme improvements over a longer timescale, completing them post 2020 in some cases so we invest based on good scientific evidence and deliver greater value
- further targeting our asset maintenance plans by finding more efficient ways to maintain services and by monitoring our network in real-time.

With an expected total expenditure plan of £1.8bn we have a programme of works to deliver major investments to:

- complete our integrated water grid
- begin our north Bristol sewerage programme
- make improvement works to help the water quality at Burnham Jetty bathing water.

Detailed case studies of our major investments and details of our work programmes near you are available from our website.
We monitor a number of performance indicators that reflect the service, compliance and environmental standards that are most important to our customers and regulators. Key performance indicators that Ofwat asks us to publish annually as part of a balanced approach to regulation are shown below.

<table>
<thead>
<tr>
<th>Key performance indicators</th>
<th>Performance level</th>
<th>Performance vs five-year average</th>
<th>Status against 2014-15 target</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Five-year average</td>
<td>2013-14</td>
<td>2014-15</td>
</tr>
<tr>
<td>CUSTOMER EXPERIENCE</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Service Incentive Mechanism (out of 100)</td>
<td>85</td>
<td>87</td>
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<tr>
<td>WATER SUPPLY</td>
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</tr>
<tr>
<td>Water quality compliance</td>
<td>&gt;99.9%</td>
<td>&gt;99.9%</td>
<td>&gt;99.9%</td>
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<tr>
<td>Supply interruptions (hours per property)</td>
<td>0.5</td>
<td>0.4</td>
<td>0.3</td>
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<tr>
<td>Total leakage (million litres per day)</td>
<td>70</td>
<td>69</td>
<td>69</td>
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<tr>
<td>Security of supply index</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Serviceability non-infrastructure</td>
<td>Stable</td>
<td>Stable</td>
<td>Stable</td>
</tr>
<tr>
<td>Serviceability infrastructure</td>
<td>Stable</td>
<td>Stable</td>
<td>Stable</td>
</tr>
<tr>
<td>SEWERAGE</td>
<td></td>
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<tr>
<td>Repeat flooding incidents</td>
<td>70</td>
<td>64</td>
<td>45</td>
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<tr>
<td>Serviceability non-infrastructure</td>
<td>Stable</td>
<td>Stable</td>
<td>Stable</td>
</tr>
<tr>
<td>Serviceability infrastructure</td>
<td>Stable</td>
<td>Stable</td>
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<tr>
<td>ENVIRONMENTAL STANDARDS</td>
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<tr>
<td>Discharge permit consent</td>
<td>99.3%</td>
<td>99.0%</td>
<td>99.7%</td>
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<tr>
<td>Pollution incidents (sewage) per 10,000km</td>
<td>40.9</td>
<td>48.2</td>
<td>44.1</td>
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<tr>
<td>Serious pollution incidents (sewage) per 10,000km*</td>
<td>0.9</td>
<td>3.5</td>
<td>1.7</td>
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<tr>
<td>Satisfactory sludge disposal</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Greenhouse gas emissions (000t CO2 eq)</td>
<td>151</td>
<td>144</td>
<td>148</td>
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<tr>
<td>FINANCIAL</td>
<td></td>
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<tr>
<td>Post-tax return on capital</td>
<td>6.2% A3/A-/BBB+ 64%</td>
<td>5.9% A3/A-/BBB+ 64%</td>
<td>6.3% A3/A-/BBB+ 62%</td>
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<tr>
<td>Credit rating</td>
<td>A3/A-/BBB+ 64%</td>
<td>A3/A-/BBB+ 64%</td>
<td>A3/A-/BBB+ 62%</td>
</tr>
<tr>
<td>Gearing</td>
<td>3.4</td>
<td>3.6</td>
<td>4.0</td>
</tr>
<tr>
<td>Interest cover</td>
<td></td>
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</tr>
</tbody>
</table>

No official SIM this year as Ofwat has been consulting on the new SIM methodology and trialling its new satisfaction survey. The new SIM went live in April 2015. To monitor our performance this year and calculate a SIM score based on the old methodology, McCallum Layton have conducted monthly replicas of the old SIM satisfaction survey and we have continued to monitor the contact and complaints metrics. As well as the key performance indicators that Ofwat requires we have also included the water quality compliance measure as an important indicator of both our service to our customers and specific compliance.

The extremes in weather over the year have resulted in a higher than five-year average number of pollution incidents, although there has been a significant improvement on last year’s performance.

The previous five-year figures for greenhouse gas emissions have been revised as a result of DECC recalculations of the grid electricity emission factor post published figures.
The accounts in the following pages have two main purposes. Firstly, they cover our environmental impacts in monetary terms, considering a) areas where we have made expenditure as part of our environmental programme or through environmental taxation; b) alternative methods for monetising environmental impacts and c) a more detailed explanation of our greenhouse gas emissions. Secondly, they summarise our expenditure on items relevant to sustainability in its broader sense.

Environmental investment

Our agreed investment programme for 2010-15 included a range of schemes to benefit society and the environment. These were largely driven by European regulation as implemented by Defra, the Environment Agency and Natural England. Issues being addressed included:

- low river flows that can occur during dry weather
- nitrates and pesticides found in groundwater
- phosphorus in rivers and streams
- flooding from the sewerage system and bathing water quality.

The single largest scheme, continuing into the 2015-20 investment period, is the integrated supply grid which will involve investment of more than £200m to address simultaneously a number of customer service and environmental concerns.

In December, Ofwat published its final determination on our investment during 2015-20. The programme includes expenditure to reduce the impact of abstraction on rivers at risk of low flows, to reduce nutrient levels in rivers, enhance bathing water quality and improve the condition of our sewerage infrastructure.

Alongside investment in physical assets, we will continue working with others to better manage catchments and surface water, addressing impacts on the water environment at source, and we will carry out extensive environmental investigations that will inform investment during 2020-25.

Licences, charges and environmental taxation

We are subject to numerous licences, taxes and other annual charges that have an environmental basis. These include abstraction licences and discharge consents paid to the Environment Agency, the Carbon Reduction Commitment Energy Efficiency Scheme (which imposed a levy of £16 per tonne of carbon dioxide from electricity and gas use) and the Climate Change Levy. Combined, we paid approximately £8m for these in 2014-15.

Other valuation methods

Environmental costs can be assessed by calculating the hypothetical investment needed to eliminate an environmental impact, for example, the cost of switching from fossil fuel energy to renewable sources. Typically we assess investment costs for renewable energy generation and emerging carbon abatement technologies on a case-by-case basis.

A further approach is the use of shadow prices, such as the carbon values that form part of the Green Book Supplementary Appraisal Guidance for Valuing Greenhouse Gas Emissions and Energy Use, for use in policy and project appraisal.

For our business plan for 2015-20 we also applied transfer values for environmental and social elements (such as traffic disruption, recreational benefits) derived from willingness-to-pay surveys and previous studies such as the national Benefits Assessment Guidance.

In a few cases there are also market-based valuations, such as carbon offsets, which account for the emissions avoided by renewable energy, energy efficiency and carbon storage projects. The price of each tonne of avoided carbon dioxide varies according to the levels of certification offered.

Some environmental impacts remain ‘externalised’; that is, they have not yet been fully addressed through investment or some other intervention. The most material example of this in our sector would be impacts on the quality of rivers, estuaries and coastal waters, where improvements are being implemented over several years to comply with the Water Framework Directive and the Priority Substances Directive.

The pace and location of investment in the UK and Europe is influenced by many factors including:

- ongoing discussion of what standards are needed to achieve good ecological status
- the emerging science on the prevalence and origin of pollutants
- surveys of the condition of waterbodies (at local, national and international scales)
- the efficacy of treatment technology.
**Greenhouse gas emissions**

Our net emissions for 2014-15 as reported to Ofwat were 148 kilotonnes CO\(_2\) equivalent; this is 2% higher than 2013-14. Energy use fell due to rainfall being close to its long-term average and our energy efficiency work, but the carbon intensity of national grid electricity increased by 11%.

Emissions are calculated using the most recent guidance from the government for environmental reporting and Ofwat for their key performance indicators. They are split into three categories:

- **Scope 1**: emissions produced directly from activities on our sites (eg, on-site fuel use)
- **Scope 2**: emissions related to grid electricity generation
- **Scope 3**: third-party emissions associated with Wessex Water’s activities, eg, personal vehicles for business travel and outsourced fuel use and transport, plus emissions related to grid electricity transmission and distribution.

Carbon dioxide from energy and transport makes up around three quarters of our total greenhouse gas emissions. The remainder is in the form of methane and nitrous oxide emissions from sewage and sludge treatment.

By generating and using our own electricity from sludge digestion and from our non-regulated activities – principally food waste digestion – we avoided the use of an additional 37GWh of grid electricity, with an associated avoidance of 20 ktCO\(_2\) equivalent. We also exported 7 GWh of self-generated electricity which equates to a reduction of 3 ktCO\(_2\) equivalent and nearly 800,000 cubic metres of biomethane, which equates to a reduction of 2 ktCO\(_2\).

Some of the process chemicals we use to treat water and sewage have an estimated carbon footprint for their manufacture (but not their transportation); together this amounts to 7ktCO\(_2\) equivalent.

We also estimate the whole life carbon footprint of each project in the investment programme when carrying out initial appraisals. This includes the embodied carbon of materials used, the construction process and an estimate of annual carbon dioxide emissions during the operational lifespan of the asset being created.

The monetary cost of our greenhouse gas emissions based on guidance from the Department for Energy and Climate Change would be £0.7m using traded carbon values and £9.7m using non-traded carbon values. Our actual Carbon Reduction Commitment payment for 2014-15 was £1.7m.

<table>
<thead>
<tr>
<th>Appointed business (Wessex Water direct fuel use)</th>
<th>Scope 1 (grid electricity)</th>
<th>Scope 2 (use by third parties)</th>
<th>Total 2014-15</th>
<th>Total 2013-14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gas, diesel and other fuels</td>
<td>6</td>
<td>0</td>
<td>11</td>
<td>10</td>
</tr>
<tr>
<td>Grid electricity</td>
<td>0</td>
<td>98</td>
<td>107</td>
<td>101</td>
</tr>
<tr>
<td>Transport</td>
<td>10</td>
<td>0</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>Methane</td>
<td>15</td>
<td>&lt;1</td>
<td>17</td>
<td>17</td>
</tr>
<tr>
<td>Nitrous oxide</td>
<td>10</td>
<td>1</td>
<td>19</td>
<td>19</td>
</tr>
<tr>
<td>Exported renewable (emissions netted off)</td>
<td>0</td>
<td>-5</td>
<td>-5</td>
<td>-3</td>
</tr>
<tr>
<td>TOTAL (net emissions)</td>
<td>41</td>
<td>94</td>
<td>160*</td>
<td>155</td>
</tr>
</tbody>
</table>

*Table includes Scope3 methane and nitrous oxide which are included from the Ofwat KPI calculation.
## Investment towards sustainability

* unaudited

<table>
<thead>
<tr>
<th></th>
<th>2015* Amount £m</th>
<th>2014* Amount £m</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CUSTOMERS AND COMMUNITIES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mandatory expenditure</td>
<td>80</td>
<td>74</td>
</tr>
<tr>
<td><em>Example – water supply quality enhancement work such as mains relining</em></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Discretionary expenditure (a)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Discretionary expenditure (b)</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td><em>Example – replacement of customers' supply pipes; education service</em></td>
<td>0.1</td>
<td>&lt;0.5</td>
</tr>
<tr>
<td>Discretionary expenditure (c)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

|                               |                 |                 |
| **ENVIRONMENT**               |                 |                 |
| Mandatory expenditure        | 17              | 28              |
| *Example – capital investment to meet the Habitats Directive* |                 |                 |
| Discretionary expenditure (a)| 0               | 0               |
| Discretionary expenditure (b)| 1               | 1               |
| *Examples – trials on options for more sustainable water resources* | 0.1             | <0.5            |
| Discretionary expenditure (c)|                 |                 |
| *Example – conservation grants to Wildlife Trusts* |                 |                 |

|                               |                 |                 |
| **EMPLOYEES**                 |                 |                 |
| Mandatory expenditure        | 48              | 45              |
| *Example – basic pay and conditions including pension* |                 |                 |
| Discretionary expenditure (a)| 3               | 3               |
| Discretionary expenditure (b)| 6               | 5               |
| *Example – staff training*    |                 |                 |
| Discretionary expenditure (c)| 0               | 0               |

|                               |                 |                 |
| **INVESTMENT – INFRASTRUCTURE** |                 |                 |
| Mandatory expenditure        | 101             | 121             |
| *Example – replacement / refurbishment of sewers* |                 |                 |

**TOTALS**

<table>
<thead>
<tr>
<th></th>
<th>2015* Amount £m</th>
<th>2014* Amount £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customers and communities</td>
<td>81</td>
<td>76</td>
</tr>
<tr>
<td>Environment</td>
<td>18</td>
<td>29</td>
</tr>
<tr>
<td>Employees</td>
<td>57</td>
<td>53</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>101</td>
<td>121</td>
</tr>
<tr>
<td>Total</td>
<td>257</td>
<td>279</td>
</tr>
</tbody>
</table>

Mandatory expenditure – expenditure governed primarily by legislation or regulation
Discretionary expenditure (a) – primary benefit to Wessex Water; secondary benefit to others
Discretionary expenditure (b) – equal benefit to Wessex Water and to others
Discretionary expenditure (c) – primary benefit to others; secondary benefit to Wessex Water

*Numbers rounded to nearest integer.
## Income statement (profit and loss account)
For the year to 31 March 2015

<table>
<thead>
<tr>
<th></th>
<th>2015 £m</th>
<th>2014 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>540.3</td>
<td>524.9</td>
</tr>
<tr>
<td>Raw materials and consumables used</td>
<td>(32.4)</td>
<td>(33.9)</td>
</tr>
<tr>
<td>Staff costs</td>
<td>(60.2)</td>
<td>(54.7)</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>(99.7)</td>
<td>(96.5)</td>
</tr>
<tr>
<td>Other expenses</td>
<td>(99.6)</td>
<td>(98.3)</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td><strong>(291.9)</strong></td>
<td><strong>(283.4)</strong></td>
</tr>
<tr>
<td>Operating profit</td>
<td>248.4</td>
<td>241.5</td>
</tr>
<tr>
<td>Financial income</td>
<td>0.4</td>
<td>0.9</td>
</tr>
<tr>
<td>Financial expenses</td>
<td>(77.0)</td>
<td>(82.0)</td>
</tr>
<tr>
<td><strong>Net financing expense</strong></td>
<td><strong>(76.6)</strong></td>
<td><strong>(81.1)</strong></td>
</tr>
<tr>
<td>Profit before tax</td>
<td>171.8</td>
<td>160.4</td>
</tr>
<tr>
<td>Taxation</td>
<td>(31.1)</td>
<td>0.6</td>
</tr>
<tr>
<td><strong>Profit for the year</strong></td>
<td><strong>140.7</strong></td>
<td><strong>161.0</strong></td>
</tr>
</tbody>
</table>
## Balance sheet

**At 31 March 2015**

<table>
<thead>
<tr>
<th></th>
<th>2015 £m</th>
<th>2014 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Non-current assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>3,237.9</td>
<td>3,132.5</td>
</tr>
<tr>
<td>Investments in subsidiaries</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>3,237.9</td>
<td>3,132.5</td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventories</td>
<td>6.6</td>
<td>6.4</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>171.0</td>
<td>173.6</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>47.0</td>
<td>88.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>224.6</td>
<td>268.0</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>3,462.5</td>
<td>3,400.5</td>
</tr>
<tr>
<td><strong>Current liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank overdraft</td>
<td>-</td>
<td>(19.4)</td>
</tr>
<tr>
<td>Other interest-bearing loans</td>
<td>(4.1)</td>
<td>(9.2)</td>
</tr>
<tr>
<td>and borrowings</td>
<td>(171.4)</td>
<td>(150.0)</td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>(175.5)</td>
<td>(178.6)</td>
</tr>
<tr>
<td><strong>Non-current liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other interest-bearing loans</td>
<td>(1,890.8)</td>
<td>(1,899.7)</td>
</tr>
<tr>
<td>and borrowings</td>
<td>(0.4)</td>
<td>(0.5)</td>
</tr>
<tr>
<td>Other payables</td>
<td>(141.4)</td>
<td>(91.8)</td>
</tr>
<tr>
<td>Employee benefits</td>
<td>(209.1)</td>
<td>(179.3)</td>
</tr>
<tr>
<td>Deferred income</td>
<td>(2.0)</td>
<td>(0.1)</td>
</tr>
<tr>
<td>Provisions</td>
<td>(375.8)</td>
<td>(367.9)</td>
</tr>
<tr>
<td>Deferred tax liabilities</td>
<td>(2,619.5)</td>
<td>(2,539.3)</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>(2,795.0)</td>
<td>(2,717.9)</td>
</tr>
<tr>
<td><strong>Net assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>667.5</td>
<td>682.6</td>
</tr>
<tr>
<td><strong>Equity</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share capital</td>
<td>-</td>
<td>81.3</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>667.5</td>
<td>601.3</td>
</tr>
<tr>
<td><strong>Total equity</strong></td>
<td>667.5</td>
<td>682.6</td>
</tr>
</tbody>
</table>

The accounts were approved by the Board of Directors on 25 June 2015 and signed on its behalf by:

Colin Skellett
Chief Executive

Mark Watts
Director
# Cash flow statement
For the year to 31 March 2015

<table>
<thead>
<tr>
<th>Cash flows from operating activities</th>
<th>2015 £m</th>
<th>2014 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit for the year</td>
<td>140.7</td>
<td>161.0</td>
</tr>
<tr>
<td>Adjustments for:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation, amortisation and impairment</td>
<td>99.7</td>
<td>96.5</td>
</tr>
<tr>
<td>Financial income</td>
<td>(0.4)</td>
<td>(0.9)</td>
</tr>
<tr>
<td>Financial expense</td>
<td>77.0</td>
<td>82.0</td>
</tr>
<tr>
<td>Taxation</td>
<td>31.1</td>
<td>(0.6)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash flows from investing activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proceeds from sale of property, plant and equipment</td>
<td>0.8</td>
<td>0.7</td>
</tr>
<tr>
<td>Interest received</td>
<td>0.3</td>
<td>0.8</td>
</tr>
<tr>
<td>Acquisition of property, plant and equipment</td>
<td>(182.8)</td>
<td>(210.5)</td>
</tr>
<tr>
<td>Proceeds from infrastructure charges and capital contributions</td>
<td>6.1</td>
<td>7.3</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net cash from operating activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>348.1</td>
<td>338.0</td>
</tr>
<tr>
<td>Decrease/(increase) in trade and other receivables</td>
<td>2.7</td>
<td>(9.9)</td>
</tr>
<tr>
<td>(Increase)/decrease in inventories</td>
<td>(0.2)</td>
<td>0.6</td>
</tr>
<tr>
<td>Increase in trade and other payables</td>
<td>21.4</td>
<td>4.5</td>
</tr>
<tr>
<td>(Decrease) in provisions and employee benefits</td>
<td>(5.4)</td>
<td>(7.7)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax paid</td>
<td>(9.7)</td>
<td>(29.5)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net cash from operating activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>356.9</td>
<td>296.0</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash flows from investing activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proceeds from new loan</td>
<td>100.0</td>
<td>-</td>
</tr>
<tr>
<td>Interest paid</td>
<td>(57.0)</td>
<td>(58.2)</td>
</tr>
<tr>
<td>Repayment of borrowings</td>
<td>(100.0)</td>
<td>-</td>
</tr>
<tr>
<td>Payment of finance lease liabilities</td>
<td>(30.7)</td>
<td>(7.4)</td>
</tr>
<tr>
<td>Dividends paid</td>
<td>(115.2)</td>
<td>(119.3)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net cash from investing activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(175.6)</td>
<td>(201.7)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash flows from financing activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proceeds from new loan</td>
<td>100.0</td>
<td>-</td>
</tr>
<tr>
<td>Interest paid</td>
<td>(57.0)</td>
<td>(58.2)</td>
</tr>
<tr>
<td>Repayment of borrowings</td>
<td>(100.0)</td>
<td>-</td>
</tr>
<tr>
<td>Payment of finance lease liabilities</td>
<td>(30.7)</td>
<td>(7.4)</td>
</tr>
<tr>
<td>Dividends paid</td>
<td>(115.2)</td>
<td>(119.3)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net cash from financing activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(202.9)</td>
<td>(184.9)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net (decrease) in cash and cash equivalents</td>
<td>(21.6)</td>
<td>(90.6)</td>
</tr>
<tr>
<td>Cash and cash equivalents at 1 April</td>
<td>68.6</td>
<td>159.2</td>
</tr>
<tr>
<td>Cash and cash equivalents at 31 March</td>
<td>47.0</td>
<td>68.6</td>
</tr>
</tbody>
</table>
Meet our people

We have a great team here at Wessex Water and we want to introduce them to you. Visit www.wessexwater.co.uk/careers