

WESSEX WATER SERVICES LTD

Annual Report and Financial Statements 30 June 2015

Registered in England and Wales No. 2366648

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Strategic Report

Principal activities

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

Overall performance (some indicators are measured for the regulatory year to 31 March 2015)

The regulatory 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.

Strategic Report

(continued)

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.

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.

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.

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.

Strategic Report

(continued)

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, retaining 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 25% 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.

Strategic Report

(continued)

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 6% 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 25%.

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 customer operation 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.

Strategic Report

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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.

Our three education advisers, who cover Bristol, Bath, Somerset, Wiltshire, South Gloucestershire and Dorset, taught topics ranging from the water cycle to what happens to waste once it has been flushed down the toilet, to students of all ages and community groups,

We are also a STEM ambassador and help run workshops promoting science to young learners.

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.

Financial performance

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.

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. The Company decided to adopt IFRS one year earlier than the mandatory date to do so. For the year just ended the Company is reporting a tax credit of £14.3m which has arisen purely from the first-time adoption of IFRS.

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.

The Company has delivered a solid set of results, with operating profit increasing by £3.4m or 1.4% from £242.0m to £245.4m. The turnover increase was £8.1m but there was pressure on the cost base, which saw costs increasing by £4.7m.

Turnover

Turnover increased by £8.1m or 1.5% from £528.4m to £536.5m.

Strategic Report

(continued)

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%.

A price decrease was imposed by Ofwat at 1 April 2015 of 5.9%, reduced by the November 2014 RPI increase of 2.0%. Turnover increased by slightly more than the price movement 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 £1.8m from £189.0m to £190.8m 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.

Capital investment

In 2014-15 we delivered gross capital expenditure of £203.0m, which is £21.0m lower than the £226.5m 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 capital expenditure was 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 £2.9m from £97.4m to £100.3m. Under IFRS the infrastructure maintenance charge has been replaced by an IFRS repairs charge and depreciation of underground assets.

Interest charges

Interest charges decreased from £79.0m last year to £76.9m this year, of which £0.9m was a reduction in the interest costs associated with pension accounting.

The cost of debt rose from 3.9% to 4.0% and net debt during the year rose from £1,841.3m to £1,862.1m.

There is a prudent mix of debt between fixed rate, index linked and floating rate instruments. At the year end the debt split was 44% fixed, 37% index linked and 19% 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 £33.2m, a £36.7m increase against a £3.5m credit last year. It comprises:

- a corporation tax increase of £4.1m because of credits in the prior year. In the year there was a £14.3m credit arising from the first time adoption of IFRS relating to items of infrastructure income taxed in previous years now recognised as income and taxed in future years under IFRS. There was a large prior year credit, the 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. There was also a fall in the corporation tax rate from 22.5% to 20.75%.
- deferred tax moving from a £13.9m credit last year to a £18.7m charge this year. The principal reason for the credit last year was that the IBA agreement (that created a credit to corporation tax) produced an equal and opposite charge to deferred tax.

Corporation tax is paid to HMRC quarterly. 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.

Strategic Report

(continued)

Dividends

Wessex Water's dividend policy is to declare dividends consistent with the company's performance and prudent management of the economic risk of the business. The Board has agreed to ensure that pensions adjusted gearing stays at or below 70% in order to maintain its current credit ratings and give the Company continued ready access to the capital markets. The dividend is shown in note 8.

Cashflow and gearing

Net debt increased by £20.8m from £1,841.3m to £1,862.1m. This comprised:

- cash flow from operating activities £345.7m, less
- net capital investment of £174.5m, less
- interest and tax payments of £87.4m, less
- working capital and bond accrual outflow of £18.0m, less
- dividend payments of £86.6m.

Liquidity at year end was £272m comprising £72m of short-term bank deposits and undrawn facilities of £200m.

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 in 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.

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.

Strategic Report

(continued)

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.

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.

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.

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.

Strategic Report

(continued)

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. The 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 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.

Employees

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.

Strategic Report

(continued)

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, 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 institutes.

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.

Strategic Report

(continued)

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.

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. 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 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.

Strategic Report

(continued)

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

£203.0m has been invested to maintain and improve services to our customers and the environment. We are the 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 a 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 an integrated approach to risk and investment decision making. We maintained our certification to the 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.

Strategic Report

(continued)

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.

Strategic Report

(continued)

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 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.

Strategic Report

(continued)

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 work 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 the major investments and details of the work programmes are available from the website.

The Strategic Report was approved by the Board of Directors on 30 September 2015 and signed on its behalf by:



Mark Watts - Director

Directors' Report

The Directors have pleasure in presenting their report and the audited statutory accounts (subsequently referred to as accounts) for the year to 30 June 2015.

Employment

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

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

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

Sustainability

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

The Company's Sustainability Panel monitors progress and discusses major issues of current and future concern.

Environmental policy

Wessex Water Services Ltd protects, conserves and improves the environment and operates in a socially responsible manner. Working practices are continually revised as improved techniques and technologies become available. The environmental policy is reviewed annually.

Ethical policy

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

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

Research and development

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

Market value of land and buildings

In the opinion of the Directors, the market value of land and buildings of the company exceeds the book value of these assets at 30 June 2015.

Supplier payment policy

The policy in respect of suppliers is to agree the payment terms for transactions in advance and to make payments in accordance with those terms. At 30 June 2015 trade creditors represented approximately 37 days trade purchases (2014 - 34 days).

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

Charitable donations

During the year £387,000 was donated to UK charities (2014 - £506,000) of which £325,000 (2014 - £336,000) was donated to local debt advice agencies to help provide debt and financial advice to customers in our area who are struggling to pay their water bills.

Directors' Report

(continued)

Political donations

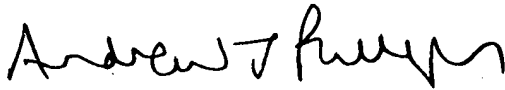
The company made no political donations nor incurred any political expenditure during the year (2014: £nil).

Disclosure of information to auditor

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

Auditor

A resolution for the appointment of KPMG LLP as auditor of the Company will be put to the forthcoming Board meeting.



By order of the Board
A J Phillips - Company Secretary
Wessex Water Operations Centre
Claverton Down Road
Claverton Down
Bath, BA2 7WW
30 September 2015

Risk Review

The management of risk is of fundamental importance to the Company, in the interests of avoiding both financial loss and customer dissatisfaction. Customers, regulators and the press have increasing expectations and are less willing to accept failure.

In WWSL the policy on risk identification and management is subject to annual review by the Board.

The identification and management of risk is delivered through a tiered system of groups from operational staff, senior management, executive directors and the Board. The Board reviews and holds ultimate responsibility for the risk process and for the identification and mitigation of risks.

Wherever possible, a risk is measured by its potential financial and environmental impact in the next five years, whether direct or indirect, including any possible impact on the price review process.

A Risk Group meets twice a year and submits the current corporate risk register and summary report to an Executive Group, again meeting twice a year.

The Executive Group scrutinises and challenges the risks included within the register and requires additional work where necessary to better classify the risk or explore other mitigation methods which may be available.

The Chief Executive submits an annual risk review paper to the Board for its review and agreement. This paper details the risk review process, identifies the current principal risks to the business and the mitigation measures in place. It also records the status of emergent risks that have been identified and provides details to the Board of any changes in the National Risk Register (NRA) and the National Resilience Planning Assumptions (NRPAs).

The nine principal risks identified and agreed by the Board are:

- 1. Government/regulatory action.* Changes to legislation or other regulatory action can adversely affect the way in which the business operates and its profitability. In particular risks related to the preparation for retail market opening are being kept under review. Relationships with politicians and regulators are maintained so that the Company's views are heard about the impact on the Company and its customers of any proposed legislative changes.
- 2. Digital security.* The Security Service has identified the growing threat of cyber-attack or industrial espionage as a high risk to both businesses and utilities. This is particularly important for WWSL assets that are considered part of critical national infrastructure. The Company also holds and processes large quantities of data which are considered sensitive within the meaning of the Data Protection Act. Failure to process and protect the data in the prescribed manner is an offence. Additionally the Information Commissioner can take enforcement action which would require the Company to take prescribed actions for improvements in the future. A quarterly Information Security Forum has been setup to maintain the focus on mitigating this risk.
- 3. IS business resilience.* Most activities undertaken by the business are reliant on the availability of IT services and facilities, and the Company continues to examine ways in which IT resilience can be maintained and where appropriate improved. In particular, the IS team are currently implementing a technology enhancement programme enabling real time site to site data replication that will vastly improve the current system recovery times in the event of a disaster situation.
- 4. Inappropriate staff actions.* Considerable damage could be done to the reputation of the Company 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.
- 5. Major pollution incident.* Control of the escape of polluting matter to the environment is central to the Company's business. Significant effort is made to prevent such an incident occurring through staff adherence to Company processes and procedures. New staff are trained in these processes and procedures and their importance. Local Emergency Plans are in place to protect the local environment at key installations.
- 6. 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 processes and procedures are implemented via staff training and regularly monitored to maintain compliance and protect people from harm.
- 7. Unfit water.* A major failure of process or contamination of the water supply is a key risk. Significant effort is made to prevent such an incident occurring through staff adherence to Company processes and procedures. New staff are trained in these processes and procedures and their importance.

Risk Review

(continued)

8. *Availability of new finance.* The bond markets are used extensively to fund new investment. The current economic climate has shown the volatility of these markets. Careful management of the relationship with both the ratings agencies and lenders has ensured that, to date, finance has always been available at affordable rates. 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.

9. *Leakage.* Failure to control leakage could breach a regulatory output and lead to loss of an important resource at times of drought and result in reputational damage with customers and stakeholders. The Company sets a tighter level of leakage than the official regulatory target.

Wessex Water Services Limited Board of Directors

Executive Directors

Colin Skellett – Chief Executive

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

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

Mark Watts – Director of Finance

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

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

Non-Executive Directors - Independent

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

Gillian Camm – appointed in November 2011 and Chair of the Wessex Corporate Responsibility Committee. Chair of the Board of Governors – University of the West of England, Deputy Lieutenant Gloucestershire, vice president Quartet Community Foundation, member Society of Merchant Venturers.

Peter Costain FCA – chartered accountant, former Chief Executive of Costain Group Plc from 1980 to 1995 and Deputy Chairman from 1995 to 1997. Non-Executive Director since 1999. Chair of Pensions Committee. Retired from the Board on 21 November 2014.

Huw Davies FCA – appointed in September 2014 and Chair of Pensions Committee. 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 and is formerly an independent non-executive director of West Bromwich Building Society and WSP plc. He is chairman of Business in the Community South-East advisory board, a non-Executive Director of Hydro International plc and Trustee of the children's communication charity I CAN.

Fiona Reynolds DBE – appointed in August 2012 and chair of the Sustainability Panel. Other non-executive roles include the Executive Board of the BBC and Chair of the Green Alliance. Director-General of the National Trust from 2001 to 2012. Master of Emmanuel College, Cambridge from September 2013.

Wessex Water Services Limited Board of Directors

(continued)

Non-Executive Directors - Shareholder

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

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

Mark Yeoh – Executive Director responsible for the YTL hotels and resorts division. Graduated from King's College, University of London with an LLB (Hons) and was subsequently called to the Bar at Gray's Inn, London in 1988. He joined the YTL Group in 1989 and serves on the Board of YTL Corporation Berhad, YTL Power International Berhad, YTL Land & Development Berhad, YTL Cement Berhad and Wessex Water Limited. Director since October 2003.

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

Kathleen Chew – Non-Executive Director of Wessex Water since April 2014. Group Legal Counsel to the YTL Corporation Group. She holds a LLB (Hons) degree from the University of Birmingham and was called to the Bar at Gray's Inn, London in 1982. She joined YTL Corporation Berhad in 1988 to set up its legal department after being in practice at the Malaysian Bar for five years. Prior to joining the YTL Group, she was a partner in the law firm of Abdul Aziz Ong and Co in Kuala Lumpur from May 1987 to January 1988.

Governance Report

Chairman's Introduction

Wessex Water is committed to high standards of corporate governance. Under Condition F of its Instrument of Appointment as a water and sewerage undertaker (the "Licence") Wessex Water is required to conduct its water and sewerage business as if it were the Company's sole business as a public limited company. The Licence also requires Wessex Water to have particular regard to the UK Corporate Governance Code as approved for the purposes of the Listings Rules of the Financial Services Authority (the "Code").

The Code is not a rigid set of rules and provides general principles of best practice. The Code is made up of "Main Principles", "Supporting Principles" and "Code Provisions". The Code Provisions are subordinate to the Principles. Whilst the Code is generally regarded as embodying best practice in UK Corporate Governance, its main focus is the relationship between a listed company and its shareholders. Wessex Water has a single shareholder and, accordingly, it is able to address some issues more directly and completely than it could if it were a listed company.

Wessex Water's focus is on complying with the Principles and spirit of the Code in its particular context as a private limited company with a single shareholder. In practice, the Company complies with the Code Principles and Code Provisions with only very limited exceptions. In those few areas where we have decided not to follow the precise requirements of the Code we explain why, and how good governance is nevertheless achieved.

The following parts of this Governance Report explain how good governance is at the heart of the Company's business and underpins the Company's relationships with its customers, shareholder, and other stakeholders. The Board regards it as fundamental to the long-term success of the Company to provide excellent customer service and satisfaction. Governance arrangements are kept under constant review. We continue to reflect best practice and maintain our position as the leading water and sewerage company for customer service and satisfaction. We have set out our commitment to best practice in our Code of Practice for Corporate Governance a copy of which is available on our website.

We believe that our governance arrangements ensure that the Company continues to operate effectively and efficiently to the benefit of our customers, shareholder, and other stakeholders with clear accountability for decision making.

Governance Structures

The Board

All decisions which affect Wessex Water are ultimately the responsibility of the Board, which controls and directs the undertaking of the regulated water and sewerage business. During the reporting year the Board composition was as shown on pages 21 and 22.

The Board annually reviews and approves the Company's Organisation and Control Arrangements (O&CA) which set out the framework for control of the Company's affairs. The O&CA also specify requirements for the competency of members of the Board and its Committees, for effective management of the Company and for the granting of delegated powers and authorisations.

The principal duties of the Board, the matters reserved for its decision and the terms of reference of its Committees are fully documented and copies are available on our website. Matters reserved to the Board include strategy, charges, material changes to the Company's management and control structure, Board appointments, approval of material contracts, risk management, health and safety policies, disposal of material assets, approval of the annual operating budgets, employee pension arrangements, significant changes in accounting policies and defence and settlement of material litigation.

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

There are two Executive Directors, both appointed on one-year rolling contracts. During the year there were at least four Independent Non-Executive Directors, exceeding by one the requirements of Condition P of the Licence. Five further Non-Executive Directors are appointed by the Company's sole shareholder including the Chairman of the Board.

This balance on the Board ensures a high level of engagement and dialogue with the Company's customers and shareholder. In this way, Wessex Water complies with and exceeds the principles and spirit of the Code without the need for compliance with certain specific Code Provisions (including those in relation to the use of an annual general meeting to communicate with investors and encourage participation) which are not relevant to a company with a single shareholder.

Governance Report

(continued)

The Non-Executive Directors scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance. In addition, the Independent Non-Executive Directors, led by the Senior Independent Director, reviewed the performance of the Chairman. They also form or participate in the various Committees, assessing the integrity of financial information and whether financial controls and systems of risk management are robust and defensible, determining appropriate levels of remuneration for Executive Directors, assisting in appointing and, if necessary, removing Executive Directors, and assisting in succession planning.

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

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

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

Due to the Company having a single shareholder, the Code provisions in relation to Directors being subject to annual election by shareholders are of limited relevance and not applied.

Wessex Water complied with the Code's Main Principles and Supporting Principles as to the composition of the Board. Moreover, Wessex Water exceeded the requirements of the Code (designed for listed rather than privately held companies) by having more than three Non-Executive Directors, during the reporting year who are directors or employees of the Malaysian holding company, thus enabling effective dialogue with the shareholder.

While the Board has a majority of Non-Executive Directors, it does not have a majority of Independent Non-Executive Directors as envisaged by the relevant Code Provision. The Ofwat Board Leadership, Transparency and Governance Principles are based on the Code, which applies to UK listed companies. The principal purpose of the Code is to ensure that the interests of a company's members are protected and represented at board level. The preface to the Code states that "the function should be to help boards discharge their duties in the best interests of their companies." The preamble to the Ofwat Principles states that "any departures from the [Ofwat] principles should be by exception in the spirit of corporate governance for listed companies." In the context of a privately held company with a 100 per cent. shareholder, we consider it to be in accordance with good corporate governance practice for there to be a significant number, if not a majority, of shareholder representatives on the Board. In Wessex Water's case, the shareholder appointed Non-Executive Directors (excluding the Chairman) are not a majority on the Board and are no greater than the number of Independent Non-Executive Directors. Further, Wessex Water has four highly capable and experienced Independent Non-Executive Directors.

The Board considers its current composition ensures an appropriate balance of skills, experience, independence and knowledge so that no single group can dominate decision taking and that the Board does not become too unwieldy.

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

Chairman and Chief Executive

Throughout the financial year under review Francis Yeoh was the Company's Chairman.

Colin Skellett continued in his role as Chief Executive. He brings more than 40 years' water industry experience to the Company including 27 years as Chief Executive covering privatisation of the industry and two changes of ownership.

The Chairman leads the Board, ensuring its effectiveness while taking into account the interests of all stakeholders and promoting the highest standards of business ethics and governance. The Chairman is responsible for ensuring that Directors receive accurate, timely and clear information. The Chairman also promotes a culture of openness and debate by facilitating the effective contribution of Non-Executive Directors, in particular ensuring constructive relations between Executive and Non-Executive Directors, and ensuring effective communication with the Company's shareholder. Board agendas are agreed in consultation with other Directors and the Company Secretary.

Any Director or the Company Secretary may request an item be included on the agenda. During the reporting year the Chairman met regularly with fellow representatives of the Company's shareholder.

New Directors receive a full, formal and tailored induction on joining the Board (including an opportunity to meet with representatives of the shareholder). Further training is given as required.

Governance Report

(continued)

In his role as Chief Executive Colin Skellett has responsibility for the day to day business of the Company, making proposals for its strategic direction and communicating with customers and other stakeholders.

Senior Independent Director

The Board has appointed David Barclay as the Senior Independent Director. He chairs the Audit Committee and is a member of the Remuneration Committee and of the Nominations Committee. He would chair Board meetings if the Chairman were unavailable. The Senior Independent Director's role is to act as a sounding board for the Chairman and to serve as an intermediary for the other Directors when necessary. He is also available as an additional point of contact for the shareholder and other stakeholders.

As the Senior Independent Director and appointed in accordance with the Licence, he is well placed to provide an independent link to WSRA, our regulator. His responsibilities during the reporting year included leading the evaluation of the performance of the Chairman. Led by the Senior Independent Director, the Independent Non-Executive Directors met without the other Directors present to appraise the Chairman's performance and to discuss any other relevant matters.

Independent Non-Executive Directors

The Company's Independent Non-Executive Directors are appointed from a range of different backgrounds to bring to the Board external experience and insight. They provide independent thought and challenge to the Board's decision making. The Board has reviewed their status and concluded that they are all independent. In particular, the Board considers these directors to be independent in character and judgement. The Board are not aware of any relationships or circumstances which are likely to affect, or could appear to affect, any Independent Non-Executive Director's judgement.

Independent Non-Executive Directors are appointed, after consultation with Ofwat and with the agreement of the Company's shareholder, for an initial three-year term (subject to statutory provisions relating to removal) that may be extended. Since 2011 we have seen the appointment of three new Independent Non-Executive Directors and two new shareholder Non-Executive Directors.

Any term beyond six years for an Independent Non-Executive Director is subject to particularly rigorous review and takes into account the need for progressive refreshing of the Board balanced against the requirement for skills, experience, independence and knowledge and to provide continuity over AMP periods. The Board considers that both Peter Costain and David Barclay remained independent and that the Board is refreshed at sufficient intervals, and accordingly the Company is compliant with the spirit of the Code in this respect.

Independent Non-Executive Director	Appointed	Current term expires
David Barclay	1/11/2005	31/10/2015
Gillian Camm	1/11/2011	01/11/2017
Peter Costain	1/12/1999	Retired 21/11/2014
Huw Davies	1/09/2014	31/10/2017
Fiona Reynolds	1/08/2012	31/07/2015

All Independent Non-Executive Directors are appointed on written terms setting the time commitments and standards required of them. In accordance with Code Provision B.3.2, terms of engagement are regulated by letters of appointment (copies of which are available on the Company's website).

Non-Executive Directors representing the Company's sole shareholder do not have formal terms of appointment and receive no payments from the Company.

In accordance with Code Provision B.4.1, all Directors are required to participate in an induction process to familiarise themselves with the Company's governance arrangements, business, regulatory framework and ethos. Introductory meetings are held with all Executive and Non-Executive Directors, the Company Secretary and senior managers across the Company's business. Visits are made to the Company's principal offices and representative operational sites.

Company Secretary

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

Governance Report

(continued)

The Company Secretary gives legal and regulatory advice as required by the Board or any Director and is responsible for advising the Board on governance matters. The Board is kept informed of major changes to law and regulation affecting the Company's business. The Company Secretary also advises on Directors' duties and conflicts. All Directors are aware that any conflicts of interest must be reported to and registered with the Company Secretary.

The appointment or resignation of the Company Secretary is a matter for consideration by the Board as a whole.

Board Meetings

The Board meets a minimum of six times a year at approximately bi-monthly intervals, which is considered sufficiently regularly to enable the Board to discharge its duties effectively. It may meet on such further occasions as may be required.

Board attendance in the financial year under review was as follows:

Board Attendance 2014 – 15			
Colin Skellett	6/6	Mark Watts	6/6
David Barclay	6/6	Francis Yeoh	6/6
Gillian Camm	6/6	Hann Yeoh	6/6
Peter Costain	3/3	Hong Yeoh	5/6
Huw Davies	5/5	Mark Yeoh	6/6
Fiona Reynolds	5/6	Kathleen Chew	6/6

Board Committees and Advisory Panels

Four formal Committees operated throughout the financial year under review:

Audit Committee

Nominations Committee

Corporate Responsibility Committee

Remuneration Committee.

These Committees operate under the authority of the Board and assist the Board in carrying out its duties. The Committees report back to the Board on decisions and actions taken together with any specific recommendations. Reports from the Chair of each of the Committees are set out on the following pages.

The Board also receives reports from its Sustainability Panel and four Liaison Panels as part of the Company's commitment to wide stakeholder engagement.

The Sustainability Panel is chaired by Fiona Reynolds. It keeps under review all sustainability, health and environmental issues affecting the Company. This Panel includes Colin Skellett and Gillian Camm. By invitation a range of external scientific and technical expertise is brought to this Panel.

The Panels are established to build strong relationships with outside stakeholders. They afford opportunities for direct discussion between the Company and a wide variety of interest groups on all areas affected by the Company's activities and its proposals for future development. The Liaison Panels cover customers and communities, business customers, services and planning and environment. The Customer and Communities Liaison Panel is chaired by Gillian Camm.

The Liaison Panels include representatives from local authorities, the Environment Agency, Natural England, National Farmers Union, Country Landowners Association, environmental wildlife interest groups, schools, universities, hospitals, business, industry, Citizens Advice Bureaux and other charitable bodies.

Liaison Panel arrangements have been reviewed for AMP6 and the operation of newly formed Futures, Customer Advisory and Catchment Panels will be reported upon next year.

Board, Committee and Director Performance

The Board has agreed to review its own performance, and the performance of its Committees, the Chairman, the Executive Directors and the Independent Non-Executive Directors, annually in accordance with the Code. Generally the Board will engage the services of an external Board evaluation consultant at least one year out of three. Between external evaluations, reviews are facilitated by the Company Secretary.

Governance Report

(continued)

In accordance with the Code, a Board, Chairman and Committee effectiveness review was carried out in May 2015. Evaluation of the Board considers the Board's balance of skills, experience, independence and knowledge of the

Company and how the Board works together as a unit, and other factors relevant to its effectiveness. A questionnaire was sent by the Company Secretary to all Directors. Individual responses were aggregated and analysed on an anonymised basis, and the results presented to and discussed by the Board at its meeting on 26 May 2015 with several improvements adopted as a result. These included adopting a more forward looking focus and revised arrangements to monitor company performance.

Directors' Remuneration

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

Directors' Interests and Conflicts

Directors are aware of the requirement to disclose interests in contracts with the Company and any conflicts of interest. No such interests or conflicts were disclosed during the year.

Whistleblowing

The Company has adopted and publicised to all its employees a whistleblowing policy for reporting instances of malpractice or inappropriate activity across all areas of business, including water regulation, health and safety, bribery, corruption and fraud. All reports are treated on a strictly confidential basis. Reports on whistleblowing are made to the Audit Committee and details are set out in the Audit Committee Report. One material whistleblowing issue arose in the year which led to the departure of a member of staff from the business.

Anti-corruption

The Company has adopted a formal policy on business ethics. Directors and employees are expected to commit to the highest standards of professional and ethical conduct in order to protect the Company's reputation and standing. Bribery and corruption are not tolerated. All Directors and employees are made aware of the Company's policy and that breaching it will result in disciplinary action.

Procurement

The Company has in place procurement rules that ensure awards of contracts for works, services and supplies are made after compliance with the Utilities Contracts Regulations 2006 and for contracts below the relevant thresholds in accordance with clear internal rules. The rules promote fair competition for potential suppliers. All relevant staff are required to certify to internal audit through the year that they have complied with the rules or to disclose non-compliance. No material instances of non-compliance were recorded during the year.

Group Structure

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

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

A diagrammatic representation of the Group's structure appears below showing ownership of the regulated Company through to YTL Corporation Berhad and each company's country of incorporation and role in the structure. YTL Corporation Berhad at 30 June 2015 was 50.70% owned by third party shareholders and 49.30% owned by Yeoh Tiong Lay & Sons Holdings Sdn Bhd.

Governance Report

(continued)

All companies 100% owned unless stated

	Principal activities	Company details
<div style="border: 1px solid black; padding: 5px; text-align: center;">YTL Corporation Berhad</div>	Investment holding and management company	Incorporated in Malaysia and quoted on the Main Market of Bursa Malaysia Securities Berhad
↓ 56.76		
<div style="border: 1px solid black; padding: 5px; text-align: center;">YTL Power International Berhad</div>	Investment holding and provision of administrative and technical support services	Incorporated in Malaysia and quoted on the Main Market of Bursa Malaysia Securities Berhad
↓		
<div style="border: 1px solid black; padding: 5px; text-align: center;">YTL Power Generation Sdn Bhd</div>	Development, constructing, completing, maintaining and operating power plants	Incorporated in Malaysia to create a tax efficient structure
↓		
<div style="border: 1px solid black; padding: 5px; text-align: center;">YTL Utilities Limited</div>	Investment holding company	Incorporated in Cayman Islands to look for global mergers & acquisitions in the utilities sector
↓		
<div style="border: 1px solid black; padding: 5px; text-align: center;">YTL Utilities Holdings Limited</div>	Investment holding company	Incorporated in Cayman Islands to look for global mergers & acquisitions in the utilities sector
↓		
<div style="border: 1px solid black; padding: 5px; text-align: center;">YTL Utilities (UK) Limited</div>	Investment holding company	Incorporated in United Kingdom, the acquisition vehicle for the purchase of the Wessex Water group of companies
↓		
<div style="border: 1px solid black; padding: 5px; text-align: center;">Wessex Water Limited</div>	Investment holding company	Incorporated in United Kingdom, also owns SC Technology AG, Wessex Water Enterprises Ltd and 50% of Bristol Wessex Billing Services Ltd
↓		
<div style="border: 1px solid black; padding: 5px; text-align: center;">Wessex Water Services Limited</div>	Water supply and waste water services	Incorporated in United Kingdom, granted a Licence as a water and sewerage undertaker under the Water Industry Act 1991

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

Colin Skellett and Mark Watts are Directors of Wessex Water Ltd, YTL Utilities (UK) Ltd and YTL Utilities Holdings Ltd.

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

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

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

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

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

- they would give the Company all information as may be necessary to enable the Company to comply with the conditions of its appointments as a water and sewerage undertaker
- to refrain from any action which would cause or may cause the company to breach any of its obligations under the Water Acts or the conditions of its Licence
- to ensure that at all times the Company's Board contains not less than three Independent Non-Executive Directors.

Governance Report

(continued)

YTL Corporation Berhad has confirmed that it:

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

Audit Committee Report

All the independent non-executive directors of the Board as below were members of the Audit Committee in the financial year under review:

David Barclay (Chair)
Gillian Camm
Peter Costain (replaced by Huw Davies)
Fiona Reynolds.

On 1 September 2014, Huw Davies joined the Committee replacing Peter Costain who retired from the Board on 21 November 2014. The Board is satisfied that through David Barclay, Peter Costain and Huw Davies, the Committee has relevant financial experience.

Role and Report on Activities

In accordance with Code Provision C.3.2., our Governance Arrangements which are available on the Company's website, provide full terms of reference for the Audit Committee.

This report provides details of the role of the Audit Committee and the work undertaken during the financial year.

The members of the Audit Committee receive updates on financial reporting, the regulatory framework and performance throughout the year. In addition to the Committee members the following routinely attend the Committee meetings by invitation: the Director of Finance, senior managers responsible for Customer and Retail Services, and for Environment and Assets, Head of Internal Audit, Financial Controller and the audit partner from the external auditor KPMG LLP. Other senior management and the Company's engineering auditor are also invited to attend as appropriate.

After each meeting the Audit Committee reports to the subsequent Board meeting on the Audit Committee's work. The Audit Committee met five times in the financial year under review, which it considered sufficient to enable it to discharge its duties effectively. Its work focused on:

- overseeing the Company's financial reporting processes and accounting policies
- ensuring the Company has adequate internal controls, that are appropriately reviewed and implemented
- overseeing the internal and external audit programmes
- ensuring compliance with the regulatory reporting obligations of the Company, including the Risk and Compliance Statement and the Company's key performance indicators.

In accordance with Code Provision C.3.8, key issues discussed during the financial year under review included:

- providing assurance to the Board on the process for compiling data, and ensuring its validity, for the June 2014 final submission of the PR14 Business Plan
- Company performance on a number of internal processes to deliver regulatory outputs and KPI data
- detailed independent consideration of the half year results, annual results and annual review document prior to their ultimate approval by the Board

Governance Report

(continued)

- consideration of the material subjective assessments within financial reporting to ensure that the Company's treatment of these matters was properly addressed within the Company's financial statements
- the review and agreement of the annual internal audit programme, the monitoring of internal audit progress
- and the consideration of 13 internal audit reports.

In reviewing the financial statements the Audit Committee considered the content, accuracy and tone of the financial statements, the principal risks to the business on pages 19 and 20 and other financial disclosures prior to their release.

KPMG LLP reported to the Audit Committee on their audit of the March 2015 non-statutory financial statements and regulatory accounts.

Internal Controls

The Audit Committee monitors the effectiveness of the system of internal control assisted by internal audit. It also reviews management reports received from the external auditor.

The Audit Committee receives reports on any whistleblowing allegations made to the Company from either internal or external sources, concerning fraud, bribery or other matters. Reports include the outcomes of resulting investigations and the management action taken. Where appropriate the Audit Committee is asked to approve the proposed management actions. One material whistleblowing issue arose in the year which led to the departure of a member of staff from the business.

Financial Reporting

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

Bad Debt Provision

The Committee considered the key financial risk that arose due to the subjective nature of the provision. It reviewed the methodology of the provision in relation to the different components of the debt and the reasonableness of the differing provision made against each component.

Pension Deficit

The Committee considered the key financial risk that the assumptions made by the Company in association with the independent actuary, in arriving at the pension deficit under IAS 19, could lead to an overly prudent or aggressive position. In particular the assumptions in relation to inflation, discount rate, pension and salary increases, return on equity and life expectancy were tested against the range of assumptions used by other companies.

Classification of Capital Expenditure

The Committee considered the key financial risk of the degree of judgement involved in the classification of expenditure between operating expenses and capital expenditure. In doing so they considered the level of capital expenditure, the Regulatory Accounting Guidelines and International Financial Reporting Standards, the recharges from overhead to capital projects and the controls of the Company.

Taxation

The Committee also considered the amounts recorded for corporation tax and deferred taxation in the income statement and balance sheet. They reviewed the split between current and prior year taxation, the overall tax reconciliation and current taxation issues as highlighted by the external auditor.

The Committee was satisfied that each of the above issues had been adequately explained and correctly recorded in the financial statements of the Company.

Misstatements

Management confirmed to the Audit Committee that they were no material misstatements or immaterial misstatements in the financial statements to achieve a particular presentation. The external auditor reported to the Committee that in the course of their work no misstatements had been found. The Committee was satisfied that the external auditor had fulfilled the responsibilities to the Audit Committee and the Company.

Oversight of Internal Audit and External Audit

The Audit Committee oversees the work of the Company's internal audit function, monitoring and reviewing the effectiveness of the internal audit activities, and manages the relationship with its external auditor. The Audit Committee reviews the performance of the internal and external auditor to ensure that they are effective.

The Audit Committee regularly holds discussions at the end of its meetings with both the internal and external auditor in the absence of executive management.

Governance Report

(continued)

Internal Audit

The annual programme of planned internal audits is agreed by the Audit Committee at the start of each financial year based on a balance of topics which represent major business risks, and internal business processes which affect either financial or regulatory compliance. A total of 13 individual audit reports were submitted to the Committee in the year.

At the request of Executive Directors and senior managers or the Audit Committee, additional audits are undertaken throughout the financial year to address any issues that arise in the financial year. The Head of Internal Audit reports back on reviews of performance and the effectiveness of the Company's internal controls and their adequacy in managing business risk and performance. This work is summarised and reported to the Audit Committee on a regular basis.

The audit plans and the level of resources of the internal audit function are reviewed at least annually by the Audit Committee. The Head of Internal Audit is free to raise any issues with the Audit Committee or its Chairman at any time during the financial year.

External Auditor

KPMG were appointed as the Company's auditor in 2002 and the audit contract has not been put out to tender since. Although KPMG's appointment exceeds the normal 10 year period suggested in the Code, it is consistent with the transitional arrangements as published by the FRC, that re-tender can take place at the end of the current audit partner's term of office in 2017. The Committee intends to re-tender the Company's external audit services at that time.

The audit partner attends by invitation meetings of the Committee, and the Committee monitors the effectiveness of the external auditor throughout the year taking into account their own experience of the auditor's effectiveness in the year.

KPMG LLP was paid £156k for audit fees and a total of £226k for non-audit services during the financial year under review. The fees for non-audit services were significant in the year because of specialist advice received from KPMG LLP in the preparation of taxation advice, AMP6 price review services and other services. The individual commissions for non-audit work were agreed by the Chairman of the Audit Committee and were considered to have no impact on the auditor's objectivity and independence. As a matter of policy, fees paid to the external auditor for non-audit services will not exceed 50% of the annual audit fee unless approved in advance by the Chairman of the Audit Committee. The additional services undertaken by KPMG LLP were so approved.

KPMG LLP reports to Ofwat in respect of the Company's regulatory accounts. The Audit Committee also receives reports from its engineering consultants, CH2MHILL, on non-financial regulatory outputs as part of the Company's Ofwat compliance process.

Audit Committee Attendance	
David Barclay	4/4
Peter Costain	2/2
Gillian Camm	4/4
Fiona Reynolds	4/4
Huw Davies	4/4

Nominations Committee Report

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

Francis Yeoh (Chairman)
 David Barclay
 Gillian Camm
 Peter Costain (Replaced by Huw Davies)
 Fiona Reynolds
 Colin Skellett
 Hong Yeoh.

On 1 September 2014, Huw Davies joined the Committee replacing Peter Costain who retired from the Board on 21 November 2014.

The Nominations Committee is chaired by a Non-Executive Director appointed by the shareholder, by way of exception to the relevant Code Provision. The relevant Code Provision envisages a majority of the members being Independent Non-Executive Directors and the Chairman or an Independent Non-Executive Director chairing the Committee.

Governance Report

(continued)

This is intended to ensure a formal, rigorous and transparent procedure for the appointment of new Directors to the Board in the case of a listed company with disparate shareholders. However, during the year the Company's Nominations Committee complied with the Principles and spirit of the Code and its composition reflects the requirements of a private company with a sole shareholder.

Role and Report on Activities

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

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

The purpose of the Nominations Committee is to ensure that appropriate procedures are in place for the nomination, selection, training and evaluation of Directors. It reviews Board structure, size and composition. The role of the Nominations Committee is to evaluate the balance of skills, experience, independence and knowledge on the Board.

The Nominations Committee met once during the year under the chair of Hong Yeoh, in the absence of Francis Yeoh. Its role has been expanded this year to include monitoring the independence of Independent Non-Executive Directors, advising the Board on any conflicts of interest, promoting diversity and opportunity across the Company.

Further to the publication of the Davies Report Women on Boards in February 2011, boards of FTSE 350 companies have been encouraged to promote greater female representation on corporate boards. Gillian Camm and Fiona Reynolds' appointments achieves gender balance among the Company's four Independent Non-Executive Directors.

The Company has received advice from Women on Boards UK about promoting female opportunities and advancement in the Company and is encouraging female personal development alongside promoting the development of all employees.

As part of the process to replace Independent Non-Executive Directors at the end of their term, the Committee has and will use external recruitment agencies to provide a shortlist of candidates, to which is added further names after consultation with the Executive and Non-Executive Directors and other stakeholders. The Committee supervised the recruitment and appointment of a new Non-Executive Director, Huw Davies to replace Peter Costain who retired from the Board on 21 November 2014 and succession planning to replace the Company Secretary.

Nominations Committee Attendance	
Francis Yeoh	0/1
Hong Yeoh	1/1
David Barclay	1/1
Gillian Camm	1/1
Huw Davies	1/1
Fiona Reynolds	0/1
Colin Skellett	1/1

Corporate Responsibility Report

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

Gillian Camm (Chair)
Fiona Reynolds.

Chaired by an Independent Non-Executive Director, the principal purpose of this Committee established in 2013 is to make recommendations to the Board about the Company's corporate and social obligations to its employees and other stakeholders. The Committee invited two former executive directors of the Company Andy Pymer and David Elliott (who stepped down from the Board in April 2014 as part of the Ofwat governance initiative that resulted in the number of executive directors being reduced to two) to attend by invitation.

Role and Report on Activities

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

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

Governance Report

(continued)

During the year the Committee made recommendations to the Board across a range of matters within its remit including the Company's statement of aims and values, diversity and female advancement, employee engagement, health and safety and charitable giving and support.

The Board adopted the Committee's recommendation about the Company's statement of aims and values which will be rolled out across the Company in September 2015 and will figure in the annual appraisal of executive and staff performance.

During the year the Board adopted, published and commenced implementation of the Committee's recommended diversity strategy and two year action plan aimed at achieving a workforce that reflects the make-up of the society within which the Company operates. The policy was presented at a leadership forum attended by the Company's 70 most senior managers. The Committee monitored the progress of the Company's initiatives to promote female advancement. Scorecards have been developed for monitoring the progress of these initiatives which will be reported to the Committee, the Board and reported upon in the following year's annual review and accounts.

The Committee reviewed the results of the Company's staff survey and seminars and made recommendations about key issues for the Board to address. The Committee reviewed the Company's Health, Safety and Welfare Policy and made recommended changes about employee well-being and other revisions that were adopted. The Committee approved the Company's Charitable Giving Policy that was applied through the reporting year.

Corporate Responsibility Committee Attendance	
Gillian Camm	2/2
Fiona Reynolds	1/2

Remuneration Committee Report

Members:

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

Hong Yeoh (Chair)
 David Barclay
 Gillian Camm
 Huw Davies
 Mark Yeoh.

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

Role and Report on Activities

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

The Remuneration Committee determines, on behalf of the Board, the Company's policy on the remuneration (including pension rights and any compensation payments) of Executive Directors, the Chairman and senior executive managers. The Committee seeks to link rewards to performance to promote the long-term success of the Company and does not reward poor performance.

This report sets out the remuneration policy for the Directors of Wessex Water and discloses the amounts paid to them in the financial year ended 30 June 2015. The policy applies to the remuneration of the Company's senior managers.

The Remuneration Committee met once during the financial year under review, which was considered sufficient to enable it to discharge its duties effectively.

The Remuneration Committee continued to monitor the Company's remuneration policy to take account of evolving best and market practice. The annual bonus plan is designed to promote the success of the Company over the five-year regulatory period, and is based on a portfolio of KPIs linked to the Company's performance scorecard and Ofwat's measures of success.

Salary and bonus levels were benchmarked against the Hay Group Industrial and Service, National Utilities and South West Utilities market sectors with jobs sized in relation to scope, role responsibilities and impact to determine salary.

Governance Report

(continued)

The Remuneration Committee continued to take a proactive approach to responding to developments in legislation, best practice and the wider market, as well as the corporate strategy, in order to ensure that the Company's senior executive reward policy remained market competitive and fit for purpose.

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

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

Recruitment of Executive Directors

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

Individual Executive Directors participate in a senior manager bonus scheme, governed by the Remuneration Committee. Executive Directors have their target bonus set at 40% of base salary and their maximum bonus at 80%.

During the year, the Remuneration Committee took advice from their independent advisers, Hay Group. Hay Group provided detailed market analysis and advice to the Committee for the senior management group, including Executive Directors and Non-Executive Directors. Hay Group's fee for providing such advice was £13,500 for the year. In line with best practice, the Committee assesses from time to time whether the appointment of its current independent remuneration advisers remains appropriate and whether the role should be put out to tender.

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

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

Remuneration Committee Attendance	
David Barclay	1/1
Gillian Camm	1/1
Huw Davies	1/1
Hong Yeoh	1/1
Mark Yeoh	1/1

Governance Report

(continued)

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

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

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

Early termination payments made in the year

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

Relative importance of spend on pay

Note 4 to the accounts shows the total employment costs of the company. An increase in the average number of employees in the year, contributed to the increase in employment costs.

	2014-15 £m	2013-14 £m	Movement £m	Movement %
Wages and salaries	71.5	66.6	+4.9	7.4
Social security costs	6.4	6.0	+0.4	6.7
Pension costs	11.3	10.6	+0.7	6.6
Total employment costs	89.2	83.2	+6.0	7.2

Charged to:

Capital schemes	29.8	28.8	+1.0	3.5
Manpower costs	59.4	54.4	+5.0	9.2

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(continued)

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

Percentage of	2014-15 %	2013-14 %	Source
Turnover	16.6%	15.7%	Profit and loss account
Profit before tax	52.9%	51.0%	Profit and loss account
Profit after tax	65.9%	50.0%	Profit and loss account
Dividends	108.1%	70.2%	Note 8
Capital expenditure	48.8%	41.3%	Cash flow statement

Remuneration Arrangements for Executive Directors 2014-15

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

- Basic salary
- Bonus (non-pensionable) subject to individual and company performance
- Pension plan
- Company car
- Private fuel allowance
- Private health insurance and executive medical screening
- Share option scheme of a parent company YTL Power International Berhad.

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

Element of Pay	Purpose and link to Company strategy
Base Salary	To attract and retain the high calibre Executive Directors and Senior Managers needed to implement the Company's strategy and maintain its leading position in the industry. To provide a competitive salary relative to comparable companies in terms of size and complexity.
Taxable Benefits	To attract and retain high calibre Executive Directors and Senior Managers and to remain competitive in the market.
Pension	To attract and retain high calibre Executive Directors and Senior Managers and to remain competitive in the market.
Annual Bonus	To motivate and reward Executive Directors and Senior Managers for the achievement of demanding financial objectives and key strategic measures (including measures of customer satisfaction, service quality and environmental performance) over the financial year and five year regulatory period. The performance measures set are stretching in the context of the nature, risk and profile of the Company.
How operated in practice	

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Base Salary	<p>Reviewed annually and takes effect from 1 April. Review takes into consideration;</p> <ul style="list-style-type: none"> • Individual responsibilities, experience and performance • Salary levels for similar sized roles in utilities and south west industrial and service markets • The level of pay increases awarded across the Company • Economic and market conditions • The performance of the Company <p>Salaries are paid monthly.</p>
Taxable Benefits	<p>Benefits include:</p> <ul style="list-style-type: none"> • Company car • Private medical insurance • Executive health screening • Private fuel allowance
Pension	<p>All Executive Directors participate in the Company's defined benefit pension scheme. Executive Directors are also insured for a lump sum of up to four times their pensionable salary on death in service.</p>
Annual Bonus	<p>The Board of Directors sets annual performance targets for the Company prior to the commencement of each new financial year. Company and individual performance against those targets is measured at the end of the financial year and the level of bonus payable is calculated at that point. Bonuses are paid in April.</p> <p>The Committee has the discretion to, and does consider the effect of corporate performance on environmental and governance risks when reviewing Executive Director and senior management bonuses to ensure variable remuneration incentivises and rewards appropriate behaviour. Part of the bonus may be forfeited for under performance in respect of customer service, environmental, regulation and employee related performance targets.</p> <p>Annual bonus is not pensionable.</p>
Maximum opportunity	
Base Salary	<p>There is no prescribed maximum increase. However, Executive Director salary increases are aligned to the increases provided to all Company employees. Such increases are negotiated by the joint staff council involving management and trade union representatives.</p>
Taxable Benefits	N/A
Pension	18.2% of base salary
Annual Bonus	Maximum bonus opportunity is 80% of base salary.
Description of performance metrics	
Base Salary	N/A
Taxable Benefits	N/A
Pension	N/A
Annual Bonus	<p>A combination of 27 key performance indicators relating to financial, customer, assets, environmental and employee related measures and targets.</p> <p>An equal 20% weighting is applied to financial, customer, assets, environmental and employee related measures (health and safety, training and engagement). The committee has absolute discretion in making bonus payments.</p>
Change to policy	
Base Salary	No change
Taxable Benefits	No change
Pension	No change
Annual Bonus	No change except that one new performance indicator relating to staff turnover was added.

Governance Report

(continued)

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

Component 2014/15	Colin Skellett Chief Executive	Mark Watts Director
Target bonus (% of salary)	40	40
Maximum bonus (% of salary)	80	80
Actual bonus paid (% of salary)	41	49
Share options (maximum)	Approved 87,000 Unapproved 1,913,000	Approved 87,000 Unapproved 913,000
Pension arrangement	Defined benefit [Pension in payment]	Defined benefit
Benefits	See below	See below

Benefits were company car based on list price and CO2 emissions, fuel £4,310, private medical insurance £1,846 (family).

Policy for loss of office

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

Base Salaries and Benefits

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

Differences between Executive Directors' and Employees' Remuneration

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

- Executive Directors pay is benchmarked against the upper quartile position of the South West Utilities market whilst we benchmark median pay and benefits against the South West Industrial and Service market for all fully qualified and experienced employees
- A lower level of target and maximum annual bonus opportunity applies to various employees when compared to Executive Directors. However, all employees, including Executive Directors and Senior Managers were subject to the same negotiated pay award increase
- Executive Directors (and senior managers) participate in a bonus scheme that is not available to other employees to motivate and reward them for achievement of demanding financial objectives and key strategic measures.

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

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

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

The Remuneration Committee has reviewed 2014-15 salaries and has determined that salaries for Executive Directors will be increased from 1 April 2015 by 1.25% for Colin Skellett and 3.4% for Mark Watts. For Colin Skellett this increase is in line with the agreed increase across the rest of the Company and for Mark Watts the Remuneration Committee considered that a higher increase in salary was warranted as the salary was low compared to the South West Utilities upper quartile.

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(continued)

Executive Directors' Bonuses

2014-15 Scheme

The annual bonus of Executive Directors is performance-related and designed to promote the long-term success of the Company. It is dependent on the achievement of Company and individual targets. In the case of Executive Directors these targets are weighted as 60% Company, 20% team and 20% individual.

Bonus disclosed is in relation to the performance in the year, and is paid in April following the year end.

The Company targets are 27 key performance indicators covering financial measures, customer service and efficiency measures, asset performance, environmental measures and employee matters, as shown below.

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

Customer Service and Efficiency – customer service SIM score / properties suffering unplanned supply interruptions >6 hours / restrictions on water use / internal flooding from public sewers / compliance with drinking water standards / customer contacts about water quality / customers rating service good or very good.

Assets – regulatory outputs met / volume of water leaked / properties on internal flooding register / water mains bursts / collapses, bursts on sewerage network.

Environmental – discharge permit consent / pollutions category 1, 2 and 3 / compliance with abstraction licences / greenhouse gas emissions / electricity self-generation / beaches passing EU bathing standards.

Employees – staff turnover / RIDDOR incidents / employee rating of company as good employer / compliance with training plan.

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

Target Bonus 2014/15	Colin Skellett Chief Executive	Mark Watts Director
Financial		
% of salary	4.8%	4.8%
Amount £	16,589	9,331
Customer		
% of salary	4.8%	4.8%
Amount £	16,589	9,331
Assets		
% of salary	4.8%	4.8%
Amount £	16,589	9,331
Environmental		
% of salary	4.8%	4.8%
Amount £	16,589	9,331
Employees		
% of salary	4.8%	4.8%
Amount £	16,588	9,332
Team		
% of salary	8%	8%
Amount £	27,648	15,552
Individual		
% of salary	8%	8%
Amount £	27,648	15,552
Total		
% of salary	40%	40%
Amount £	138,240	77,760

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(continued)

In the financial year under review, 21 of the 27 Company targets were achieved or bettered. The six company targets not achieved were properties suffering unplanned supply interruptions for more than six hours / water mains bursts / collapses, bursts on sewerage network / pollutions category 2 / electricity self-generation and RIDDOR incidents. The properties suffering unplanned supply interruptions was due to a small number of large incidents. Whilst water main bursts and sewer collapses were above target we maintained a stable serviceability assessment from Ofwat.

The electricity self-generation target is mainly due to an outage at one of our sites and delays with an advanced digestion scheme at another site. The overall number of pollution incidents was below target but there were three category 2 pollutions against the target of two. The number of RIDDOR incidents was marginally over target.

The actual bonus payments are shown in the Directors' Emoluments table. The detail of how these bonus payments were calculated is shown below.

Actual Bonus 2014/15	Colin Skellett Chief Executive	Mark Watts Director
Financial		
% of salary	4.92%	5.88%
Amount £	16,800	11,520
Customer		
% of salary	4.92%	5.88%
Amount £	16,800	11,520
Assets		
% of salary	4.92%	5.88%
Amount £	16,800	11,520
Environmental		
% of salary	4.92%	5.88%
Amount £	16,800	11,520
Employees		
% of salary	4.92%	5.88%
Amount £	16,800	11,520
Team		
% of salary	8.2%	9.8%
Amount £	28,000	19,200
Individual		
% of salary	8.2%	9.8%
Amount £	28,000	19,200
Total		
% of salary	41%	49%
Amount £	140,000	96,000

Annual bonus payments to Executive Directors are not pensionable.

Pensions

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

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

Members' contributions are payable at the rate of 8% of basic salary, with the Company making a further 18.2% contribution. Early payment of pension is available from age 55 with the consent of the Company. Any pension would be subject to a reduction, based on rates the trustees consider appropriate, acting on actuarial advice, to reflect the expected longer payment of the pension. No additional pension will become receivable by a Director if that Director retires early.

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(continued)

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

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

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

- continue in the scheme, with individuals meeting any tax liabilities as they fall due; or
- continue in the scheme with a capped pensionable salary which restricts pension growth to the annual allowance limit (£50,000 pa) and receive a cash supplement in lieu of pension entitlement on the excess salary. The cash supplement is based on the employer contribution rate to the scheme, currently 18.2%.

Mark Watts received a cash supplement of 18.2% of excess salary above the capped salary for pension purposes.

Executive Directors' Service Contracts

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

Executive Directors	Date of current agreement	Date of appointment as Executive Director	Notice Period
Colin Skellett	01/04/2014	01/09/1989	12 months
Mark Watts	01/04/2014	16/03/2010	12 months

Executive Directors' service contracts are available for inspection during normal office hours at the registered office, Wessex Water, Claverton Down Road, Bath BA2 7WW.

The Remuneration Committee will continue to review the contractual terms for Executive Directors to ensure they reflect best practice and are compliant with employment law. No new Executive Directors were appointed during the financial year under review.

None of the Executive Directors served as a Non-Executive Director for another company.

Non-Executive Directors

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

The breakdown of the Independent Non-Executive Directors' fees from 1 April 2014 is shown in the Directors' Emoluments table below. Independent Non-Executive Directors do not participate in share or bonus schemes or any other performance-related scheme, nor is any pension provision made.

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

Any term beyond six years for an Independent Non-Executive Director is subject to particularly rigorous review and takes into account the need for progressive refreshing of the Board balanced against the requirement for skills, experience, independence and knowledge.

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

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Directors' Emoluments

The table below shows the emoluments for the current year.

The auditor is required to report on the information in the following tables for 2014-15.

2014-15	Salary £000	Bonus £000	Benefits £000	Pension contributions £000	Total £000
David Barclay	81	-	-	-	81
Gillian Camm	61	-	-	-	61
Peter Costain	40	-	-	-	40
Huw Davies	52	-	-	-	52
Fiona Reynolds	61	-	-	-	61
Colin Skellett	347	140	23	-	510
Mark Watts	205	96	17	29	347
Total £000	847	236	40	29	1,152

1. No emoluments earned by Francis Yeoh, Hann Yeoh, Hong Yeoh, Mark Yeoh or Kathleen Chew.
2. Huw Davies and Peter Costain part year in 2014-15.
3. Benefits comprise private medical insurance, company car and fuel benefits.
4. Two Directors received emoluments for services to other Group Companies, Colin Skellett £268k and Mark Watts £2059k. The Audit Committee was satisfied that services provided to other Group Companies do not reduce the effectiveness of the Directors' provision of services to the Company.

The table below shows the emoluments for the prior year.

2013-14	Salary £000	Bonus £000	Benefits £000	Pension contributions £000	Total £000
David Barclay	80	-	-	-	80
Gillian Camm	56	-	-	-	56
Sean Cater	177	88	12	31	308
Peter Costain	80	-	-	-	80
David Elliott	130	90	11	24	255
Andy Pymer	116	90	12	21	239
Fiona Reynolds	56	-	-	-	56
Colin Skellett	338	138	22	-	498
Mark Watts	196	88	16	28	328
Total £000	1,229	494	73	104	1,900

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Chief Executive

No remuneration was paid to the Chairman. The total remuneration for the director performing the role of Chief Executive (Colin Skellett) was:

	Remuneration 2014-15 £000	Remuneration 2013-14 £000	% change
WWSL			
Salary	347	338	2.7%
Bonus	140	138	1.4%
Benefits	23	22	4.5%
Other group companies			
Salary	87	84	3.6%
Bonus	175	134	30.6%
Benefits	6	6	-
Total	778	722	7.8%
All employees WWSL			
Wages and salaries	71,500	66,600	7.4%
Social security costs	6,400	6,000	6.7%
Other pension costs	11,300	10,600	6.6%
Total	89,200	83,200	7.2%

Included in the 2014-15 remuneration for the Chief Executive was a bonus of £140k representing 41% of salary, the target bonus being 40% of salary and the maximum 80% of salary.

Comparison with remuneration increase for all employees:

The pay increase awarded to the employees of the Company on 1 April 2014, for the year 2014-15, was a 3.35% increase over the preceding year.

Executive Directors' Defined Benefit Pension Provision

	Pension service completed in years (1)	Normal retirement date at 65	Accrued pension at 31/3/2014 £pa	Increase in accrued pension during the year £pa	Accrued pension at 31/3/2015 £pa
Colin Skellett (2)	41	n/a (2)	162,279	6,975	169,254
Mark Watts	26	19/9/2026	79,790	4,653	84,443

(1) Including transfers in and bonus years

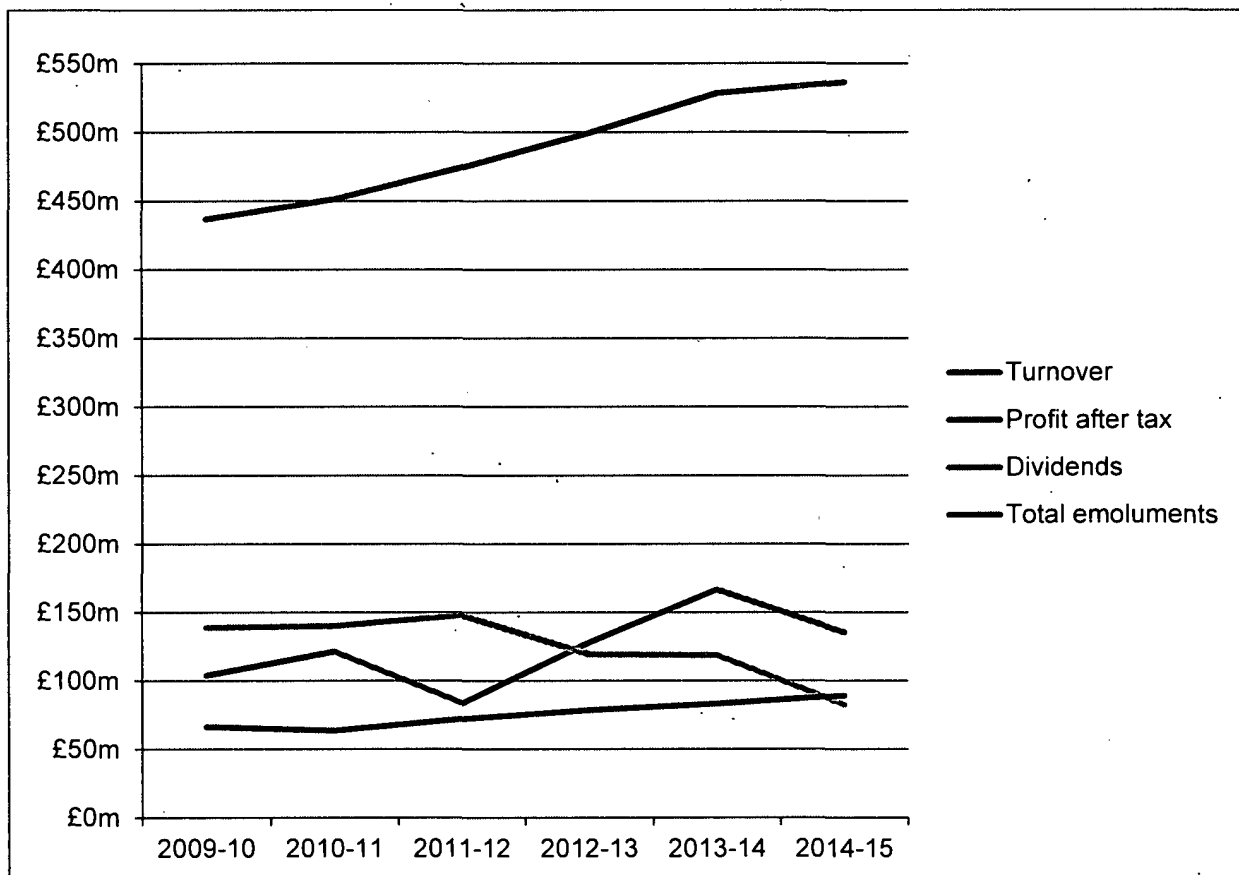
(2) Pension in payment

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(continued)

Remuneration Link to Performance

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



Dividends are as declared in the year.

Total emoluments include Directors' emoluments.

Executive Directors' Share Interests

Share Options

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

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

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

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(continued)

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

	Opening number 31/3/2014	Exercise price RM	Date of grant	Exercise date	Expiry date	Closing number 31/3/2015
Colin Skellett	87,000	1.65	1/6/2012	1/6/2015	31/3/2021	87,000
Colin Skellett	1,913,000	1.41	1/6/2012	1/6/2015	31/3/2021	1,913,000
Mark Watts	87,000	1.65	1/6/2012	1/6/2015	31/3/2021	87,000
Mark Watts	913,000	1.41	1/6/2012	1/6/2015	31/3/2021	913,000

Approved options were granted at an exercise price of RM1.65. Unapproved options were granted at an exercise price of RM1.49, which was adjusted to RM1.41 following the distribution to all shareholders of one share for every 20 ordinary shares held as at 13 March 2014.

The share price at 30 June 2015 was RM1.60 or £0.26.

Share Warrants

YTL Power International Berhad (a parent company) issued share warrants in 2008 at a price of RM0.10 that entitled the owner of the warrant to convert the warrant into ordinary shares of Malaysian Ringgit RM0.50 each in YTL Power International Berhad, at an exercise price of RM1.21 over a period of 10 years. The Executive Directors held the following share warrants during the year.

	Exercise price RM	Date of grant	Expiry date	Opening number 31/3/2014	Exercised 8/8/2014	Closing number 31/3/2015
Mark Watts	1.21	12/6/2008	11/6/2018	37,800	(37,800)	0

The exercise of share warrants is not subject to any performance criteria.

Shares Held

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

The Executive Directors held the following ordinary shares of Malaysian Ringgit RM0.50 each in YTL Power International Berhad (a parent company), at the start and end of the accounting period. The share price at 30 June 2015 was RM1.60 or £0.26.

	Opening number 31/3/2014	Closing number 31/3/2015
Mark Watts	350,230	388,030

Remuneration Arrangements for Executive Directors 2015-16

Component	Colin Skellett Chief Executive	Mark Watts Director
Target bonus (% of salary)	50	50
Maximum bonus (% of salary) of which a proportion is withheld until 2020 under LTIP arrangements	100	100
Share options (maximum)	Approved 87,000 Unapproved 1,913,000	Approved 87,000 Unapproved 913,000
Pension arrangement	Defined Benefit [Pension in payment]	Defined benefit
Taxable Benefits	Company car, fuel and private medical insurance	

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Bonus scheme 2015-16

For 2015-16 the performance indicators were reset to reflect the corporate targets in the new five year regulatory period. There are now 32 measures as shown below:

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

Customers – Service Incentive Mechanism combined score / customers rating service good or very good / customers rating ease of resolution / compliance with drinking water standards / customer contacts about drinking water quality / volume of water saved through water efficiency / properties supplied by a single source of water / properties suffering supply interruptions > 3 hours / volume of water leaked / restrictions on water use / internal flooding incidents per 10,000 properties / overall risk of flooding grid score.

Environment and Assets – EA's Environmental Performance Assessment / bathing water failures due to WWSL activities / Biodiversity Action Plan landholding assessed and managed / greenhouse gas emissions / proportion of electricity self-generated / all regulatory outputs met / compliance with abstraction licences / water main bursts / monitoring of CSO's presenting a risk to the environment / collapses and bursts on sewerage network.

Employees – RIDDOR incidents per 1,000 employees / employee rating company as a good employer / compliance with training plan / staff turnover / diversity plan progress as assessed by Corporate Responsibility Committee.

Target Bonus 2015-16	Colin Skellett Chief Executive	Mark Watts Director
Financial		
% of salary	10.0%	10.0%
Amount £	34,992	20,800
Customer		
% of salary	10.0%	10.0%
Amount £	34,992	20,800
Environment and Assets		
% of salary	10.0%	10.0%
Amount £	34,992	20,800
Employees		
% of salary	10.0%	10.0%
Amount £	34,992	20,800
Individual		
% of salary	10.0%	10.0%
Amount £	34,992	20,800
Total		
% of salary	50%	50%
Amount £	174,960	104,000

Long term incentive scheme from 1 April 2015

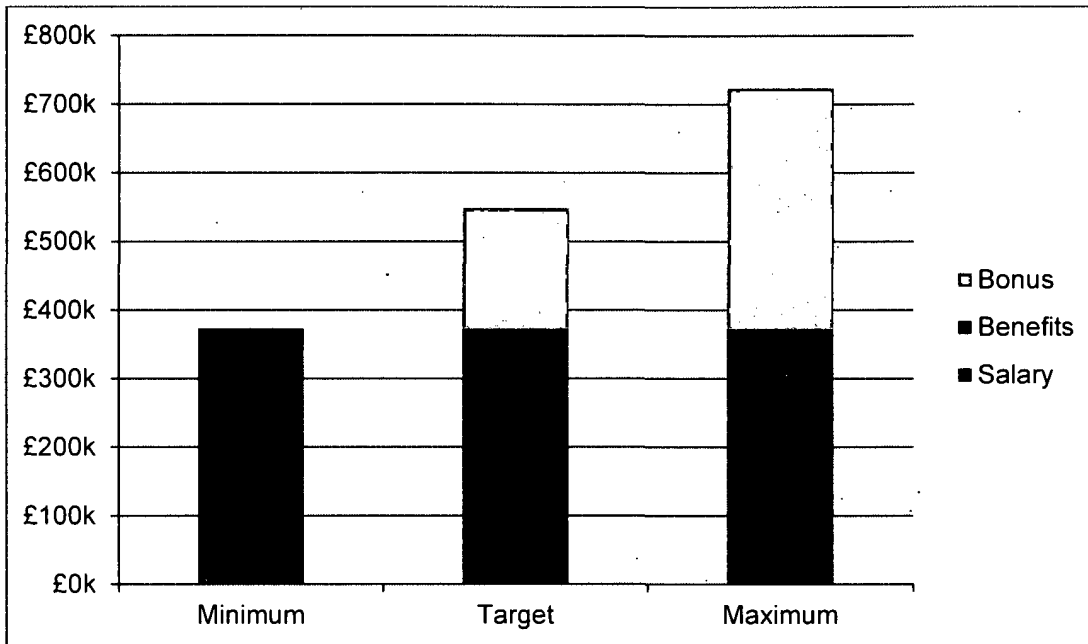
In September 2014, the Financial Reporting Council published a revised code of practice of the UK corporate governance code which introduced new provisions relating to executive remuneration, including a change that remuneration policies must be designed to promote the long term success of the Company. The Remuneration Committee approved the establishment of a long term incentive plan for Directors whereby 20% of any above target bonus element earned will be held back for payment at the end of AMP6 in 2020. The Company will match the value of the retained bonus payment, up to 100%. The long term incentive payment will be paid to Directors in April 2020.

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(continued)

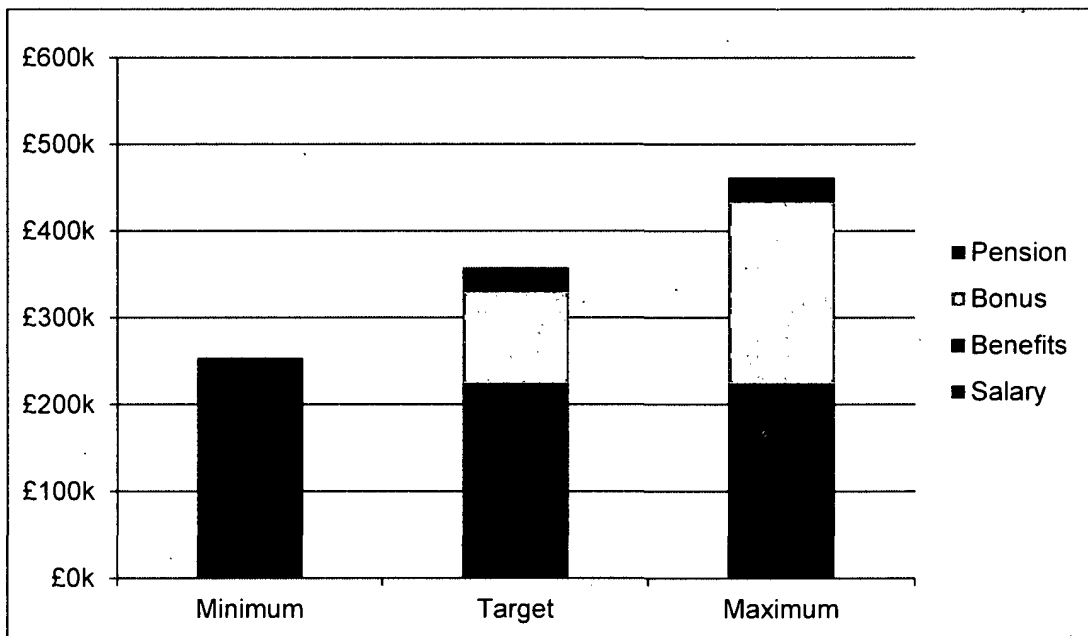
Illustrations of Remuneration Policy

A) Chief Executive Officer – Colin Skellett (using estimated 2015-16 data)



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

B) Director of Finance – Mark Watts (using estimated 2015-16 data)



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

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with IFRSs as adopted by the EU and applicable law.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WESSEX WATER SERVICES LIMITED

We have audited the financial statements of Wessex Water Services Limited for the year ended 30 June 2015 set out on pages 50 to 86. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 48, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 June 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the EU; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

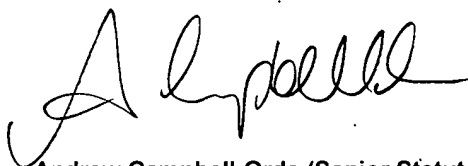
Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or



Andrew Campbell-Orde (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
100 Temple Street,
Bristol, BS1 6AG
30 September 2015

Income Statement

For the year ended 30 June 2015

	<i>Note</i>	2015 £m	2014 £m
Revenue	2	536.5	528.4
Raw materials and consumables used		(32.2)	(33.3)
Staff costs		(59.4)	(54.4)
Depreciation and amortisation		(100.3)	(97.4)
Other expenses		(99.2)	(101.3)
Total expenses	3	(291.1)	(286.4)
Operating profit	2	245.4	242.0
Financial income	6	0.4	1.4
Financial expenses	6	(77.3)	(80.4)
Net financing expense		(76.9)	(79.0)
Profit before tax		168.5	163.0
Taxation	7	(33.2)	3.5
Profit for the year		135.3	166.5

Statement of Other Comprehensive Income
For the year ended 30 June 2015

	2015 £m	2014 £m
Profit for the year	135.3	166.5
Other comprehensive income		
<i>Items that will not be reclassified to profit or loss:</i>		
Re-measurements of defined benefit liability	(25.2)	13.1
Income tax on items that will not be reclassified to profit or loss	5.0	(5.9)
Other comprehensive income for the year, net of income tax	(20.2)	7.2
Total comprehensive income for the year	115.1	173.7

Balance Sheet

At 30 June 2015

	Note	2015 £m	2014 £m	2013 £m
Non-current assets				
Property, plant and equipment	9	3,258.6	3,158.9	3,032.3
Investments in subsidiaries	10	-	-	-
		<u>3,258.6</u>	<u>3,158.9</u>	<u>3,032.3</u>
Current assets				
Inventories	11	7.8	6.7	6.8
Trade and other receivables	12	183.0	176.1	166.7
Cash and cash equivalents	13	81.7	76.0	144.7
		<u>272.5</u>	<u>258.8</u>	<u>318.2</u>
Total assets		<u><u>3,531.1</u></u>	<u><u>3,417.7</u></u>	<u><u>3,350.5</u></u>
Current liabilities				
Bank overdraft	14	-	(13.1)	(16.5)
Other interest-bearing loans and borrowings	14	(4.5)	(8.4)	(7.8)
Trade and other payables	15	(164.6)	(180.3)	(181.0)
		<u>(169.1)</u>	<u>(201.8)</u>	<u>(205.3)</u>
Non-current liabilities				
Other interest-bearing loans and borrowings	14	(1,939.3)	(1,895.8)	(1,886.4)
Other payables	15	(0.4)	(0.5)	(1.0)
Employee benefits	16	(123.3)	(100.0)	(115.1)
Deferred income	17	(218.1)	(186.3)	(156.7)
Provisions	18	(1.7)	(0.4)	(0.2)
Deferred tax liabilities	19	(384.4)	(370.7)	(378.7)
		<u>(2,667.2)</u>	<u>(2,553.7)</u>	<u>(2,538.1)</u>
Total liabilities		<u><u>(2,836.3)</u></u>	<u><u>(2,755.5)</u></u>	<u><u>(2,743.4)</u></u>
Net assets	2	<u><u>694.8</u></u>	<u><u>662.2</u></u>	<u><u>607.1</u></u>
Equity				
Share capital	20	-	81.3	81.3
Retained earnings		<u>694.8</u>	<u>580.9</u>	<u>525.8</u>
Total equity		<u><u>694.8</u></u>	<u><u>662.2</u></u>	<u><u>607.1</u></u>

These financial statements were approved by the Board of Directors on 30 September 2015 and were signed on its behalf by:



Colin Skellett – Chief Executive

Company registered number: 2366648



Mark Watts - Director

Statement of Changes in Equity

For the year ended 30 June 2015

	Note	Share capital £m	Retained earnings £m	Total equity £m
Balance at 1 July 2013		81.3	525.8	607.1
Effect of change in accounting policy		-	-	-
Balance at 1 July 2013 restated		81.3	525.8	607.1
Total comprehensive income for the year				
Profit for the year		-	166.5	166.5
Other comprehensive income		-	7.2	7.2
Total comprehensive income for the year		-	173.7	173.7
Transactions with owners, recorded directly in equity				
Dividends	8	-	(118.6)	(118.6)
Total contributions by and distributions to owners		-	(118.6)	(118.6)
Balance at 30 June 2014		81.3	580.9	662.2
Balance at 1 July 2014		81.3	580.9	662.2
Total comprehensive income for the year				
Profit for the year		-	135.3	135.3
Other comprehensive income		-	(20.2)	(20.2)
Total comprehensive income for the year		-	115.1	115.1
Transactions with owners, recorded directly in equity				
Share capital reduction	20	(81.3)	81.3	-
Dividends	8	-	(82.5)	(82.5)
Total contributions by and distributions to owners		(81.3)	(1.2)	(82.5)
Balance at 30 June 2015		-	694.8	694.8

Included in retained earnings are £552.5m of un-distributable reserves (2014 - £557.6m) created on first time adoption of IFRS when restating infrastructure assets to fair value (see note 20).

Cash Flow Statement

For the year ended 30 June 2015

	Note	2015	2014
		£m	£m
Cash flows from operating activities			
Profit for the year		135.3	166.5
<i>Adjustments for:</i>			
Depreciation, amortisation and impairment		100.3	97.4
Financial income		(0.4)	(1.4)
Financial expense		77.3	80.4
Taxation		33.2	(3.5)
		<u>345.7</u>	<u>339.4</u>
(Increase) in trade and other receivables		(4.5)	(10.0)
(Increase) / decrease in inventories		(1.1)	0.1
Increase in trade and other payables		7.8	3.1
(Decrease) in provisions and employee benefits		(5.0)	(7.0)
		<u>(2.8)</u>	<u>(13.8)</u>
Tax paid		(28.3)	(11.6)
Net cash from operating activities		<u>314.6</u>	<u>314.0</u>
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		1.0	0.6
Interest received		0.4	1.9
Acquisition of property, plant and equipment		(182.6)	(201.3)
Proceeds from infrastructure charges and capital contributions		6.7	6.5
Net cash from investing activities		<u>(174.5)</u>	<u>(192.3)</u>
Cash flows from financing activities			
Proceeds from new loan		150.0	-
Interest paid		(59.1)	(57.6)
Repayment of borrowings		(100.0)	-
Payment of finance lease liabilities		(25.6)	(9.1)
Dividends paid		(86.6)	(120.3)
Net cash from financing activities		<u>(121.3)</u>	<u>(187.0)</u>
Increase / (decrease) in cash and cash equivalents		18.8	(65.3)
Cash and cash equivalents at 1 July		62.9	128.2
Cash and cash equivalents at 30 June	13,14	<u>81.7</u>	<u>62.9</u>

Notes to the financial statements

1. Accounting policies

1.1 Basis of preparation

Wessex Water Services Limited is a Company incorporated and domiciled in the UK.

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

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements and in preparing an opening IFRS balance sheet at 1 July 2013 for the purposes of the transition to Adopted IFRSs.

Judgements made by the Directors, in the application of these accounting policies, that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 28.

Group accounts have not been prepared as under section 400 of the Companies Act 2006 the Company and its subsidiary are included in the consolidated financial statements of Wessex Water Ltd (see note 26).

1.2 Transition to adopted IFRSs

The Company is preparing its financial statements in accordance with Adopted IFRSs for the first time and consequently has applied IFRS 1. An explanation of how the transition to Adopted IFRSs has affected the reported financial position and financial performance of the Company is provided in note 29.

IFRS 1 grants certain exemptions from the full requirements of Adopted IFRSs in the transition period. In the preparation of these financial statements the Company used the exemption in respect of deemed cost to arrive at the fair value on adoption of IFRS, and the exemption on transfers of assets to customers in respect of the treatment of sewer adoptions.

1.3 Measurement convention

The financial statements are prepared on the historical cost basis. Non-current assets and disposal groups held for sale are stated at the lower of previous carrying amount and fair value less costs to sell.

1.4 Going concern

The Directors have considered the financial position of the Company and have concluded that they will be able to meet their liabilities as they fall due for the foreseeable future. For these purposes the foreseeable future is taken to mean a period of at least 12 months from the date of approval of these accounts.

1.5 Foreign currency

Transactions in foreign currencies are translated into sterling at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined.

1.6 Financial instruments

Investments

Investments held as fixed assets are stated at cost less any provision for impairment. Those held as current assets are stated at the lower of cost and net realisable value.

Cash and cash equivalents

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

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Notes to the financial statements – Accounting policies (continued)

1.7 Property, plant and equipment

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

Infrastructure assets have been revalued to fair value on 1 July 2013, the date of transition to Adopted IFRSs, and are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

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

Leases in which the Company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Where land and buildings are held under leases the accounting treatment of the land is considered separately from that of the buildings. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and less accumulated impairment losses.

Under IFRIC 18 sewers adopted at nil cost to the Company are included in fixed assets at a fair value, which is cost of construction and depreciated at the same rate as infrastructure assets.

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

- Buildings and operational assets 15 to 80 years
- Infrastructure assets 108 years
- Plant, machinery and vehicles 3 to 30 years
- Other assets 4 to 15 years

Infrastructure assets comprise 8 components whose weighted average life is 108 years:

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

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

1.8 Intangible assets and goodwill

Goodwill

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment.

Research and development

Expenditure on research activities is recognised in the income statement as an expense as incurred.

1.9 Investment property

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both. Investment properties are stated at cost less accumulated depreciation.

1.10 Inventories

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

Notes to the financial statements – Accounting policies (continued)

1.11 Impairment excluding inventories and deferred tax assets

Financial assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Non-financial assets

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

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

1.12 Employee benefits

Defined benefit plans

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

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

Defined contribution plans

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

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

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

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

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

Notes to the financial statements – Accounting policies (continued)

1.12 Employee benefits (continued)

Short-term benefits

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

Share-based payment transactions

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

1.13 Provisions

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

1.14 Revenue

Turnover represents income receivable in the ordinary course of business, excluding VAT, for services provided. Turnover is recognised to the extent that it is probable that economic benefits will flow to the Company. For measured customers turnover includes an estimate of the sales value of units consumed between the last meter reading and the end of the period. Where premises are unoccupied or where no services are provided, charges are not raised and no turnover is recognised.

1.15 Deferred income

Grants and contributions in respect of specific expenditure on non-infrastructure fixed assets are treated as deferred income and recognised in the profit and loss account over the expected useful economic lives of the related assets.

Grants and contributions relating to infrastructure assets are amortised over 108 years.

Under IFRIC 18 sewers adopted at nil cost to the Company are shown in deferred income at a fair value, which is cost of construction, and amortised at the same rate as infrastructure assets are depreciated.

1.16 Bad debt policy

Debt is written off for one of four reasons;

- It is considered or known to be uncollectible
- It is considered uneconomic to collect
- Older debt is written off by agreement with the customer in return for the receipt of monthly payments to pay-off current year debt as part of our "Restart" and "Restart Plus" policies
- Write off is ordered by the County Court. In these cases the Court may set payment at a proportion of the outstanding debt. When this level of payment is reached the Court will instruct that the rest is to be written off.

The policy for calculating the bad debt provision is to analyse the outstanding debt between payment categories and to make provision according to the historical non collection rate for that payment category. The categories selected are direct debit, instalments, standing orders, DSS, bankruptcy and all other. The profile of provision differs between categories, but for all categories debt that is 4 years old is fully provided.

Notes to the financial statements – Accounting policies (continued)

1.17 Expenses

Operating lease payments

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

Finance lease payments

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

Financing income and expenses

Financing expenses comprise interest payable, finance charges on shares classified as liabilities and finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the income statement (see foreign currency accounting policy). Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use, are capitalised as part of the cost of that asset. Financing income comprises interest receivable on funds invested, dividend income, and net foreign exchange gains.

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

1.18 Taxation

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

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

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

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

1.19 Non-current assets held for sale and discontinued operations

A non-current asset or a group of assets containing a non-current asset (a disposal group) is classified as held for sale if its carrying amount will be recovered principally through sale rather than through continuing use, it is available for immediate sale and sale is highly probable within one year.

A discontinued operation is a component of the Company's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative income statement is restated as if the operation has been discontinued from the start of the comparative period.

1.20 Dividends

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

Notes to the financial statements – Accounting policies (continued)

1.21 Adopted IFRS not yet applied

The following Adopted IFRSs have been issued but have not been applied in these financial statements:

- IFRS 9 Financial Instruments (Mandatory for years commencing on or after 1 January 2018)
- IFRS 14 Regulatory Deferral Accounts (Mandatory for years commencing on or after 1 January 2016)
- IFRS 15 Revenue from Contracts with Customers (Mandatory for years commencing on or after 1 January 2017)
- Amendments to IAS 16 and IAS 28 Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendment to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations.

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

Notes to the financial statements

2 Segmental analysis

	2015 £m	2014 £m
<i>Turnover</i>		
Regulated	529.2	520.3
Unregulated	7.3	8.1
	<u>536.5</u>	<u>528.4</u>
<i>Operating profit</i>		
Regulated	245.4	242.0
Unregulated	-	-
	<u>245.4</u>	<u>242.0</u>
<i>Net assets</i>		
Regulated	694.8	662.2
Unregulated	-	-
	<u>694.8</u>	<u>662.2</u>

3 Expenses and auditor's remuneration

Included in profit are the following:

	2015 £m	2014 £m
Impairment loss on other trade receivables and prepayments	12.0	11.4
Research and development expensed as incurred	0.1	0.1

	2015 £'000	2014 £'000
<i>Auditor's remuneration:</i>		
Audit of these financial statements	156	149
Taxation compliance services	10	5
AMP6 price review services	18	114
Other costs	182	66
	<u>366</u>	<u>334</u>

Notes to the financial statements *(continued)*

4 Staff numbers and costs

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

	Number of employees	
	2015	2014
Average number of employees	<u>1,921</u>	<u>1,875</u>

The aggregate payroll costs of these employees was:

	2015	2014
	£m	£m
Wages and salaries	71.5	66.6
Share based payments	-	-
Social security costs	6.4	6.0
Pension costs	11.3	10.6
	<u>89.2</u>	<u>83.2</u>

These costs were allocated as follows:

Capital schemes	29.8	28.8
Operating expenses	59.4	54.4
	<u>89.2</u>	<u>83.2</u>

5 Directors' remuneration

	2015	2014
	£'000	£'000
Total Directors' remuneration including benefits in kind	<u>1,152</u>	<u>1,900</u>
Remuneration of highest paid Director	<u>510</u>	<u>498</u>

Details of Directors' remuneration can be found in the Governance Report. Directors' remuneration is in respect of two Executive Directors, five Non-Executive Directors and five YTL appointed Directors (2014 - five Executive Directors, four Non-Executive Directors and five YTL appointed Directors).

Notes to the financial statements *(continued)*

6 Finance income and expense

Recognised in the income statement

	2015 £m	2014 £m
<i>Finance income</i>		
Interest receivable on short-term bank deposits	0.4	1.4
Total finance income	<u>0.4</u>	<u>1.4</u>
<i>Finance expense</i>		
To fellow subsidiary undertakings	(68.6)	(73.4)
Net interest on net defined benefit pension plan liability	(4.3)	(5.2)
On bank loans and leases	(4.4)	(1.8)
	<u>(77.3)</u>	<u>(80.4)</u>
Net interest payable	<u>(76.9)</u>	<u>(79.0)</u>

In accordance with IAS 23 borrowing costs of £2.2m (2014 - £1.3m) associated with the funding of eligible capital projects have been capitalised at an interest rate of 4.0% (2014 – 4.5%).

7 Taxation

Recognised in the income statement

	2015 £m	2014 £m
<i>Current tax expense</i>		
Current year	16.4	28.9
Adjustments for prior years	(1.9)	(18.5)
Current tax expense	<u>14.5</u>	<u>10.4</u>
<i>Deferred tax expense</i>		
Origination and reversal of temporary differences	18.1	4.5
Reduction in tax rate	-	(36.3)
Adjustments for prior years	0.6	17.9
Deferred tax expense / (credit)	<u>18.7</u>	<u>(13.9)</u>
Tax expense / (credit) in income statement	<u>33.2</u>	<u>(3.5)</u>

Notes to the financial statements *(continued)*

7 Taxation *(continued)*

Income tax recognised in other comprehensive income

	2015 £m	2014 £m
Re-measurements of defined benefit liability	5.0	(5.9)
Change in tax rate	-	-
Tax credit / (debit)	<u>5.0</u>	<u>(5.9)</u>

Reconciliation of effective tax rate

	2015 £m	2014 £m
Profit for the year	135.3	166.5
Total tax expense / (credit)	<u>33.2</u>	<u>(3.5)</u>
Profit excluding taxation:	168.5	163.0
Tax using the UK corporation tax rate of 20.75% (2014 - 22.5%)	35.0	36.7
Reduction of tax rate on deferred tax balances	-	(36.1)
Non-deductible expenses	0.4	0.2
(Over) provided in prior years	(1.4)	(0.5)
Group relief for nil consideration	(1.4)	(1.7)
Other	<u>0.6</u>	<u>(2.1)</u>
Total tax expense / (credit)	<u>33.2</u>	<u>(3.5)</u>

Reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. In the Budget on 8 July 2015, the Chancellor announced additional planned reductions to 18% by 2020. This will reduce the company's future current tax charge accordingly. The deferred tax liability at 30 June 2015 has been calculated based on the rate of 20% substantively enacted at the balance sheet date.

8 Dividends

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

	2015 £m	2014 £m
Interim dividends for the current year	65.0	96.9
Final dividend for the current year	<u>17.5</u>	<u>21.7</u>
	<u>82.5</u>	<u>118.6</u>

Notes to the financial statements *(continued)*

9 Property, plant and equipment

	Land & buildings £m	Infra-structure assets £m	Plant, equipment & vehicles £m	Office & IT equipment £m	Company total £m
Cost					
Balance at 1 July 2013	818.1	1,733.8	1,338.8	28.2	3,918.9
Additions	10.5	103.5	110.7	1.8	226.5
Disposals	(1.0)	(1.5)	(13.1)	-	(15.6)
Balance at 30 June 2014	827.6	1,835.8	1,436.4	30.0	4,129.8
Balance at 1 July 2014	827.6	1,835.8	1,436.4	30.0	4,129.8
Additions	21.7	95.6	82.7	3.0	203.0
Disposals	(0.5)	(1.5)	(25.2)	(8.0)	(35.2)
Balance at 30 June 2015	848.8	1,929.9	1,493.9	25.0	4,297.6
Depreciation and impairment					
Balance at 1 July 2013	(229.5)	-	(640.6)	(16.5)	(886.6)
Depreciation charge for the year	(14.2)	(15.6)	(63.6)	(2.9)	(96.3)
Disposals	0.5	-	11.5	-	12.0
Balance at 30 June 2014	(243.2)	(15.6)	(692.7)	(19.4)	(970.9)
Balance at 1 July 2014	(243.2)	(15.6)	(692.7)	(19.4)	(970.9)
Depreciation charge for the year	(14.2)	(16.6)	(68.5)	(1.0)	(100.3)
Disposals	0.3	-	23.9	8.0	32.2
Balance at 30 June 2015	(257.1)	(32.2)	(737.3)	(12.4)	(1,039.0)
Net Book Value					
At 1 July 2013	588.6	1,733.8	698.2	11.7	3,032.3
At 30 June 2014	584.4	1,820.2	743.7	10.6	3,158.9
At 30 June 2015	591.7	1,897.7	756.6	12.6	3,258.6

Notes to the financial statements – Property, plant and equipment *(continued)*

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

Included in infrastructure assets at 1 July 2013 is £703.5m fair value adjustment on first time adoption of IFRS.

There is no impairment loss recognised in these financial statements.

At 30 June 2015 the net book value of leased plant and machinery was £17.4m (2014 - £34.8m). The leased equipment secures lease obligations (see note 14).

Assets under construction included in the values above were £110.8m (2014 - £114.7m).

Cumulative borrowing costs capitalised and included above were £3.5m (2014 - £1.3m).

Included in freehold land and buildings above is an amount of £12.2m (2014 - £11.5m) in respect of land which is not depreciated.

10 Investments in subsidiaries

The Company has an investment of £13,000 (2014 – £13,000) in 100% of the ordinary share capital of a subsidiary company Wessex Water Services Finance Plc.

11 Inventories

	2015	2014
	£m	£m
Raw materials and consumables	3.3	2.8
Work in progress	4.5	3.9
	<u>7.8</u>	<u>6.7</u>

Raw materials, consumables and work in progress recognised as "Other expenses" in the year amounted to £4.3m (2014 - £2.8m). There was no write-down of inventories to net realisable value in either year.

12 Trade and other receivables

	2015	2014
	£m	£m
Trade receivables	66.7	65.8
Owed by fellow subsidiary company	35.1	33.0
Prepayments and accrued income	76.1	71.0
Other debtors	5.1	6.3
	<u>183.0</u>	<u>176.1</u>

13 Cash and cash equivalents

	2015	2014
	£m	£m
Short-term bank deposits	71.6	76.0
Cash at bank	10.1	-
	<u>81.7</u>	<u>76.0</u>

Notes to the financial statements *(continued)*

14 Other interest-bearing loans and borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Company's exposure to interest rate and foreign currency risk, see note 21.

	2015 £m	2014 £m
Non-current liabilities		
Bank loans	365.0	315.0
Finance lease liabilities	11.9	33.6
Inter-company loans	<u>1,562.4</u>	<u>1,547.2</u>
	<u>1,939.3</u>	<u>1,895.8</u>
Current liabilities		
Bank overdraft	-	13.1
Current portion of finance lease liabilities	<u>4.5</u>	<u>8.4</u>
	<u>4.5</u>	<u>21.5</u>

Terms and debt repayment schedule

	Currency	Nominal interest rate	Year of maturity	Face value 2015 £m	Carrying amount 2015 £m	Face value 2014 £m	Carrying amount 2014 £m
Bank loans	Sterling		2018- 2024	365.0	365.0	315.0	315.0
<i>Inter-company loans</i>							
Bond	Sterling	5.375%	2028	198.6	198.3	198.5	198.2
Bond	Sterling	5.75%	2033	346.7	345.7	346.5	345.5
Bond	Sterling	4.00%	2021	198.3	198.3	198.1	198.1
Bond	Sterling	4.00%	2021	105.8	105.8	106.7	106.7
Index Linked Bond	Sterling	3.52%	2023	73.2	73.2	71.5	71.5
Index Linked Bond	Sterling	2.186%	2039	60.0	60.0	59.5	59.5
Index Linked Bond	Sterling	1.75%	2046	98.5	98.5	96.2	96.2
Index Linked Bond	Sterling	1.75%	2051	98.5	98.5	96.2	96.2
Index Linked Bond	Sterling	1.369%	2057	98.5	98.5	96.2	96.2
Index Linked Bond	Sterling	1.374%	2057	98.4	98.4	96.2	96.2
Index Linked Bond	Sterling	1.489%	2058	62.4	62.4	61.0	61.0
Index Linked Bond	Sterling	1.495%	2058	62.4	62.4	61.0	61.0
Index Linked Bond	Sterling	1.499%	2058	62.4	62.4	60.9	60.9
				<u>1,928.7</u>	<u>1,927.4</u>	<u>1,863.5</u>	<u>1,862.2</u>

Notes to the financial statements – Other interest-bearing loans and borrowings (continued)

Finance lease liabilities

Finance lease liabilities are payable as follows:

	Minimum lease payments	Interest	Principal	Minimum lease payments	Interest	Principal
	2015	2015	2015	2014	2014	2014
	£m	£m	£m	£m	£m	£m
Less than one year	5.3	(0.8)	4.5	10.3	(1.9)	8.4
Between one and five years	12.8	(0.9)	11.9	37.1	(3.5)	33.6
	18.1	(1.7)	16.4	47.4	(5.4)	42.0

15 Trade and other payables

	2015	2014
	£m	£m
Current		
Amounts payable to subsidiary company	30.9	30.8
Amounts payable to other group companies	0.6	0.6
Amounts owed to associate companies	-	0.1
Trade payables	16.0	8.8
Dividend	17.5	21.7
Other creditors	2.6	1.9
Corporation tax	3.6	16.5
Taxation and social security	2.0	2.0
Accruals and deferred income	91.4	97.9
	164.6	180.3
Non-current		
Other payables	0.4	0.5
	165.0	180.8

Notes to the financial statements (continued)

16 Employee benefits

Pension plans

	2015 £m	2014 £m
Fair value of scheme assets	516.1	467.7
Present value of defined benefit obligations	<u>(638.2)</u>	<u>(566.5)</u>
Net (liability) for defined benefit obligations	(122.1)	(98.8)
Unfunded and compensatory added years pension	<u>(1.2)</u>	<u>(1.2)</u>
Total employee benefits	<u><u>(123.3)</u></u>	<u><u>(100.0)</u></u>

- a. The Company sponsors a funded defined benefit pension plan for qualifying UK employees. The plan is administered by a separate board of Trustees which is legally separate from the Company. The Trustees are composed of representatives of both the employer and employees. The Trustees are required by law to act in the interest of all relevant beneficiaries and are responsible for the investment policy with regard to the assets plus the day to day administration of the benefits.

Under the plan, employees are entitled to annual pensions on retirement using an accrual rate, final pensionable salary and service. Benefits are also payable on death and following other events such as withdrawing from active service.

No other post-retirement benefits are provided to these employees.

Liabilities for an unfunded arrangement and a compensatory payment for added years' service are held outside the defined benefit scheme. The Company also operates a defined contribution section within the main pension scheme.

- b. Profile of the Scheme

The defined benefit obligation includes benefits for current employees, former employees and current pensioners. Broadly, about 36% of the liabilities are attributable to current employees, 16% to former employees and 48% to current pensioners. The Scheme duration is an indicator of the weighted-average time until benefit payments are made. For the Scheme as a whole, the duration is around 18 years reflecting the approximate split of the defined benefit obligation between current employees (duration of 25 years), deferred members (duration of 25 years) and current pensioners (duration of 12 years).

- c. Funding requirements

UK legislation requires that pension schemes are funded prudently. The last funding valuation of the Scheme was carried out by a qualified actuary as at 30 September 2013 and showed a deficit of £94.6 million. The Company is paying deficit contributions of:

- £8.6M by 31 March 2014 and 31 March 2015;
- £7.6M by each 31 March, from 31 March 2016 to 31 March 2020 inclusive;
- £10.2M by each 31 March, from 31 March 2021 to 31 March 2024 inclusive;

which, along with investment returns from return-seeking assets, is expected to make good this shortfall by 31 March 2024.

The next funding valuation is due no later than 30 September 2016 at which progress towards full-funding will be reviewed.

The Company also pays contributions of 18.2% of pensionable salaries in respect of current accrual and non-investment related expenses, with active members paying a further 7.3% of pensionable salaries on average. A contribution of £7.6m is expected to be paid by the Company during the year ending on 30 June 2016.

- d. Risks associated with the Scheme

Asset volatility - The liabilities are calculated using a discount rate set with reference to corporate bond yields; if assets underperform this yield, this will create a deficit. The Scheme holds a significant proportion of growth assets (equities, diversified growth fund and global absolute return fund) which, though expected to outperform corporate bonds in the long-term, create volatility and risk in the short-term. The allocation to growth assets is monitored to ensure it remains appropriate given the Scheme's long term objectives.

Notes to the financial statements – Employee benefits (continued)

Changes in bond yields - A decrease in corporate bond yields will increase the value placed on the Scheme's liabilities for accounting purposes, although this will be partially offset by an increase in the value of the Scheme's bond holdings.

Inflation risk - The majority of the Scheme's benefit obligations are linked to inflation, and higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect against extreme inflation). The majority of the assets are either unaffected by or only loosely correlated with inflation, meaning that an increase in inflation will also increase the deficit.

Life expectancy - The majority of the Scheme's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the liabilities.

The Trustees insure certain benefits payable on death before retirement.

A contingent liability exists in relation to the equalisation of Guaranteed Minimum Pension ("GMP"). The UK Government intends to implement legislation which could result in an increase in the value of GMP for males. This would increase the defined benefit obligation of the plan. At this stage, it is not possible to quantify the impact of this change.

e. Reporting at 30 June 2015

The results of the latest funding valuation at 30 September 2013 have been adjusted to the balance sheet date taking account of experience over the period since 30 September 2013, changes in market conditions, and differences in the financial and demographic assumptions. The present value of the defined benefit obligation, and the related current service cost, were measured using the Projected Unit Cost Method.

The principal assumptions used to calculate the liabilities under IAS 19 are set out below:

The actuarial valuation described above has been updated at 30 June 2015 by a qualified actuary using revised assumptions that are consistent with the requirements of IAS 19. Investments have been valued, for this purpose, at fair value. The major assumptions used by the actuary were:

	30.06.15	30.06.14
Rate of increase in salaries – year 1	0.75%	2.25%
Rate of increase in salaries – year 2	2.50%	2.25%
Rate of increase in salaries – years 3 to 4 (2014 years 3 to 5)	2.50%	2.50%
Rate of increase in salaries – long term	3.70%	3.80%
Rate of increase in pensions in payment	2.2% or 3.1%	2.3% or 3.1%
Rate of increase in pensions in payment - reduced level members	2.3%	2.1%
Discount rate	3.8%	4.4%
Inflation assumption – RPI	3.2%	3.3%
Inflation assumption – CPI	2.2%	2.3%

The mortality assumptions are based upon the recent actual mortality experience of members within the scheme, and the assumptions also allow for future mortality improvements. The assumptions are that a member currently aged 60 will live, on average, for a further 27.2 years (2014 – 27.1 years) if they are male, and for a further 29.5 years (2014 – 29.4 years) if they are female. For a member who retires in 2035 at age 60 the assumptions are that they will live, on average, for a further 28.8 years (2014 – 28.7 years) after retirement if they are male, and a further 31.1 years (2014 – 31.1 years) after retirement if they are female.

The mortality table adopted is based upon 95% of standard tables S1P(M/F)A adjusted to allow for individual years of birth. Future improvements are assumed to be in line with the CMI 2013 core projection, with a long term improvement rate of 1.0% p.a. for all members.

Sensitivity analysis:

The calculation of the defined benefit obligation is sensitive to the assumptions set out above:

- A reduction in the discount rate of 0.1% from 3.8% to 3.7% would increase the scheme liabilities by £11.9m from £638.2m to £650.1m, increasing the scheme deficit to £134.0m
- An increase in the inflation assumption of 0.1% (from 2.2% to 2.3% for CPI and 3.2% to 3.3% for RPI) would increase the scheme liabilities by £9.7m from £638.2m to £647.9m, increasing the scheme deficit to £131.8m
- An increase in life expectancy of 1 year would increase the scheme liabilities by £22.5m from £638.2m to £660.7m, increasing the scheme deficit to £144.6m.

Notes to the financial statements – Employee benefits (continued)

f. The value of the assets as follows:

	2015	2014
	£m	£m
Equities	261.2	241.6
Property	27.0	21.9
Government Bonds	129.4	115.4
Corporate Bonds	98.3	88.0
Other	0.2	0.8
	<u>516.1</u>	<u>467.7</u>

g. The amounts recognised in comprehensive income are set out below:

	2015	2014
	£m	£m
Operating cost – service cost		
Current service cost	10.1	10.4
Administration expenses	0.4	0.5
Past service cost	1.2	0.2
Financing cost		
Interest on net benefit liability	4.3	5.2
Pension cost recognised in profit and loss	<u>16.0</u>	<u>16.3</u>
Re-measurements in Other Comprehensive Income (OCI)		
Return on plan assets (in excess of) that recognised in net interest	(30.1)	(26.0)
Actuarial losses due to changes in financial assumptions	62.2	2.8
Actuarial losses due to changes in demographic assumptions	-	0.4
Actuarial (gains) / losses due to liability experience	(6.9)	9.7
Pension cost / (gain) recognised in OCI	<u>25.2</u>	<u>(13.1)</u>
Total amount recognised in profit and loss and OCI	<u>41.2</u>	<u>3.2</u>

h. Changes to the present value of the defined benefit obligations during the year:

	2015	2014
	£m	£m
Opening defined benefit obligation	566.5	536.0
Current service cost	10.1	10.4
Interest expense on defined benefit obligation	24.8	24.5
Contributions by scheme participants	0.2	0.2
Actuarial losses due to changes in demographic assumptions	-	0.4
Actuarial losses due to changes in financial assumptions	62.2	2.8
Actuarial (gains) / losses due to liability experience	(6.9)	9.7
Net benefits paid out	(19.9)	(17.7)
Past service cost	1.2	0.2
Closing defined benefit obligation	<u>638.2</u>	<u>566.5</u>

Notes to the financial statements – Employee benefits *(continued)*

i. Changes to the fair value of scheme assets during the year:

	2015 £m	2014 £m
Opening fair value of scheme assets	467.7	422.1
Interest income on scheme assets	20.4	19.3
Re-measurement gains on scheme assets	30.1	26.0
Contributions by employer	18.0	18.3
Contributions by scheme participants	0.2	0.2
Net benefits paid out	(19.9)	(17.7)
Administration costs incurred	(0.4)	(0.5)
Closing fair value of scheme assets	<u>516.1</u>	<u>467.7</u>

j. Additional analysis:

Actual return on scheme assets		
Interest income on scheme assets	20.4	19.3
Re-measurement gains on scheme assets	30.1	26.0
Actual return on scheme assets	<u>50.5</u>	<u>45.3</u>
Analysis of amounts recognised in Other Comprehensive Income		
Total re-measurement (losses) / gains	(25.2)	13.1
Total (loss) / gain	<u>(25.2)</u>	<u>13.1</u>

History of asset values, defined benefit obligations, deficit in the scheme and experience gains and losses

	30.06.15 £m	30.06.14 £m	30.06.13 £m	30.06.12 £m	30.06.11 £m
Fair value of scheme assets	516.1	467.7	422.1	380.8	359.8
Defined benefit obligation	(638.2)	(566.5)	(536.0)	(516.6)	(431.6)
(Deficit) in the scheme	<u>(122.1)</u>	<u>(98.8)</u>	<u>(113.9)</u>	<u>(135.8)</u>	<u>(71.8)</u>
Experience gains on scheme assets	30.1	26.0	23.1		
Experience gains / (losses) on scheme liabilities	6.9	(9.7)	0.2		

Defined contribution plans

The Group also operates a defined contribution pension plan.

The total expense relating to this plan in the current year was £1.8m (2014 - £1.1m).

Notes to the financial statements – Employee benefits (continued)**Share-based payments**

YTL Power International Berhad (a subsidiary of the ultimate parent company YTL Corporation Berhad) operates share option schemes under which options are granted to employees of the Company. The current scheme the “YTL Power International Berhad Employees Share Option Scheme 2011” first issued share options to employees on 1 June 2012. The terms of the 2011 scheme are specified under the YTL Power International Berhad Employees Share Option Scheme 2011 (2011 UK part) known as the “2011 UK Plan”.

The majority of options have been issued under terms approved by the Inland Revenue, the “Approved” scheme, but some have been issued to senior employees under an “Unapproved” scheme. The options are for ordinary shares of YTL Power International Berhad of Malaysian Ringgit RM0.50 each.

2011 UK Plan

The exercise price and fair value of the share options are as follows:

Granted – Ordinary shares of RM0.50 each	Vesting date	Expiry date	Exercise price RM	Fair value RM
01/06/2012 Unapproved	01/06/2015	31/03/2021	1.41	0.22
01/06/2012 Approved	01/06/2015	31/03/2021	1.65	0.16

Under IFRS 2 equity settled share-based payments are measured at the fair value at the date of the grant, and the fair value is expensed on a straight line basis over the vesting period. A charge of £0.5m was recognised in the profit and loss account for IFRS 2. The key assumptions were as follows:

Scheme	Weighted ave. share price at grant RM	Expected volatility %	Expected option life years	Risk free rate %	Dividend yield %
01/06/2012 Unapproved	1.63	21.2	3	3.14	5.6
01/06/2012 Approved	1.63	21.2	3	3.14	5.6

The following options were outstanding at 30 June 2014 and 30 June 2015:

Granted – Ordinary shares of RM0.50 each	Outstanding at 30 June 2014	Granted	Forfeited	Exercised	Outstanding at 30 June 2015
01/06/2012 Unapproved	9,441,000	-	(1,494,000)	-	7,947,000
01/06/2012 Approved	40,303,000	-	(1,262,000)	-	39,041,000
TOTAL	49,744,000	-	(2,756,000)	-	46,988,000

The share price at 30 June 2015 was RM1.60 or £0.26.

Notes to the financial statements *(continued)*

17 Deferred income

	Above ground grants £m	Below ground grants £m	Sewer adoptions £m	Total £m
Balance at 1 July 2013	8.3	142.1	6.3	156.7
Received during the year	0.1	6.3	25.1	31.5
Amortisation	(0.3)	(1.4)	(0.2)	(1.9)
Balance at 30 June 2014	8.1	147.0	31.2	186.3
Balance at 1 July 2014	8.1	147.0	31.2	186.3
Received during the year	0.5	8.0	25.5	34.0
Amortisation	(0.3)	(1.4)	(0.5)	(2.2)
Balance at 30 June 2015	8.3	153.6	56.2	218.1

18 Provisions

	Restructuring £m	Total £m
Balance at 1 July 2014	0.4	0.4
Provisions made during the year	2.2	2.2
Provisions used during the year	(0.9)	(0.9)
Balance at 30 June 2015	1.7	1.7
Non-current	-	-
Current	1.7	1.7
Balance at 30 June 2015	1.7	1.7

The restructuring provision is in respect of a reorganisation announced before the year-end, delivering efficiencies in the first year of the AMP 6 price review period. Full consultation has taken place and termination dates are in the first quarter of the new financial year.

Notes to the financial statements *(continued)*

19 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Liabilities		Assets		Net	
	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m
Property, plant and equipment	571.3	546.0	(162.1)	(155.0)	409.2	391.0
Employee benefits	-	-	(24.7)	(20.1)	(24.7)	(20.1)
Provisions	(0.1)	(0.2)	-	-	(0.1)	(0.2)
Other	-	(0.2)	-	0.2	-	-
Tax liabilities / (assets)	571.2	545.6	(186.8)	(174.9)	384.4	370.7
Net of tax liabilities / (assets)	-	-	-	-	-	-
Net tax liabilities / (assets)	571.2	545.6	(186.8)	(174.9)	384.4	370.7

Movement in deferred tax during the year

	1 July 2014 £m	Recognised in income £m	Recognised in equity £m	30 June 2015 £m
Property, plant and equipment	391.0	18.2	-	409.2
Employee benefits	(20.1)	0.4	(5.0)	(24.7)
Provisions	(0.2)	0.1	-	(0.1)
	370.7	18.7	(5.0)	384.4

Movement in deferred tax during the prior year

	1 July 2013 £m	Recognised in income £m	Recognised in equity £m	30 June 2014 £m
Property, plant and equipment	405.3	(14.3)	-	391.0
Employee benefits	(26.4)	0.4	5.9	(20.1)
Provisions	(0.2)	-	-	(0.2)
	378.7	(13.9)	5.9	370.7

Notes to the financial statements *(continued)*

20 Capital and reserves

	2015	2014
	£	£
Issued at 1 April	81,350,000	81,350,000
Share capital reduction	<u>(81,349,999)</u>	<u>-</u>
Issued at 31 March	<u>1</u>	<u>81,350,000</u>
 <i>Allotted, called up and fully paid</i>		
Ordinary shares of £1 each	<u>1</u>	<u>81,350,000</u>
	<u>1</u>	<u>81,350,000</u>
Shares classified as liabilities	-	-
Shares classified in shareholders' funds	<u>1</u>	<u>81,350,000</u>
	<u>1</u>	<u>81,350,000</u>

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

On 30 March 2015 the Directors of the Company approved a capital reduction of 81,349,999 £1 ordinary shares which increased retained earnings. To enable the capital reduction to be undertaken the Directors prepared a Solvency Statement declaring that following the capital reduction the Company would be able to meet its debts / liabilities as they fell due over the next 12 months.

Notes to the financial statements – Capital and reserves (continued)**Retained earnings**

Included in retained earnings on first time adoption of IFRS (at 31 March 2013) a reserve arose on restating infrastructure assets to fair value. The gross reserve was £705.1m and net of deferred tax at 20% was £564.1m. The calculation of the £705.1m on first time adoption of IFRS is shown below:

	£m	£m
March 2013 Regulatory Capital Value		2,733.0
Adjust for:		
Stock	(7.0)	
Debtors	(162.6)	
Creditors less than one year	170.0	
	<u>0.4</u>	0.4
Creditors more than one year	1.0	
Deferred income	17.2	
Provisions	0.1	
Pension liability	119.3	
Unfunded pension liability	1.2	
	<u>138.8</u>	138.8
Value attributed to fixed assets		<u>2,872.2</u>
Less: Tangible fixed assets at UK GAAP cost at date of transition		<u>(2,167.1)</u>
Fair value uplift		<u>705.1</u>

The calculation was reviewed at 30 June 2013 and the values adjusted to £703.5m gross and £562.8m net of deferred tax. The reduction is based on amortisation of the fair value amount over a period of approximately 108 years.

21 Financial instruments**(a) Fair values of financial instruments**

Fair value is the amount at which a financial instrument could be exchanged in an arms-length transaction between informed and willing parties, other than a forced or liquidation sale. The fair value of short term and floating rate borrowings approximate to book value. The fair value of long term fixed rate borrowings has been calculated using market values or discounted cash flow techniques.

The fair value of long term fixed rate inter-company loans are classified as level 1 in the IFRS 13 fair value hierarchy and have a carrying value of £1,562.4m and a fair value of £1,840.9m. Short term and floating rate borrowings have a carrying value and fair value of £381.4m.

The IFRS 13 fair value hierarchy is a categorisation relating to the extent that the fair value can be determined by reference to comparable market values. The hierarchy ranges from level 1 where instruments are quoted on an active market through to level 3 where the assumptions used to derive fair value do not have comparable market data.

Notes to the financial statements – Financial instruments (continued)

It is the Company's policy to recognise all the transfers into the levels and transfers out of the levels at the date of the event or change in circumstances that caused the transfer. No liabilities are classified as level 2 or level 3.

The fair values of all financial assets and financial liabilities by class together with their carrying amounts shown in the balance sheet are as follows:

	Carrying amount	Fair Value	Level 1	Carrying amount	Fair Value	Level 1
	2015	2015	2015	2014	2014	2014
	£m	£m	£m	£m	£m	£m
Loans and receivables						
Cash and cash equivalents (note 13)	(81.7)	(81.7)	(81.7)	(76.0)	(76.0)	(76.0)
Total financial assets	(81.7)	(81.7)	(81.7)	(76.0)	(76.0)	(76.0)
Bank overdraft (note 14)	-	-	-	13.1	13.1	13.1
Other interest-bearing loans and borrowings (note 14 current)	4.5	4.5	4.5	8.4	8.4	8.4
Other interest-bearing loans and borrowings (note 14 non-current)	1,939.3	2,217.8	2,217.8	1,895.8	2,179.4	2,179.4
Total financial liabilities	1,943.8	2,222.3	2,222.3	1,917.3	2,200.9	2,200.9
Total financial instruments	1,862.1	2,140.6	2,140.6	1,841.3	2,124.9	2,124.9

(b) Credit risk*Financial risk management*

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and investment securities.

Cash and cash equivalents are short term deposits with counterparties that have a credit rating of A1+/P1 or A1/P1, and hence there is no exposure to credit risk for these values.

	2015	2014
	£m	£m
Cash and cash equivalents	81.7	76.0
	81.7	76.0

The concentration of credit risk for trade receivables at the balance sheet date by geographic region was:

	2015	2014
South West England	66.7	65.8
	66.7	65.8

Notes to the financial statements – Financial instruments (continued)

Trade receivables are from domestic and business customers. No individual customer or industrial sector has a material balance outstanding at either year end.

The aging of trade receivables at the balance sheet date was:

	Gross 2015 £m	Impairment 2015 £m	Gross 2014 £m	Impairment 2014 £m
Less than 1 year	45.2	(4.9)	45.2	(4.7)
1 to 2 years	20.8	(7.5)	20.1	(7.3)
2 to 3 years	15.5	(7.1)	14.8	(6.7)
3 to 4 years	12.4	(7.7)	11.6	(7.2)
More than 4 years	16.8	(16.8)	11.2	(11.2)
	<u>110.7</u>	<u>(44.0)</u>	<u>102.9</u>	<u>(37.1)</u>

The movement in the provision for bad debts in respect of trade receivables during the year was as follows:

	2015 £m	2014 £m
Balance at 1 July	(37.1)	(37.9)
Written off	5.1	12.2
Charge to profit and loss	(12.0)	(11.4)
Balance at 30 June	<u>(44.0)</u>	<u>(37.1)</u>

The bad debt policy is shown in the accounting policies (note 1).

(c) Cash flow hedges

The Company does not have any cash flow hedges.

(d) Liquidity risk

Financial risk management

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

The Company is a regulated utility with a five year settlement with the industry regulator, which allows it to plan to a certain degree of accuracy the financial obligations in the medium term. The Company has also secured long-term funding through bonds issued by its subsidiary company. This means that the need to obtain additional finance has been spread over future years and is not considered onerous in any one regulatory period.

Notes to the financial statements – Financial instruments (continued)

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the effect of netting agreements:

	Carrying amount	Contractual cash flows	Year 1	Years 2 to 5	Over 5 years
	2015	2015	2015	2015	2015
	£m	£m	£m	£m	£m
Non derivative financial instruments					
Finance lease liabilities	16.4	18.1	5.3	12.8	-
Secured bank loans	365.0	397.5	4.8	157.1	235.6
Inter-company loans	1,562.4	3,298.2	56.1	226.5	3,015.6
Total financial instruments	1,943.8	3,713.8	66.2	396.4	3,251.2

	Carrying amount	Contractual cash flows	Year 1	Years 2 to 5	Over 5 years
	2014	2014	2014	2014	2014
	£m	£m	£m	£m	£m
Non derivative financial instruments					
Bank overdraft	13.1	13.1	13.1	-	-
Finance lease liabilities	42.0	47.4	10.3	37.1	-
Secured bank loans	315.0	327.3	2.8	247.8	76.7
Inter-company loans	1,547.2	4,050.2	56.0	227.4	3,766.8
Total financial instruments	1,917.3	4,438.0	82.2	512.3	3,843.5

(e) Market risk

There is no exposure to equity or foreign currency risk, the interest rate risk is shown below.

Interest rate risk

At the year end the interest rate profile of the Company's interest-bearing financial instruments was:

	2015	2014
	£m	£m
Fixed rate instruments	948.1	848.6
Floating rate instruments	281.4	369.9
Index linked instruments	714.3	698.8
	1,943.8	1,917.3

The Company policy is to keep a significant proportion of total financial instruments in each of the three categories.

Sensitivity

The floating rate instruments are sensitive to interest rate movements. If there was a 1% increase in interest rates on those floating rate instruments at the balance sheet date, there would be an additional interest charge to the income statement of £2.8m.

Notes to the financial statements *(continued)*

22 Operating Leases

There were no non-cancellable operating lease rentals payable by the Company.

During the year £1.7m was recognised as an expense in the income statement in respect of operating leases (2014 - £2.0m).

During the year £0.9m (2014 - £0.9m) was recognised as rental income by the Company.

23 Commitments

Capital expenditure contracted but not provided at 30 June 2015 was £152.3m (2014 - £128.0m).

The Company has guaranteed Bonds of £1,562.4m (2014 - £1,547.2m) issued by its wholly owned subsidiary company Wessex Water Services Finance Plc.

24 Contingencies

There are no material contingent liabilities at 30 June 2015 for which provision has not been made in these accounts.

25 Related parties

There were no transactions with key management personnel.

Directors' emoluments have been disclosed in the Governance Report.

There have been no transactions with pre-penultimate, penultimate and ultimate holding companies described in note 26, with the exception of the share based payment charge disclosed in note 16.

26 Ultimate parent company and parent company of larger group

The smallest group into which the financial statements of the Company are consolidated is that headed by Wessex Water Ltd, a company incorporated in England whose registered address is Wessex Water Operations Centre, Claverton Down, Bath, BA2 7WW.

The pre-penultimate, penultimate and ultimate holding companies are YTL Power International Berhad, YTL Corporation Berhad and Yeoh Tiong Lay & Sons Holdings Sdn Bhd respectively, all registered in Malaysia.

The largest group in which the results of the Company are consolidated is that headed by YTL Corporation Berhad incorporated in Malaysia. The consolidated financial statements of these groups are available to the public and can be obtained from Yeoh Tiong Lay Plaza, 55 Jalan Bukit Bintang, 55100 Kuala Lumpur, Malaysia.

27 Subsequent events

There are no subsequent events requiring disclosure in these financial statements. The final dividend for the year was declared in June 2015 and paid in July 2015.

Notes to the financial statements *(continued)*

28 Accounting estimates and judgements

In preparing the financial statements and applying the accounting policies, the Company is required to make reasonable estimates and judgements based on the available information, the most significant of which are;

a) Defined benefit pension scheme deficit

In recognising the deficit on the balance sheet there are a number of assumptions concerning inflation, rate of increase of salaries and pensions, mortality rates and interest rates that can have a significant effect on the deficit recorded. These assumptions are discussed with independent qualified actuaries and disclosed in note 16 to the financial statements.

b) Bad debt provision

The methodology behind the provision is based upon the age of the debt and the method of payment of the debt. Historical evidence is used to determine a percentage of debt to be provided according to the age and payment type.

c) Fair value of assets

On first time adoption of IFRS the company recognised a fair value uplift to fixed assets (see note 20).

d) Classification of capital expenditure

Due to the high value of capital expenditure the judgements made on the classification of expenses as operating or capital, and within capital between maintenance and enhancement, are key to the preparation of the accounts. The Company follows both accounting standards and guidelines issued by Ofwat in making these judgements.

29 Explanation of transition to Adopted IFRSs

As stated in note 1, these are the Company's first financial statements prepared in accordance with Adopted IFRSs.

The accounting policies set out in note 1 have been applied in preparing the financial statements for the year ended 30 June 2015, the comparative information presented in these financial statements for the year ended 30 June 2014 and in the preparation of an opening IFRS balance sheet at 1 July 2013 (the Company's date of transition).

In preparing its opening IFRS balance sheet, the Company has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (UK GAAP). An explanation of how the transition from UK GAAP to Adopted IFRSs has affected the Company's financial position and financial performance is set out in the following tables and the notes that accompany the tables.

Notes to the financial statements - Explanation of transition to Adopted IFRSs
(continued)

Reconciliation of equity

		01 July 2013			30 June 2014		
	UK GAAP	Effect of transition	Adopted IFRSs	UK GAAP	Effect of transition	Adopted IFRSs	
Note	£m.	£m	£m	£m	£m	£m	
Non-current assets							
Property, plant and equipment	a	2,185.4	846.9	3,032.3	2,273.0	885.9	3,158.9
Investments		-	-	-	-	-	-
		<u>2,185.4</u>	<u>846.9</u>	<u>3,032.3</u>	<u>2,273.0</u>	<u>885.9</u>	<u>3,158.9</u>
Current assets							
Inventories		6.8	-	6.8	6.7	-	6.7
Trade and other receivables		166.7	-	166.7	176.1	-	176.1
Cash and cash equivalents		144.7	-	144.7	76.0	-	76.0
		<u>318.2</u>	<u>-</u>	<u>318.2</u>	<u>258.8</u>	<u>-</u>	<u>258.8</u>
Total assets		<u>2,503.6</u>	<u>846.9</u>	<u>3,350.5</u>	<u>2,531.8</u>	<u>885.9</u>	<u>3,417.7</u>
Current liabilities							
Bank overdraft		(16.5)	-	(16.5)	(13.1)	-	(13.1)
Other interest-bearing loans and borrowings		(7.8)	-	(7.8)	(8.4)	-	(8.4)
Trade and other payables	b	<u>(180.0)</u>	<u>(1.0)</u>	<u>(181.0)</u>	<u>(179.3)</u>	<u>(1.0)</u>	<u>(180.3)</u>
		<u>(204.3)</u>	<u>(1.0)</u>	<u>(205.3)</u>	<u>(200.8)</u>	<u>(1.0)</u>	<u>(201.8)</u>
Non-current liabilities							
Other interest-bearing loans and borrowings	c	(1,887.5)	1.1	(1,886.4)	(1,897.0)	1.2	(1,895.8)
Trade and other payables		(1.0)	-	(1.0)	(0.5)	-	(0.5)
Employee benefits	d	(88.9)	(26.2)	(115.1)	(80.2)	(19.8)	(100.0)
Deferred income	e	(17.1)	(139.6)	(156.7)	(16.6)	(169.7)	(186.3)
Provisions		(0.2)	-	(0.2)	(0.4)	-	(0.4)
Deferred tax liabilities	f	<u>(104.5)</u>	<u>(274.2)</u>	<u>(378.7)</u>	<u>(88.4)</u>	<u>(282.3)</u>	<u>(370.7)</u>
		<u>(2,099.2)</u>	<u>(438.9)</u>	<u>(2,538.1)</u>	<u>(2,083.1)</u>	<u>(470.6)</u>	<u>(2,553.7)</u>
Total liabilities		<u>(2,303.5)</u>	<u>(439.9)</u>	<u>(2,743.4)</u>	<u>(2,283.9)</u>	<u>(471.6)</u>	<u>(2,755.5)</u>
Net assets		<u>200.1</u>	<u>407.0</u>	<u>607.1</u>	<u>247.9</u>	<u>414.3</u>	<u>662.2</u>
Equity							
Share capital		81.3	-	81.3	81.3	-	81.3
Retained earnings - fair value	g	-	562.8	562.8	-	557.6	557.6
Retained earnings	h	<u>118.8</u>	<u>(155.8)</u>	<u>(37.0)</u>	<u>166.6</u>	<u>(143.3)</u>	<u>23.3</u>
Total equity		<u>200.1</u>	<u>407.0</u>	<u>607.1</u>	<u>247.9</u>	<u>414.3</u>	<u>662.2</u>

Notes to the financial statements - Explanation of transition to Adopted IFRSs (continued)

Notes to the reconciliation of equity – 1 July 2013

a) Property, plant and equipment

Property, plant and equipment are increased by the £703.5m fair value adjustment as described in note 20. The fair value adjustment is allocated to the infrastructure assets which have previously been accounted under infrastructure renewals accounting as prescribed by the industry regulator.

Property, plant and equipment are also increased by £139.6m as grants and contributions are no longer allowed to be deducted from fixed assets but are shown on the balance sheet as deferred income.

Depreciation on infrastructure assets amounted to a reduction of £2.5m.

An increase of £6.3m due to the estimated value of sewers adopted under s104 of the Water Act (1991).

b) Trade and other payables

Trade and other payables are increased by £1.0m for the recognition of a liability under IAS 37 for holiday pay due to but not taken by employees at the balance sheet date. Employees have a holiday pay year determined by their date of birth rather than by the financial year end.

c) Other interest-bearing loans and borrowings

Bonds issued by the subsidiary company include fees which are deducted from the proceeds of the bond on issue. These bond fees are expensed over the life of the bond and added back to the carrying value. Under IFRS the add back is on an accretive method and in early years is lower than under UK GAAP which is a straight line basis, and hence £1.1m is a deduction to the carrying value of the bonds.

d) Employee benefits

In UK GAAP the pension liability is disclosed net of the associated deferred tax asset. This presentation is not allowed under IFRS and the deferred tax asset of £26.2m was moved to the deferred tax line on the balance sheet.

e) Deferred income

Grants and contributions are increased by £139.6m as they are no longer allowed to be deducted from fixed assets but are shown on the balance sheet as deferred income.

f) Deferred tax liabilities

The company had previously elected to apply discounting to its deferred tax liability but under IAS 12 Income Taxes deferred tax discounting is not allowed, increasing the liability by £148.4m.

A deferred tax liability of £140.7m has been set up as 20% of the fair value adjustment of £703.5m as under IFRS all temporary timing difference between assets or liabilities in the balance sheet and the associated tax base must be provided for.

The deferred tax liability is reduced by £26.2m being the deferred tax asset on the IAS 19 pension liability.

A deferred tax liability of £9.7m has been set up for the difference between the tax base and book value of assets qualifying for Industrial Buildings Allowances.

A deferred tax liability of £0.2m and deferred tax asset of £0.2m are set on recognition of the holiday pay and bond fees adjustments under IFRS shown above.

A deferred tax liability of £0.7m is recognised on the capital gains tax liability rolled forward as under IFRS all temporary timing difference between assets or liabilities in the balance sheet and the associated tax base must be provided for.

Other deferred tax liabilities relating to the depreciation of infrastructure assets amount to £0.9m.

g) Fair value

Included within retained earnings is an un-distributable reserve for the fair value uplift on adoption of IFRS of £703.5m less the deferred tax liability of £140.7m.

Notes to the financial statements - Explanation of transition to Adopted IFRSs (continued)

h) Retained earnings

Included within distributable retained earnings are the remaining fair value adjustments on adoption of IFRS, net of deferred tax where appropriate.

- £148.6m charge for the ending of deferred tax discounting
- £9.7m charge for deferred tax recognised on Industrial Buildings Allowances
- £0.8m charge on holiday pay accrual
- £0.7m charge on deferred tax recognised on capital gains tax rollover
- £1.2m credit on accounting for bond fees
- £2.8m credit on elimination of FRS 17 pension difference brought forward.

Reconciliation of profit for comparative year 2014

	Note	UK GAAP £m	2014 Effect of transition to Adopted IFRSs £m	Adopted IFRSs £m
Revenue		528.4	-	528.4
Raw materials and consumables used		(33.4)	0.1	(33.3)
Staff costs		(53.8)	(0.6)	(54.4)
Depreciation and amortisation		(129.0)	31.6	(97.4)
Other expenses		(77.4)	(23.9)	(101.3)
Total expenses	<i>i</i>	(293.6)	7.2	(286.4)
Operating profit		234.8	7.2	242.0
Financial income		1.4	-	1.4
Financial expenses		(76.7)	(3.7)	(80.4)
Net financing expense	<i>j</i>	(75.3)	(3.7)	(79.0)
Profit before tax		159.5	3.5	163.0
Taxation	<i>k</i>	4.0	(0.5)	3.5
Profit for the year		163.5	3.0	166.5

Notes to the financial statements - Explanation of transition to Adopted IFRSs *(continued)*

Notes to the reconciliation of profit

i) Expenses

£23.8m charge for repairs following the end of infrastructure renewals accounting.

£31.6m net credit to depreciation being £47.4m credit for the removal of the infrastructure renewals charge and £15.8m depreciation charge on infrastructure assets under IAS 16.

£0.6m charge for pension accounting under IAS 19.

j) Financing expense

£5.0m charge for interest under IAS 19 pension accounting disclosed in income statement rather than direct to retained earnings.

£1.3m credit for the capitalisation of interest, which is allowed under IAS 23.

k) Taxation

£3.7m deferred tax charge for IAS 12 not permitting the discounting of deferred tax liabilities.

£4.0m deferred tax credit for the impact in the year of the difference between the tax base and book value of assets qualifying for Industrial Buildings Allowances.

£0.8m charge for the impact on deferred tax of all other IFRS adjustments including the ending of infrastructure renewals accounting.