WESSEX WATER SERVICES LTD

Annual Report and Financial Statements
30 June 2014

Registered in England and Wales No. 2366648

CONTENTS

Strategic Report

Principal activities

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

In November 2009 the industry regulator Ofwat announced a limit of a 1.9% price increase for Wessex Water Services Ltd from 1 April 2013, before adjustment for inflation. The announcement also included a price limit of 1.5%, before adjustment for inflation, for the year commencing 1 April 2014. The Company decided not to implement the 1.5% real price rise at 1 April 2014, with the result that prices rose only by inflation.

Chief Executive's introduction

Overall performance (some indicators are measured for the regulatory year to 31 March 2014)

It is 40 years since Wessex Water was formed as a regional water authority on 1 April 1974 and in October it will be 25 years since we were privatised.

It is sometimes difficult to remember the scale of the changes that have taken place: from a time when the River Avon, through Bristol, had to be chlorinated in the summer to kill the smell and some rural customers often went days without proper water supplies during very dry weather, to today, when our standards are among the highest in the world.

Much of the improvement has been due to privatisation which provided access to private capital for investment and gave incentives to deliver high levels of customer and environmental service as efficiently as possible.

Over the last year, Wessex Water has again been the best performing water and sewerage company, with more than 96% customer satisfaction and the lowest level of complaints.

We consistently deliver around 100% compliance with environmental standards, have the lowest level of pollution incidents and have not imposed a hosepipe ban since 1976.

The improvements of the past 25 years have put us in a good position to meet the challenges of climate change, a growing population and increasing customer expectations.

Our commitment to embedding sustainability throughout the business was rewarded by the company retaining The Queen's Award for Enterprise in Sustainable Development.

Weather and compliance

Extremes of weather were very evident over the last year, most notably the exceptionally wet autumn and winter of 2013-2014. December to February were the wettest for almost 100 years.

Our staff were fully deployed dealing with problems and to minimise the impact on customers we introduced temporary tankering and pumping at 48 locations across the region.

Even so, we maintained very high compliance with drinking water quality at 99.97% and compliance with abstraction licences at 99.98%.

However, partly because of the extreme weather, the number of pollution incidents increased, so we are working hard to identify additional measures to reverse this position.

The weather was also one of the main reasons why operating costs rose by £19.0m to £293.6m. Other factors included the cost of new obligations, higher business rates and inflation. Operating profit rose by £9.7m to £234.8m.

Investment and bills

During the year we invested a total of £224m to improve existing infrastructure and build new assets. This investment included continuing work on the regional supply grid which will significantly improve resilience and quality of water supplies. In total, we completed 700 separate projects and are on target to deliver all our regulatory outputs by the end of 2015.

Other major work included mains refurbishment in and around Taunton, replacement of Ashford water treatment works, phosphorus removal schemes at three sewage treatment works and work to improve the treatment of sewage sludge and to generate more renewable energy at our Trowbridge plant.

While continued investment is essential, we also need to keep bills affordable. The proportion of household income spent on water and sewerage services has increased by only 0.2% since privatisation, but we know that for some customers the bills are difficult to meet.

Strategic Report

The board decided not to apply the real terms increase in bills for 2014-2015 that had been agreed with the regulator at the last price review in 2009. We also extended our tailored assistance programme, tap, to help customers in financial difficulties. Currently, 15,000 households benefit and the latest changes should add another 10,000.

We have continued to work closely with the Citizens Advice Bureau and debt agencies and our Money Matters grants have helped 10 organisations that offer financial, literacy and money management help.

The quality of our overall customer services has again been demonstrated by retaining the Customer Service Excellence award.

Planning for the future

We have published Water – a new direction, our business plan for services, investment and bills for 2015-2020. This built on the need to continue investing in our infrastructure and the requirement to keep bills affordable.

We propose spending 20% more than the current five-year period, while bills will fall in real terms this year and every year until 2020 – reducing by more than 5% over the five years.

The plan focuses on reducing the burden for all customers, increasing support for those who have real difficulty in paying while at the same time meeting all regulatory outputs and continuing to raise service standards. We propose to achieve this difficult balance by even greater innovation in delivering improvements and by phasing investment to reflect customers' ability to pay.

The plan has been subject to detailed review by our customer scrutiny group and has wide support from across the region. The plan is now subject to Ofwat scrutiny following which it will publish its determination.

Governance

Wessex Water operates to the highest standards of corporate governance and, as a privately owned company, our board meetings provide for the full engagement of shareholder, independent and executive directors. All decisions affecting the business are taken at these meetings. For example, the board has been fully involved in every aspect of the development of our business plan.

Our governance is not static and we have made changes to comply with the UK Corporate Governance Code, including separating the roles of Chairman and Chief executive. We have also formed a Corporate Responsibility Committee.

Our employees

Our employees have again been outstanding in dealing with the challenges of extreme weather, alongside all the day to day demands of the business – they consistently go the extra mile for customers.

As economic growth takes off and major infrastructure projects, such as Hinkley Point C nuclear power station, begin construction, we need to ensure we retain and attract both existing skills and the new skills we will need in a competitive marketplace. We have significantly increased apprenticeships, working closely with universities, colleges and schools.

We also need to grow the diversity of our workforce, including attracting more women and ethnic minorities into the company and progressing the careers of those already in the business.

The future

Twenty five years on from privatisation, our commitments to the highest quality of customer service, to the environment and to innovation make us the leading UK water and sewerage company.

We will continue to deliver on those commitments, ensuring lower bills for customers, ongoing investment in our region and a fair return for our investors.

Customers and communities

Excellent customer service is fundamental to the success of our business so we put customers at the heart of everything we do. We aim for the highest levels of customer satisfaction, and we continue to build customer trust and loyalty.

We deliver what customers want; excellent water and sewerage services, a person to answer the telephone, resolving problems quickly and first time, checking they are happy with the outcome and compensating where we have things wrong. Our staff go the extra mile whenever they can.

We are consistently the top water and sewerage performer in Ofwat's measure of customer service and our standards of service and package of customer guarantees are industry leading.

Strategic Report

Day to day feedback shows customers are generally very satisfied with our service and see it as good value for money. But we can always do more, so we continue to improve and to compare ourselves with the best service providers across all business sectors.

In brief

- Maintained high levels of customer satisfaction and retained our government Customer Service Excellence award.
- Once again reduced the number of complaints we received – the fewest of any water and sewerage company.
- Gave more choice in the way customers interact with us, including text surveys and Live Chat.
- Kept customers better informed of progress in resolving problems such as bursts by widening our use of text messaging and outbound calling.
- The first utility to sign up to the Keep Me Posted campaign.
- Provided more advice on reducing bills and becoming water efficient; expanded our range of free or subsidised water and energy saving products.
- Launched an online water quality tool to help customers diagnose problems.
- Used our online customer panels to test customers' views on key issues.
- Widened the eligibility for our low rate social tariff, Assist, and reduced the bills for metered customers on benefits who have unavoidably high water use, through WaterSure Plus.
- Launched an expert advisory group on affordability and an action plan to raise awareness and increase take-up of tap – our range of schemes and low rate tariffs to help customers who have difficulty paying.
- Awarded a grant from our Money Matters scheme to 10 organisations that help vulnerable people develop better financial knowledge and money management skills.

In detail

Drinking water quality
Compliance with drinking water quality standards continues to be very high. Our overall performance in 2013 was 99.97%. Average compliance over the past three years is 99.98% and has not fallen below 99.95% since 2005. Of 29,000 tests there were only 14 failures, one more than last year.

We are approaching the end of a major programme of mains rehabilitation aimed at reducing the number of contacts we receive from consumers about the appearance of their water. Investment to address this issue in Taunton is due for completion in summer 2014.

There was a further 5% reduction in the number of customer contacts in 2013. In addition we ran a publicity campaign to raise awareness with customers and let them know where they can obtain advice about water quality issues related to their own plumbing or taps.

Our website now includes an interactive tool that helps customers answer questions on water quality related problems.

Customer service
Last year we were again the top scoring water and sewerage company on Ofwat's service incentive mechanism (SIM), a result supported by our own satisfaction and value for money surveys.

However, we continue to seek ways to improve our services further, to meet customers' growing and more diverse expectations.

We have improved how we do things and our speed of response to operational problems. More use of text messaging and outbound calling keeps customers better informed during operational incidents such as burst water mains. We can let them know there is a problem, for how long services will be interrupted and when they will be back to normal.

We have also expanded the team who call customers after we have completed work affecting their property to check we have resolved their problem, that the site has been left clean and tidy and that they are satisfied.

Customers are contacted over the phone or via a text survey so if they do not believe their problem has been resolved we can rectify it quickly and we can learn from our mistakes.

This feedback has also identified additional information to help customers, and better ways of communicating.

Changes in technology enable us to give customers a wider choice of communication methods, introducing more self-service opportunities, including Live Chat, while retaining personal telephone answering because of its popularity.

We have added a smart agent water quality adviser to our website to help customers to self-diagnose problems.

We were also the first utility signed up to the Keep Me Posted campaign, through which we promise to offer choice in the way customers communicate and interact with us and receive information, including bills.

Complaints fell again, this year by 16%; we resolved more complaints first time and there was a reduction of 10% 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.

Customer engagement
We have submitted our five-year business plan to our regulator, Ofwat. The plan was heavily influenced by customer and stakeholder engagement overseen by an independent customer scrutiny group.

The group ensured our customer research was robust and reflected the views of all customer groups across our region.

Our new online customer panel, Have your say, proved a great success, with four surveys this year on various topics and after each a newsletter sent to participants to explain the findings and what we are doing as a result.

These initiatives, together with regular surveys of customers' views on bills and services and our long established customer liaison panels, ensure we keep fully informed of customers' views and requirements.

Affordability, tariffs and debt recovery
For the great majority of customers our bills are affordable, representing only 1.6% of average household expenditure. However, for some customers on low incomes this is not the case.

Through our tailored assistance programme, tap, we are helping more than 15,000 customers; some through lower charges, some by relieving past debt and others through practical help to reduce water and energy bills.

Working closely with debt advisers we offer each customer a tailored solution to meet their own financial circumstances. In 2013-14 we also increased our work with organisations such as National Debtline and StepChange, that offer telephone and online advice.

We have set up an expert advisory group on affordability with whom we have developed an 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.

Our Money Matters scheme made awards to 10 organisations running community based projects to improve financial knowledge and money management involving school age children or teenagers and vulnerable customers.

Retail competition – Water2Business Limited
We are preparing for retail competition, scheduled to begin in April 2017 for business customers, and have formed a new company, Water2Business and applied for a retail licence so Water2Business can operate throughout England.

We are working with customers who will benefit from competition to identify added value services that will improve their business, help them save money and make their relationship with us as easy as possible.

Education and water saving
We encourage customers of all ages to use water wisely and we play our part by continuing to drive down leakage, halved over 10 years, and target fixing visible leaks within 24 hours.

The volume of water into supply is now the lowest it has been for 30 years. Our website has information about our work and how to save water, including an online water and energy calculator.

We also offer a free water home check service, water efficient products via our online shop, free WaterSave packs and two free apps for mobile devices, in addition to information in our customer magazine and a range of other leaflets.

One app enables customers who spot a leak to upload a picture so we can fix it quickly. Our Bag it and bin it app is a game that teaches players which items can cause sewer blockages and so should not be flushed down the drain.

We also have an extensive free education service for schools, colleges and community groups including three education advisers who deliver lessons from key stage 1 to A-level. These cover the water cycle, environmental topics, water saving and our water and sewerage operations.

Watermark awards
Our Watermark award scheme is in its 20th year and helps organisations with their environmental projects. For its 20th anniversary we launched a special award for water conservation projects in our region.

The Sustainable Watermark provided grants of up to £2,000 for groups working on water saving projects in community halls, schools or other community buildings. The winners included Rainbow Gardens in Weymouth, who installed rainwater harvesting equipment to enable their community garden to be self-sufficient in water during the summer.

Strategic Report

Financial performance

The UK Group structure is straightforward with the regulated business owned by Wessex Water Limited, which in turn is owned by YTL Utilities (UK) Limited. Both these entities are holding companies for the regulated water and sewerage undertaker and other Wessex Water businesses. Almost all the debt raised in the UK sits within the regulated business.

Our gearing remains at 64% which is around average for the sector. When declaring dividends the board pays particular attention to the projected level of our financial ratios and hence its future credit ratings. The board is committed to maintaining existing credit ratings. Our credit ratings have not changed over the last 10 years.

We have an open and transparent relationship with HMRC which continues to view us as a low risk taxpayer. During the year we paid £11.6m in tax which represents just under 7.3% of profit on ordinary activities before taxation as reported in the profit and loss account. There is an £18.5m adjustment to taxation in respect of previous years which is predominantly a result of an industry-wide agreement reached with HMRC on the treatment of industrial buildings capital allowances.

We have a strong relationship with the banking community including the European Investment Bank (EIB). In December 2013 we signed a new £200m facility agreement with EIB whereby half of the facility is immediately available to fund our capital programme and the other half is available to repay an existing EIB loan which matures in 2015.

In brief

- Operating profit increased by £9.7m to £234.8m despite extreme rainfall in the winter months which caused widespread flooding and resulting pressure on operating costs
- Profit before tax increased by £18.8m to £159.5m as our cost of debt fell from 4.4% to 3.9%
- Capital investment in the year at £224m was one of the highest amounts we have undertaken in any one year
- Dividends fell slightly compared with the previous year
- Liquidity at the year-end stood at a healthy £176m.

In detail

Financial performance
We have completed the fourth year of the current price review period, and against a background of poor weather conditions in the winter months, we have been able to show a good performance with operating profit increasing by £9.7m or 4.3% from £225.1m to £234.8m. The turnover increase was £28.7m through price increases and increased sales but there was a pressure on the cost base, which saw costs increasing by £19.0m.

Turnover
Turnover increased by £28.7m or 5.7% from £499.7m to £528.4m. There were price increases of 5.4% at 1 April 2013 and 3.1% at 1 April 2014, although the company decided not to implement the 1.5% real price increase allowed under the regulatory regime at 1 April 2014.

Operating costs
Operating costs (excluding depreciation, amortisation and disposal of assets) increased by £12.3m from £152.3m to £164.6m due to a number of factors:
- the prolonged wet weather in the winter months caused extensive flooding which resulted in increased pumping and transportation costs
- an increase from the cost of meeting new obligations and installing additional meters
- business rates continued to increase through the central government valuation process
- inflation
- an increase in the costs of trading with other group companies.

Depreciation
Historical cost capital maintenance charges (depreciation and the infrastructure maintenance charge) increased by £6.7m from £122.3m to £129.0m. There was a £2.8m increase in the infrastructure maintenance charge, while depreciation increased by £3.9m. Base depreciation increased by £2.8m from the continuing capital investment programme, and there was a £1.1m increase in the cost of disposal of fixed assets.

Interest charges
Interest charges decreased from £84.4m last year to £75.3m this year. The £9.1m decrease was split between the base interest decrease of £7.0m and a £2.1m decrease in the interest costs associated with pension accounting under FRS 17, shown as other finance costs in the profit and loss account.

The £7.0m decrease in base interest costs arose because the impact of the fall in the cost of debt from 4.4% to 3.9% in respect of floating rate and index linked borrowings, was greater than the additional interest on the increase in net debt during the year from £1,767.1m to £1,842.5m.

There is a prudent mix of debt between fixed rate, index linked and floating rate instruments. At the year end the debt split was approximately 45% fixed, 35% index linked and 20% floating, with the index linked debt based on either November or March RPI.

The maturity of debt is generally long term with £1,620m of debt maturing after 2020.

Taxation
Taxation moved from a £12.5m charge last year to a £4.0m credit this year. Corporation tax relating to the current year decreased from £31.1m to £28.8m, but the prior year credits moved by £17.1m from a credit of £1.4m last year to a credit of £18.5m this year.

Although profit before tax increased from £140.7m to £159.5m there was a benefit to the corporation tax charge from a reduction in the statutory tax rate from 23.75% last year to 22.5% this year.

The large prior year credit in 2013-14 was a result of an industry-wide agreement with HMRC for the re-categorisation of capital allowances from industrial buildings allowances (IBA) into long life plant. The agreement followed the government decision to reduce the IBA over a period from 4% in the year to March 2008 to zero in the year to March 2012.

Corporation tax is paid to HMRC quarterly. With a statutory year end of 30 June the first two payments are made in January and April before the tax year has ended, and the last two in July and October after the end of the year.

We use an external water industry expert to analyse our capital expenditure and ensure the correct capital allowances are claimed. We take a prudent approach to tax affairs, ensuring that we claim the tax relief to which we are entitled, but not submitting complicated tax schemes that could endanger our relationship with HMRC.

Deferred tax has also moved, from a credit of £17.2m last year to a credit of £14.3m this year. The principal reason for the credit in 2013-14 is the increase in discount rates from June 2013 to June 2014 which has increased deferred tax discounting. Although the IBA agreement (that creates a credit to corporation tax) produces an equal and opposite charge to gross deferred tax that charge is reduced significantly by the deferred tax discounting.

Dividends
Wessex Water's dividend policy is to declare dividends consistent with the company's performance and prudent management of the economic risk of the business. The board has agreed to ensure that gearing stays at or below 70% in order to maintain its current credit ratings and give the company continued access to the capital markets. Dividends declared in the year were £118.6m, down from £119.3m the previous year.

Cashflow and gearing
Net debt increased by £75.4m from £1,767.1m to £1,842.5m. This comprised:
• cash inflow from operating activities of £348.9m, less
• capital investment cash outlay of £217.6m, less
• interest payments of £74.8m, less
• tax payments of £11.6m, less
• dividend payments of £120.3m.

Liquidity at year end was £176m comprising £76m of cash deposits and a £100m term loan not yet drawn down.

Gearing measured at the regulatory year end of 31 March 2014, calculated as net debt divided by regulatory capital value, was 63.8%, a slight increase from 63.6% last year and well below the 70% ceiling.

Key performance indicators (March 2014)
The financial key performance indicators set by Ofwat are post-tax return on capital, credit rating, gearing and interest cover. Ofwat set targets for the first two which were achieved at the year end.

There are five financial targets set internally to help measure performance in respect of profit after corporation tax, operational costs, net capital expenditure, cash flow before dividends and dividends declared. All of these were achieved in the year.

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 the water cycle, land, the atmosphere and biodiversity.

We are working more and more closely with others to improve management of the water cycle and are protecting the quality of water supplies by dealing with potential threats at their source. We use various ways to raise public awareness of the need to use water wisely and to avoid doing things that cause sewer blockages.

Strategic Report

While improving effluent quality from sewage treatment works, we are also working on ways to address diffuse pollution of watercourses.

We actively contribute to the protection of wildlife in our region. This includes improved management of our landholding, measures to ensure that our construction programme respects local habitats and work with organisations on the frontline of improving biodiversity.

We are pursuing a range of options to reduce our carbon footprint and have an active energy efficiency programme with increasingly sophisticated data analysis that pinpoints locations requiring optimisation.

We are diversifying renewable energy generation and have recently added new small scale hydro power and food waste digestion.

Measures such as catchment management, leakage reduction and separation of surface water from foul sewers help to reduce our energy use and our carbon footprint.

In brief

- 99% compliance with sewage discharge consents and 99.98% compliance with abstraction licences.
- Zero prosecutions.
- Deterioration in total number of pollution incidents – but still at industry leading levels.
- The start of collaborative research with the University of Bath on the ability to remove phosphorus from effluent with algae and reedbeds; and methods to improve the production of biogas in anaerobic digesters.
- The first full operational year of our food waste digestion facility, providing a significant increase in the biogas produced at Bristol sewage treatment works.
- Rivers Frome and Piddle catchment initiative launched, a Defra sponsored collaborative project to test the catchment based approach.
- We are leading the development of a similar plan for the River Stour catchment, and supporting other plans for the Bristol and Hampshire Avon rivers.
- Sustainable phosphorus removal trial at Somerton sewage treatment works gained the Green Business award and Green Apple award.
- Completed 15 investigations to improve our understanding of our environmental impacts and target future investment based on sound science.
- Catchment management work has continued to reduce the level of pesticides in our source water, in particular levels of metaldehyde have been very low despite the very wet winter.

In detail

Environmental performance
Severe weather conditions contributed to deterioration in our environmental performance.

Whilst we had the lowest level of pollution incidents in the industry we had a poorer performance for serious pollution incidents (which rose from zero in 2012 to six in 2013). In response we developed a pollution action plan which focuses on awareness and culture, and proactive operational interventions to mitigate the risk of pollutions in the future.

We experienced numerical permit failures at three sewage treatment works – a reduction in performance from 2012, but still the second highest level of compliance in the industry.

Bathing waters
Good weather in the summer helped bathing water compliance during 2013, with all our region's bathing waters passing the EU's mandatory compliance standard.

Our £26m improvement scheme at Weston-super-Mare sewage treatment works was completed in April 2013, prior to the start of the bathing season. This provides improved treatment, greater ultraviolet disinfection and storage capacity for storm waters. Sampling results showed good improvement in effluent quality from the site.

A revised Bathing Water Directive comes into effect in 2015. In preparation, we have been working with the Environment Agency and others to identify sites that will need further improvement between 2015 and 2020.

We continued with our innovative communications about bathing water quality during 2013, including our Coastwatch overflow spill notification system and revisions to our Bag it and bin it app. Four sites have been added to Coastwatch for the 2014 bathing season – Chideock, Abbotsbury and Ferrybridge pumping stations, and Henleaze Lake.

Catchment services
Rather than relying solely on engineered solutions, we believe in working with the environment through natural methods and working with others in order to build resilience. Dealing with impacts on water quality at source is a more sustainable and economic approach than energy and chemical intensive end-of-pipe treatment.

Strategic Report

Our catchment management work now covers 15 catchments where nitrate or pesticide pollution affects raw water quality. Where we work collaboratively with farmers we have seen significant reductions in nitrate concentrations in our drinking water sources, although nitrate levels during the winter in the last two years did rise because of the very wet weather.

The opposite has been true at the sites at risk of pollution from metaldehyde, an active ingredient in slug pellets. While other water companies have experienced an increase in the incidence of metaldehyde in surface water reservoirs, we have not. This is directly due to our collaborative work with farmers, our offer of non-metaldehyde alternatives and the advice we give on application rates, timings and frequency.

Water resources
Last year was one of extremes. Dry weather during the summer led to high water demand but we maintained a good water resources position throughout the year. This was followed by a much wetter than average autumn and winter.

Overall, 1,120 mm fell during the year, which was 33% above the long-term average and more than the previous year. January 2014 was the wettest month on record in the UK – more than 200mm fell in our region – nearly 240% of average rainfall for the month.

To ensure compliance with drinking water standards we stopped using some sources that were affected by the heavy rain.

Our draft water resources management plan sets out how we will balance water supplies with water demands and protect the environment for the next 25 years. As part of the plan we propose increasing metering by installing meters when a household changes occupier, and enhanced water efficiency services.

These measures will help reduce household demand and leakage to create a surplus of water supplies over demand for the next 25 years. Following public consultation on the draft plan we published our statement of response to the representations received from individuals and organisations. The plan was generally well received by regulators and the public and we have received Defra's approval to publish it in a final version.

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

Our current environmental investigation programme is drawing to a close. Findings have been reported to the Environment Agency, Natural England and other interested stakeholders and were fed into our 2015-20 business plan.

If agreed by Ofwat subsequent actions will include trials of:
• different compensation flow and operating regimes at some reservoirs to mimic more natural river flows in downstream watercourses
• a catchment permitting system in the Bristol Avon catchment that allows us to reduce phosphorus from sewage treatment works by optimising existing treatment systems, and using new technologies and more sustainable solutions
• novel technologies for the removal of priority substances and phosphorus.

We will also increase catchment management upstream of Poole Harbour to reduce nitrogen through land management rather than installing a multi-million pound nitrogen removal plant at Dorchester.

Wildlife and conservation
We have extensively surveyed our key conservation sites over the last four 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
• 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.

Our management of nearly 300 hectares of land designated as SSSIs 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 four years. These include scientific research, partnership working and activities that align with our core services.

Strategic Report

Highlights include:
• South Wiltshire Farmland Bird Project: a specialist adviser has worked with 119 farmers in southern Wiltshire to provide more than 800 hectares of farmland bird habitats, including safe nesting areas, summer insect food and winter seed food
• Dorset Wild Rivers: 11km of river has been restored since 2010 and more than seven hectares of wet woodland have been planted with nearly 5,000 trees
• Buglife's Wessex Springs and Seepages for Invertebrates: identifying the habitats of rare insects such as the Cliff tiger beetle, Southern damselfly, Bog hoverfly and Southern yellow splinter to guide future management to help conserve populations
• Wessex Biodiversity Science Initiative: free training courses and training material to help local groups improve their own wildlife research and monitoring.

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.

Electricity use accounts for more than 70% of our carbon footprint and has been increasing since the early 1990s due to tighter sewage treatment standards. The last few years have also shown a close correlation between our energy use and the weather.

During 2011-12 dry conditions resulted in lower volumes of sewage for pumping and treatment, leading to our lowest electricity use since 2002. However, wet weather in 2012-13 and 2013-14 increased the amount of energy required for pumping and treating waste water.

We have continued to improve energy efficiency and identify unnecessary power use. Alongside the regulated business our food waste facility at Bristol sewage treatment works, operated by our subsidiary GENeco, completed its first full year of energy production. The site also saw the construction of four 2.05 MW wind turbines owned by Triodos Renewables.

Employees

We are very proud of the skills, expertise and goodwill of our employees whose exceptional commitment is central to our success.

We continue to focus on equipping our employees with the technical, leadership and management skills they require to be successful in the future and take pride in looking after their wellbeing and providing a variety of employee benefits. Promoting diversity and opportunity across our workforce was a particular focus this year.

Our commitment to attracting skills and providing young people with opportunities to join our business has continued with the development of new apprenticeship programmes. This year we launched programmes in our laboratory and customer contact centre and additional apprenticeship programmes are planned for next year.

The health and wellbeing of our employees has been a high priority this year. We provided free health checks for 400 employees with follow up advice on maintaining a healthy lifestyle.

In brief

• A very positive and engaging culture with 87% of staff rating Wessex Water as a good place to work. We continue to have a high level of staff engagement.
• Ongoing focus on continuously developing our suite of management and leadership training programmes. This year we achieved accreditation from the University of West of England for our Institute of Leadership and Management (ILM) level 5 management development programme.
• Further development of our integrated talent management and succession planning programmes.
• 79% of employees (1,813 employees) took part in a range of skill development programmes.
• Development of a diversity taskforce together with a range of diversity initiatives including a networking group for women in the business.
• Very good safety performance with an increased emphasis in the year on reporting near misses.
• The launch of a behavioural safety programme to further improve our health and safety culture.
• Employee wellbeing continues to be a priority and this year we provided free health checks to 400 staff.
• The launch of new apprentice schemes in our customer contact centre and scientific laboratory.
• More than 30 employees currently undertaking professional development towards chartered status in their chosen sector with eight attaining chartered status this year.

In detail

Training
Maintaining and developing skills for the future is a key priority for us. We pride ourselves on the number and standard of the technical training programmes we develop and run for employees.

We deliver training through a variety of courses including structured internal courses, tool box talks, seminars and specialist college courses. This year, a total of 1,813 staff (79% of our workforce) took part in more than 400 different types of training course, including advanced environmental and management programmes.

Excellent customer service is one of our key priorities and central to our training. This year we launched Going the Extra Mile, a programme which explores how we can exceed the excellent customer service we offer already. More than 230 members of our frontline staff have taken part so far.

As strong and effective leadership is a critical component in maintaining our status as a high performing water company, one of our key objectives this year has been identifying and developing talent.

We successfully achieved accreditation from the University of West of England for our Institute of Leadership and Management level 5 management development programme, which bridges the gap between our existing supervisory foundation and senior manager leadership programmes.

We continue to sponsor a number of managers to complete their level 7 strategic leadership programme and actively encourage our highest achievers to convert their qualifications into MBAs.

Apprenticeships provide young people with opportunities to join our business and develop their careers. We currently have 26 apprentices in our Operations division and this year we launched an apprentice programme for 16 – 18 year olds in our engineering and construction division and laboratory and customer contact centres.

We continue to actively support and encourage our staff to undertake professional development routes, and have achieved accreditation from the Institution of Engineering and Technology (IET) and the IET apprenticeship scheme, offering a further route for continued professional development for our employees.

Diversity
We have an ongoing commitment to develop and encourage diversity across our business. This year we launched a diversity taskforce of senior managers to develop policy and initiatives that encourage and promote equality and diversity.

The social enterprise, Women on Boards, ran development seminars for 60 female employees, focused on their personal and career development. We also launched a female networking group with regular external speakers in order to encourage a balanced gender profile.

At 30 June 2014 WWSL had 1,993 employees of whom 412 were women and 1,581 were men. This number included 11 Directors of whom 3 were women and 8 were men.

Culture
All companies have their own culture – the atmosphere at work, the way people behave and the way things are done. We have a strong, friendly and positive culture; staff enjoy working for the company and with each other.

This year we ran a survey giving staff the opportunity to feed back on topics including leadership, training, communication and career development. The results were very encouraging and show continued improvement in the culture of Wessex Water. Our employees are extremely engaged in their work; 79% have strong loyalty to the company, 87% of staff rated Wessex Water a good place to work and 82% feel encouraged to carry out work to the best of their abilities.

We are working together with employees to identify areas for improvement and ways to make Wessex Water an even better place to work.

Health and safety
Protecting the health, safety and welfare of our staff, contractors and customers is a duty that we take very seriously. No activity is truly without risk; our safety management systems and procedures aim to remove unnecessary risk and control and manage any residual risk to ensure injury or harm to individuals is prevented.

Central to our safety culture is that all staff, irrespective of their position, are empowered to ensure health and safety is "not an optional extra".

Managers, supervisors and staff all receive appropriate levels of training to ensure they can work safely without risk to themselves, colleagues or customers. A team of experienced health and safety professionals supports and advises staff, investigates accidents and where necessary enforces company safety standards.
In spite of increased awareness and changes to working arrangements and training, there are accidents: the principal causes are slips, trips and falls or manual handling. We will continue efforts to improve performance in these areas.

We monitor and investigate all reported safety incidents and dangerous occurrences to establish the cause and identify improvements that will prevent a recurrence. This year we increased emphasis on the reporting and investigation of near-misses, which is crucial to preventing future accidents. We have provided automated external defibrillators at strategic locations and trained 40 first aiders in their use.

Strategic Report

Our overall safety record remains good and we have received awards from recognised safety organisations; our Operations division received the British Safety Council international safety award (distinction) and Wessex Engineering and Construction Services received the Royal Society for the Prevention of Accidents gold safety award for a further year.

Infrastructure

We have an excellent record on the installation and management of infrastructure. The implementation of the regional supply grid will add resilience to our existing system. For the long-term we are extending catchment management measures to reduce raw water quality issues at source.

We manage and maintain our assets to ensure they operate efficiently and effectively, providing high quality treatment and service. We fully integrate sustainability principles and practice into our capital programme and scheme options.

Our approach to risk and asset management is to ensure that risks are understood and managed throughout the business. Our processes enable us to maintain an acceptable level of risk, balancing investment needs against improving service and environmental performance.

Modelling and analytical tools applying our risk and value approach help us to prioritise investment based on:
• a consistent method of assessing the impact and likelihood of service failure which can be applied across all our assets at a tactical and strategic level
• a review of all customer, environmental, legal and regulatory risks
• reporting to senior management/board on strategic high-level risks and mitigation measures.

We believe it is unacceptable to have asset failures that compromise public health, affect customer services, lead to environmental damage or cause significant disruption.

We continue to drive innovation and stretch ourselves to improve our industry leading levels of performance.

In brief

•£224m invested to maintain and improve services to our customers and environment.
• Largest infrastructure investor in the region providing more than 1,000 jobs directly in constructing new assets and in the regional supply chain.
• Met all our regulatory outputs and met or exceeded all activity targets.
• Progressed our water supply grid, a key component of our 25-year water resource plan.
• Nearing completion of mains rehabilitation programme in Taunton to improve the appearance of the water.
• Exceptional 2013 weather affected the number of flooding incidents from our sewerage network and we invested more than £10m to reduce sewer flooding risk.
• We successfully achieved certification to the new international standard ISO55001:2014 for asset management.
• Achieved our third re-certification to PAS55:2008 asset management standard.
• Using Ofwat's toolkit we assessed our asset serviceability as stable for the seventh year running.

In detail

Leakage
We met our leakage target for the year despite the long hot summer of 2013 creating an additional challenge due to ground shrinkage. We employed additional leakage staff and spent £1m on extra leakage detection and repairs. We aim to fix all visible leaks within 24 hours.

Sewage flooding
The Met Office reported that the wet weather between December 2013 and February 2014 broke all records. Fully saturated ground for nearly half the year meant rainfall events that would otherwise not have caused incidents, resulted in flooding. The high groundwater levels also infiltrated and inundated privately owned drains and some public sewers across the region. To protect properties from flooding and losing the ability to use their drainage facilities, we mobilised overpumping and tankering in 48 locations.

Although we are delivering a prioritised programme of infiltration reduction at catchments that have suffered, 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.

Work continues with local councils to develop surface water management plans and flood management strategies. We are currently working with both Somerset County Council and the Environment Agency on the Somerset Levels and Moors 20-year flood action plan.

We have invested more than £10m to reduce the likelihood of flooding at 127 properties and external areas in the past year and remain on track to meet our regulatory commitment of removing 527 properties and areas from the flooding risk registers by 2015.

Asset management
Our asset management framework has helped us develop a more integrated approach to risk and investment decision making which has been recognised by re-certification to PAS55:2008 and certification to the new international standard 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. Ofwat's measures showed our serviceability was stable for the seventh consecutive year.

Infrastructure improvements
In Taunton our £16m investment to modernise ageing water mains is well advanced. The work, which will improve the appearance of the water and provide increased security of supply, is due for completion in summer 2014. No dig techniques were also successfully used on a scheme to replace a water main through the centre of Abbotsbury in Dorset, so minimising the impact on customers and businesses during construction.

Our regional supply grid is well underway, with construction of three new service reservoirs in Dorset, pipe laying down the Wylye valley, near Shaftesbury and at Blandford, and the building of two pumping stations. Further construction sites will start in 2014 and the overall project is due to be completed by 2018.

We delivered two sewerage schemes in the year which enabled 354 properties to connect to the public sewer network for the first time, reducing pollution for the communities involved.

We completed schemes at three sewage treatment works in Somerset: Evercreech, Shepton Mallet and Yeovil, to reduce levels of phosphorus discharged into rivers on the Somerset Levels. At Puddletown sewage works in Dorset we completed a major scheme to improve the quality of the effluent discharged to the river.

We have completed the first of three schemes to increase the quantity of sludge treated through anaerobic digestion processes and increase the level of renewable electricity we generate. This work, at Trowbridge, cost £11m, and will produce an additional 8GWh of electricity each year.

Other schemes include:
• major refurbishment of Ashford water treatment works, near Bridgwater, to maintain water quality and capacity
• construction of a replacement grout curtain for Wimbleball dam, a 50 metre high concrete dam in Exmoor, in conjunction with South West Water
• construction work at Taunton, Mere and Iwerne Minster sewage treatment works to improve the quality of the effluent discharged into rivers.

Innovation
Innovation is a central theme across our business and in recent years we have been pursuing novel approaches to achieve environmental and social outcomes. These include providing agronomic advice to farmers to protect drinking water sources, real-time reporting of sewer flooding incidents near bathing waters, a wide range of no-dig methods to refurbish water mains and sewers to reduce disruption and costs, and early adoption of enhanced anaerobic digestion of sewage sludge.

Innovation was also a prominent theme in the business plan we published for Ofwat's 2014 Periodic Review. We encourage staff to promote better ways of working through our Eureka! programme, and carry out trials and investigations through our Innovation and Technology Forum. In 2013-14 these included trials of multimedia filters for spring sources and ultrasonic devices to control algae in reservoirs.

We also took part in collaborative trials with other water companies. These included a comparison of the efficiency of advanced sewage aeration equipment and the effectiveness of different dissolved oxygen monitors, all of which have the potential to deliver energy efficiency savings.

In 2013-14 we devised an internal Dragons' Den to review ideas that offer the best potential cost savings. Successful projects included a timer device for ultraviolet disinfection and modification of flows at a sewage treatment works inlet to reduce energy use and repair costs.

It was also the first year of our joint research programme with the University of Bath. This comprises five workstreams which cover low energy sewage treatment and nutrient recovery; methods for improving the biogas yield of sewage sludge digesters; emerging pollutants in waste water that pose potential risks to the environment; engaging customers to encourage responsible water use and to discourage sewer misuse; and improved techniques for assessing the whole life costs of physical assets.

The Strategic Report was approved by the board of directors on 12 September 2014 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 2014.

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 2014.

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 2014 trade creditors represented approximately 34 days trade purchases (2013 - 31 days).

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

Charitable donations

During the year £506,000 was donated to UK charities (2013 - £402,000) of which £336,000 (2013 - £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

Political donations

The company made no political donations nor incurred any political expenditure during the year (2013: 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

During the year KPMG transitioned from KPMG Audit Plc to KPMG LLP and as such KPMG Audit Plc resigned and KPMG LLP was appointed. A resolution concerning their appointment will be put to the forthcoming board meeting.

Andrew J Phillips

By order of the Board
A J Phillips - Company Secretary
Claverton Down
Bath, BA2 7WW
12 September 2014

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. The Company's policy on risk identification and management is subject to annual review by the Board.

The risk environment changes through time as some risks become less likely or less damaging while new ones emerge. The Company's processes are designed to respond flexibly to these changes and to ensure that the necessary controls and mitigation measures are put in place. The Audit Committee has oversight of the controls and mitigations put in place to ensure that the Company is only exposed to the degree of risk set by the Board.

Risk process

The identification and management of risk is delivered through a tiered system of groups from operational staff, senior management, executive directors and the Wessex Water Services Limited Board. The Board reviews and holds ultimate responsibility for the risk process and for the identification and mitigation of risks. At the lowest level, asset and operational risks are reviewed, assessed and recorded monthly by operational staff. Risks are scored using a best practice process which assesses probability and impact on a five by five matrix. Risk mitigation plans are recorded and implemented where appropriate and pre and post mitigation scores are recorded. Results are reported to each Group Management Team and Board meeting.

These identified risks act as a foundation for a separate corporate risk register which is maintained by a risk group comprising senior managers from throughout the business. The risk group reviews all business risks, including emerging and strategic risks. All risks are assessed by business experts responsible for that area of the business. Where a high scoring risk has been identified the risk group reviews additional measures that could be put in place to reduce its impact to an acceptable level.

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 in 2014. The risk group meets twice a year and submits the current corporate risk register and summary report to a Risk Management Committee comprising the Executive Directors of the Board, again meeting twice a year.

The Risk Management Committee 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 Board Chairman 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).

Principal risks

The 10 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. 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 Information management and digital security. The Company holds and processes large quantities of data which is 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. In the year our Information Systems department has achieved best practice accreditation to the ISO27001 standard for digital security.

3 IS business resilience. Most activities undertaken by the business are reliant on the availability of IT services and facilities. The Security Service has identified the growing threat of cyber attack or industrial espionage as a high risk to both businesses and utilities. The Company continues to examine ways in which IT resilience can be maintained and where appropriate improved.

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. CRB checks are undertaken for all new permanent and fixed term staff.

5 Theft of plant/materials. The high price of commodities and fuel makes isolated sites such as reservoirs and treatment works obvious targets for thieves. Thefts could affect the environment, service to customers or the safety of staff. Extensive measures including installation of CCTV, forensic marking and liaison with the police have been taken to detect and prevent theft.

Risk Review

6 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.

7 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 secure compliance.

8 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.

9 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.

10 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.

Many other areas which would be expected as standard areas for consideration, such as fraud, have been assessed and determined to be risks which are well controlled with current mitigations.

Complacency is avoided through regular reviews and challenges within the Risk Group and Risk Management Committee.

The internal audit programme includes a rolling review of principal mitigation measures with regular reports to the Audit Committee.

Wessex Water Services Limited Board of Directors

Executive Directors

Colin Skellett – Chief Executive (and Chairman to 31 March 2014)
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. He is Chairman of the West of England Local Enterprise Partnership.

Mark Watts – Finance Director and Treasurer
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.

David Elliott – Director of Environment and Assets
David has over 30 years' experience in the water industry. He joined Wessex Water in 1985 working as a technician engineer in sewerage. He spent time in Argentina where he managed sewerage services to 2.5 million customers. On returning to the UK he became Southern Divisional Manager. In 2004 he became General Manager, Group Services, responsible for IT, FM, logistics and customer services. He was appointed to his current position on 11 June 2007. Retired from the Board on 31 March 2014.

Sean Cater – Director of Operations and Construction
Sean has more than 30 years' experience in the construction and engineering industry. He joined Wessex Water in 1992 as a resident engineer in the Somerset division. He subsequently worked as a construction manager and in 2000 he took on the role of Head of Capital Investment. In 2002 he became General Manager of Wessex Utilities Contracting. He was appointed to his current role on 11 June 2007. Retired from the Board on 31 March 2014.

Andy Pymer – Director of Customer and Retail Services
A chartered civil engineer turned economist, Andy has more than 20 years' experience in the water sector, holding roles both overseas and in the UK, including ten years as Head of Regulation and Policy at Wessex Water. He was appointed Director of Customer and Retail Services on 1 August 2012 and is also a Director of Wessex Water's joint venture billing company, BWBSL, and Chair of Wessex WaterAid, which has raised more than £1.5m for the charity since 2002. Retired from the Board on 31 March 2014.

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. Member 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 Customer and Communities Panel. 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 – 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.

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

Non-Executive Directors

Shareholder

Francis Yeoh CBE – (Chairman from 1 April 2014) 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.

Wessex Water Services Limited Board of Directors

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 and part of the business development team of YTL Power International Berhad

+Kathleen Chew – Group Legal Adviser 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.

+ Alternate Director to Francis Yeoh until 31 March 2014 and shareholder appointed Director from 1 April 2014.

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. The Company has adopted the changes referred to below in the current financial year so that we continue to reflect best practice and maintain our position as the leading water and sewerage company for customer service and satisfaction.

From 1 April 2014 following OFWAT's initiative on water company Board Leadership, Transparency and Governance we have made further changes to our governance arrangements to meet the commitments set out in our Code of practice for corporate governance a copy of which is available on our website. These changes include separating the roles of Chairman and Chief Executive and reducing the number of Executive Directors to two, as well as changes to the memberships of the Nominations and Remuneration Committees. Details are set out in the relevant Committee reports.

We believe that our governance arrangements, including the changes we have made recently, will 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.

Francis Yeoh - Chairman

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 18 and 19.

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.

From 1 April 2014 there are two Executive Directors, both appointed on one-year rolling contracts. There are 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.

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 four Non-Executive Directors, during the reporting year (5 from 01/04/14) 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 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. The following were Directors during the year under review:

Executive Directors	**Independent Non-Executive Directors**	**Shareholder Non-Executive Directors**
Colin Skellett OBE (Executive Chairman) ++	David Barclay	Francis Yeoh CBE + (alternative Kathleen Chew to 31 March 2014)
Sean Cater ++++	Gillian Camm	Hann Yeoh
David Elliott ++++	Peter Costain	Hong Yeoh
Andy Pymer ++++	Fiona Reynolds	Mark Yeoh
Mark Watts		Kathleen Chew +++

\+ Francis Yeoh became Chairman on 01/04/14
++ Colin Skellett became CEO on 01/04/14
+++ Became a full shareholder director on 01/04/14
++++ Resigned as Executive Directors on 01/04/14

Note: The reduction of the number of executive directors to two was undertaken to meet OFWAT's best practice requirements for water company board leadership and governance.

Chairman

Throughout the financial year under review Colin Skellett was the Company's Chairman and Chief Executive. He brought more than 40 years' water industry experience to the Company including 25 years as Chief Executive covering privatisation of the industry and two changes of ownership. By agreement with the shareholder, Colin Skellett's dual role to 31 March 2014 as Chairman and Chief Executive was an exception to the relevant Code Provision which generally requires separation of the roles of running the Board and running the Company's business.

The division of responsibilities required under the Code between the roles of an independent Chairman and Chief Executive is intended principally to protect against one individual having unfettered powers of decision making (effectively running both the Board and the Company's business) in the context of a public company with disparate shareholders and with no direct shareholder board representation. However, Wessex Water is a private company with a single shareholder who appoints Non-Executive Directors to the Board and, accordingly, these concerns are of limited relevance. Further, in the specific context of Wessex Water, good governance was ensured and the concern of individual dominance alleviated by the presence on the Board of Executive Directors responsible for the main business functions, together with a majority of Non-Executive Directors who were able to hold the entire executive function to account.

On 1 April 2014 as part of the changes made to our governance arrangements in response to OFWAT's governance initiative the role of Chairman and Chief Executive was separated, with Francis Yeoh becoming Chairman of the Company. Colin Skellett continues in his role as Chief Executive.

Governance Report

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 and had separate group and individual meetings with the Independent Non-Executive Directors.

The Chairman ensures that 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.

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 two new Independent Non-Executive Directors, two new shareholder Non-Executive Directors and one new Executive Director.

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. The Board considers that both Peter Costain and David Barclay remain 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. Continuity of appointment of some Independent Non-Executive Directors between OFWAT price reviews is desirable to facilitate scrutiny of Company performance against its business plan.

The Board has concluded that it was in the Company's interests due to the importance of its infrastructure construction programme that Peter Costain, with a background in major engineering projects, continues as an Independent Non-Executive Director beyond the period suggested in the Code and his current appointment has been extended to 30 September 2014. David Barclay's continued appointment brings to the Board his experience on other listed and private company boards as well as his knowledge of financial markets. The continued appointment of Peter Costain and David Barclay therefore promotes the long-term success of the Company and is in accordance with the spirit of the Code.

Independent Non-Executive Director	Appointed	Current term expires
David Barclay	1/11/2005	31/10/2014
Gillian Camm	1/11/2011	31/10/2014
Peter Costain	1/12/1999	30/09/2014
Fiona Reynolds	1/08/2012	31/07/2015

Independent Non-Executive Directors are appointed on written terms setting the 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.

Governance Report

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. The training and development needs of the Executive Directors and Independent Non-Executive Directors are reviewed annually by the Chairman.

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.

The Company Secretary gives legal and regulatory advice as required by the Board or any Director and is responsible for advising the Board through the Chairman 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 2013 – 14			
Colin Skellett	6/6	Fiona Reynolds	6/6
David Barclay	6/6	Mark Watts	6/6
Gillian Camm	5/6	Francis Yeoh (alternative Kathleen Chew)	4/6 1
Sean Cater	5/5	Hann Yeoh	6/6
Peter Costain	6/6	Hong Yeoh	4/6
David Elliott	5/5	Mark Yeoh	6/6
Andy Pymer	5/5		

Board Committees and Advisory Panels

Five formal Committees operated throughout the financial year under review:

- Audit Committee
- Risk Management Committee
- Remuneration Committee
- Nominations Committee
- Corporate Responsibility 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 later in the Governance Report.

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, David Elliott 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.

Governance Report

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.

In accordance with the Code a Board effectiveness review was carried out in March 2014. 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 anonymized basis, and the results presented to and discussed by the Board at its meeting on 24 March 2014 with several improvements adopted as a result. These included adopting additional measures to monitor Company performance and improved reporting back to the Board by Committee Chairs about their proceedings. The performance of Board committees will be formally evaluated in the next year.

Colin Skellett's performance as Chairman in the reporting year was evaluated by the Independent Non- Executive Directors in June 2014.

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. Two reports were received during the financial year under review. They were duly investigated and found to be without substance.

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 is not tolerated. All Directors and employees are made aware of the Company's policy and that breaching it will result in disciplinary action. No instances of a breach of the policy were recorded in the year.

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

In April 2014 OFWAT published its document Board Leadership, Transparency and Governance – Holding Company Principles setting 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 Holdco 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 2014 was 51.34% owned by third party shareholders and 48.66% owned by Yeoh Tiong Lay & Sons Holdings Sdn Bhd.

Governance Report

All companies 100% owned unless stated	Principal activities	Company details
YTL Corporation Berhad	Investment holding and management company	Incorporated in Malaysia and quoted on the Main Market of Bursa Malaysia Securities Berhad
↓ 57.77%		
YTL Power International Berhad	Investment holding and provision of administrative and technical support services	Incorporated in Malaysia and quoted on the Main Market of Bursa Malaysia Securities Berhad
YTL Power Generation Sdn Bhd	Development, constructing, completing, maintaining and operating power plants	Incorporated in Malaysia to create a tax efficient structure
YTL Utilities Limited	Investment holding company	Incorporated in Cayman Islands to look for global mergers & acquisitions in the utilities sector
YTL Utilities Holdings Limited	Investment holding company	Incorporated in Cayman Islands to look for global mergers & acquisitions in the utilities sector
YTL Utilities (UK) Limited	Investment holding company	Incorporated in United Kingdom, the acquisition vehicle for the purchase of the Wessex Water group of companies
Wessex Water Limited	Investment holding company	Incorporated in United Kingdom, also owns SC Technology AG, Wessex Water Enterprises Ltd and 50% of Bristol Wessex Billing Services Ltd
Wessex Water Services Limited	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 with other Group companies.

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

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

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

- they would give the Company all information as may be necessary to enable the Company to comply with the conditions of its appointments as a water and sewerage undertaker;
- 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

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

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

David Barclay (Chair)
Gillian Camm
Peter Costain FCA
Fiona Reynolds

The Board is satisfied that all members of the Audit Committee are independent and that, through David Barclay and Peter Costain, it has relevant financial experience as described on page 21.

Role and Report on Activities
In accordance with Code Provision C.3.2. the Audit Committee's full terms of reference are available on the Company's website. This report provides details of the role of the Audit Committee and the work it has undertaken during the financial year under review.

The members of the Audit Committee receive updates on financial reporting, the regulatory framework and performance throughout each financial year. The Finance Director and Treasurer, Director of Customer and Retail Services, Director of Environment and Assets, Head of Internal Audit, Financial Controller and the Company's external auditors KPMG attend, by invitation, all meetings of the Audit Committee. Other Directors, members of senior management and the Company's engineering auditor are also invited to attend as appropriate.

Following each meeting the Audit Committee reports to the subsequent meeting of the Board 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 that the Company has adequate internal controls and that they 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 PR14 Business Plan
- Company performance on a number of internal processes to deliver regulatory outputs and KPI data
- detailed independent consideration of the regulatory half year results, regulatory annual results and annual review document prior to their ultimate approval by the Board
- 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 twelve internal audit reports
- consideration of an external report on the performance of internal audit and the resources employed.

Governance Report

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 16 and 17 and other financial disclosures prior to their release.

KPMG reported to the Audit Committee on their audit of the March 2014 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 auditors.

The Audit Committee also receives a report on any incidents of fraud or bribery including the actions taken to investigate and respond to such incidents. There were no material incidents during the financial year under review.

The Audit Committee also reviews arrangements by which staff of the Company and others may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters.

The Audit Committee's objective is to ensure that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action. Two such reports were investigated in the year and reported to the Audit Committee.

Financial Reporting

Material issues considered by the Audit Committee in relation to the March 2014 Regulatory Accounts (as also reported by the external auditors) were as follows:

Bad Debt Provision

The Committee considered the key audit 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 audit risk that the assumptions made by the Company in association with the independent actuary, in arriving at the pension deficit under FRS 17, 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 audit 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 UK GAAP, 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 profit and loss account 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 auditors.

The Committee was satisfied that each of the above issues had been adequately explained and correctly recorded in the Regulatory Accounts 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 auditors reported to the Committee that in the course of their work no misstatements had been found. The Committee was satisfied that the external auditors have fulfilled their 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 auditors. The Audit Committee reviews the performance of the internal and external auditors annually to ensure that they are effective and recommends to the Board whether the external auditors should be reappointed.

In addition this year there was an external audit of the internal audit function with results reported to the Audit Committee and with some changes to internal processes and documentation implemented.

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

Governance Report

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 and a total of twelve individual audit reports submitted to the Committee.

At the request of Executive Directors 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 LLP were appointed as the Company's auditor in 2002 and the audit contract has not been put out to tender since. Each year the Finance Director and Treasurer reports to the Audit Committee on the effectiveness of the external auditor throughout the year. The Audit Committee reviews that report and takes into account their own experience of the auditor's effectiveness in the year. They then make a recommendation to the Board as to whether they be reappointed. In June 2014 the Board again decided that KPMG LLP be re-appointed for the following year. Although KPMG LLP'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.

KPMG was paid £149k for audit fees and £185k 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 in the preparation of the PR14 Business Plan submission to Ofwat. 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 auditors for non-audit services will not normally exceed 50% of the annual audit fee.

KPMG LLP reports to Ofwat in respect of the Company's regulatory accounts. The Audit Committee also receives reports from its engineering consultants, CH2M HILL, on non-financial regulatory outputs as part of the Company's Ofwat compliance process.

Audit Committee Attendance	
David Barclay	5/5
Peter Costain	5/5
Gillian Camm	4/5
Fiona Reynolds	5/5

Risk Management Committee Report

Members:

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

Colin Skellett (Chair)
Sean Cater
David Elliott
Andy Pymer
Mark Watts

Role and Report on Activities

Responsibility for the Company's risk management policy rests with the Board.

The purpose of the Risk Management Committee is to identify and manage the key business risks faced by the Company. It produces for the Board's annual approval a risk management plan addressing the Company's risk management systems, practices and procedures to ensure effective risk identification, management and compliance with risk management policies. The Audit Committee reviews the annual Risk and Compliance Statement which includes a description of the Company's risk process. As part of its terms of reference, if the Audit Committee is not satisfied that a correct and proper risk process is in place and has been carried out at least annually, it is authorised to refer the matter to the Board's attention with a recommendation that the Audit Committee assumes direct responsibility for managing the risk management process.

The Risk Management Committee's full terms of reference are available on the Company's website. The Risk Management Committee meets at least twice a year or at such shorter intervals as may be necessary to consider changes to the Company's business risks and enable it to discharge its duties effectively. The Risk Management Committee also plays a key role in the Company's processes for complying with the Ofwat requirement for an annual Risk and Compliance Statement.

Risk Management Committee Attendance	
Colin Skellett	2/2
Sean Cater	1/2
David Elliott	2/2
Andy Pymer	2/2
Mark Watts	1/2

Nominations Committee Report

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

Hong Yeoh (Chair)
David Barclay
Mark Yeoh
Colin Skellett

On 1 April 2014 Francis Yeoh replaced Hong Yeoh as Chair of the Committee. On the same date Mark Yeoh stood down and Gillian Camm, Peter Costain and Fiona Reynolds joined the Committee.

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. 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 and for succession planning. It reviews Board structure, size, composition and succession planning.

The Nominations Committee evaluates the balance of skills, experience, independence and knowledge on the Board and, in the light of this evaluation, prepares a description of the role and capabilities required for a particular appointment.

The Nominations Committee meets sufficiently regularly to enable it to discharge its duties. It met once during the financial year under review under the chair of Hong Yeoh. In future financial years under revised terms of reference its role will also be expanded to include monitoring the independence of Independent Non-Executive Directors, advising the Board on any conflicts of interest, succession planning below Board level and 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 is currently supervising the recruitment of a new Non-Executive Director to replace Peter Costain who retires from the Board on 30 September 2014.

Nominations Committee Attendance	
Hong Yeoh	1/1
Mark Yeoh	1/1
David Barclay	1/1
Colin Skellett	1/1

Governance Report
Corporate Responsibility Committee

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

Gillian Camm (Chair)
David Elliott
Andy Pymer
Fiona Reynolds

Role and Report on Activities
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's full terms of reference are available on the Company's website

During its first year of operation the Committee reviewed the Company's policies on charitable giving and support, and health and safety and oversaw the development of Company initiatives on diversity and female advancement.

Corporate Responsibility Committee Attendance	
Gillian Camm	2/2
David Elliott	2/2
Andy Pymer	2/2
Fiona Reynolds	2/2

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
Peter Costain
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 at www.wessexwater.co.uk.

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 2014. The policy also applies to the remuneration of the Company's senior managers. The Remuneration Committee met twice 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. 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.

Governance Report

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 advisors, 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 ended 30 June 2014. In line with best practice, the Committee assesses from time to time whether the appointment of its current independent remuneration advisors 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 Chairman and 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	2/2
Gillian Camm	2/2
Peter Costain	2/2
Hong Yeoh	2/2
Mark Yeoh	2/2

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.

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's obligation to mitigate loss, and length of service.

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 6 to the accounts shows the total employment costs of the company.

	2013-14 £m	2012-13 £m	Movement £m	Movement %
Wages and salaries	66.0	62.3	+3.7	5.9
Social security costs	6.0	5.6	+0.4	7.1
Other pension costs	10.6	10.8	-0.2	1.9
Total employment costs	**82.6**	**78.7**	**+3.9**	**5.0**
Charged to:				
Capital schemes	28.8	26.1	+2.7	10.3
Manpower costs	53.8	52.6	+1.2	2.3

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

Percentage of	**2013-14 %**	**2012-13 %**	**Source**
Turnover	15.6%	15.7%	Profit and loss account
Profit before tax	51.8%	55.9%	Profit and loss account
Profit after tax	50.5%	61.4%	Profit and loss account
Dividends	69.6%	66.0%	Note 7
Capital expenditure	36.9%	34.0%	Note 8

Remuneration Arrangements for Executive Directors 2013-14
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 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
Base Salary	Reviewed annually and takes effect from 1 April. Review takes into consideration; I. Individual responsibilities, experience and performance II. Salary levels for similar sized roles in utilities and south west industrial and service markets III. The level of pay increases awarded across the company IV. Economic and market conditions V. The performance of the company. Salaries are paid monthly.
Taxable Benefits	Benefits include: • Company car • Private medical insurance • Executive health screening • Private fuel allowance.
Pension	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.
Annual Bonus	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. 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 incentivizes 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. Annual bonus is not pensionable.
	Maximum opportunity
Base Salary	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.
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	A combination of 26 key performance indicators relating to financial, customer, environmental and employee related measures and targets. An equal 20% weighting is applied to financial, customer, environmental and employee related measures (health and safety, training and engagement) together with individual performance. The committee has absolute discretion in making bonus payments.
	Change to policy
Base Salary	No change
Taxable Benefits	No change
Pension	No change
Annual Bonus	No change for the 2013/14 year except that the bonuses for Executive Directors changed from a range of 25% to 100% to a range of 40% to 80%.

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

Component 2013/14	**Colin Skellett Executive Chairman**	**Sean Cater Director**	**David Elliott Director**	**Andy Pymer Director**	**Mark Watts Director**
Target bonus (% of salary)	40	40	40	40	40
Maximum bonus (% of salary)	80	80	80	80	80
Actual bonus paid (% of salary)	41	47	52	59	47
Share options (maximum)	Approved 87,000 Unapproved 1,913,000	Approved 87,000 Unapproved 913,000	Approved 87,000 Unapproved 913,000	Approved 87,000 Unapproved 913,000	Approved 87,000 Unapproved 913,000
Pension arrangement	Defined benefit [Pension in payment]	Defined benefit	Defined benefit	Defined benefit	Defined benefit
Benefits	Benefits: Company car based on list price and CO2 emissions: fuel £4,205: private medical insurance £1,817 (family)				

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 salaries for 2013-14 and has determined that salaries for all Executive Directors will be increased by 3.35% from 1 April 2014. This increase is in line with the agreed increase across the rest of the Company.

Governance Report

Executive Directors' Bonuses

2013-14 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 26 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 – Service Incentive Mechanism combined score / water supply interruptions / internal sewer flooding repeat incidents / drinking water quality / customer service rating / operating cost comparative performance.

Assets – regulatory outputs met / serviceability / security of supply / leakage.

Environmental – greenhouse gas emissions / electricity self-generation / electricity usage / sewage treatment compliance / discharge permit consent / satisfactory sludge disposal / bathing water quality / pollutions category 1, 2 and 3.

Employees – reportable injuries / employee rating of company / compliance with training plan.

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

Target Bonus March 2013/14	Colin Skellett Executive Chairman	Sean Cater Director	David Elliott Director	Andy Pymer Director	Mark Watts Director
Financial					
% of salary	4.8%	4.8%	4.8%	4.8%	4.8%
Amount £	16,051	9,024	8,352	7,368	9,024
Customer					
% of salary	4.8%	4.8%	4.8%	4.8%	4.8%
Amount £	16,051	9,024	8,352	7,368	9,024
Assets					
% of salary	4.8%	4.8%	4.8%	4.8%	4.8%
Amount £	16,051	9,024	8,352	7,368	9,024
Environmental					
% of salary	4.8%	4.8%	4.8%	4.8%	4.8%
Amount £	16,051	9,024	8,352	7,368	9,024
Employees					
% of salary	4.8%	4.8%	4.8%	4.8%	4.8%
Amount £	16,052	9,024	8,352	7,368	9,024
Team					
% of salary	8%	8%	8%	8%	8%
Amount £	26,752	15,040	13,920	12,280	15,040
Individual					
% of salary	8%	8%	8%	8%	8%
Amount £	26,752	15,040	13,920	12,280	15,040
Total					
% of salary	**40%**	**40%**	**40%**	**40%**	**40%**
Amount £	**133,760**	**75,200**	**69,600**	**61,400**	**75,200**

In the regulatory year to March 2014, 22 of the 26 Company targets were achieved or bettered.

The 4 not achieved were internal sewer flooding repeat incidents / electricity usage / pollutions category 3 / electricity self-generation.

The cause of the first 3 of these was the intense period of wet weather in the year increasing the number of repeat sewer floodings, requiring additional power for pumping and increasing blockages and pump failures. The failure to meet the electricity self-generation target was due to process problems at one of our sites.

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 March 2013/14	Colin Skellett Executive Chairman	Sean Cater Director	David Elliott Director	Andy Pymer Director	Mark Watts Director
Financial					
% of salary	5.1%	5.7%	6.4%	7.3%	5.8%
Amount £	17,088	10,832	11,180	11,180	10,928
Customer					
% of salary	5.1%	5.8%	6.4%	7.3%	5.8%
Amount £	17,088	10,832	11,180	11,180	10,928
Assets					
% of salary	5.1%	5.7%	6.4%	7.3%	5.8%
Amount £	17,088	10,832	11,180	11,180	10,928
Environmental					
% of salary	5.1%	5.8%	6.4%	7.3%	5.8%
Amount £	17,088	10,832	11,180	11,180	10,928
Employees					
% of salary	5.1%	5.8%	6.4%	7.3%	5.8%
Amount £	17,088	10,832	11,180	11,180	10,928
Team					
% of salary	8.5%	10.0%	10.7%	12.1%	9.7%
Amount £	28,480	18,800	18,600	18,600	18,160
Individual					
% of salary	7.1%	8.0%	8.9%	10.0%	8.1%
Amount £	23,680	15,040	15,500	15,500	15,200
Total					
% of salary	**41.1%**	**46.8%**	**51.6%**	**58.6%**	**46.8%**
Amount £	**137,600**	**88,000**	**90,000**	**90,000**	**88,000**

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 dependent's pension on death of two thirds of the member's pension
- guaranteed increases in line with price inflation (subject to a maximum of 5% each year).

Members' contributions are payable at the rate of 8% of basic salary, with the Company making a further 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.

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%.

Of the Executive Directors during the year, Mark Watts and Sean Cater 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 Director's 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.

Remuneration Arrangements for Executive Directors 2014-15

Component	Colin Skellett CEO	Mark Watts Director
Target bonus (% of salary)	40	40
Maximum bonus (% of salary)	80	80
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	

For 2014-15 the bonus calculation will be consistent with the 2013-14 scheme, based on the same 26 measures as last year, plus an additional employee measure on staff turnover.

Target Bonus	Colin Skellett CEO	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
Environment		
% of salary	4.8%	4.8%
Amount £	16,589	9,331
Assets		
% 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	8.0%	8%
Amount £	27,648	15,552
Individual		
% of salary	8.0%	8%
Amount £	27,648	15,552
Total		
% of salary	**40%**	**40%**
Amount £	**138,240**	**77,760**

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 July 2013 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.

Governance Report

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.

Directors' Emoluments

The table below shows the emoluments for the current year.

2013-14	Salary £000	Bonus £000	Benefits £000	Pension contributions £000	Total 2013-14 £000
Peter Costain	80	-	-	-	80
David Barclay	80	-	-	-	80
Gillian Camm	56	-	-	-	56
Fiona Reynolds	56	-	-	-	56
Colin Skellett	338	138	22	-	498
Sean Cater	177	88	13	31	309
David Elliott	131	90	12	23	256
Andy Pymer	115	90	12	21	238
Mark Watts	196	88	15	28	327
Total £000	**1,229**	**494**	**74**	**103**	**1,900**

1. No emoluments are earned by Francis Yeoh, Hann Yeoh, Hong Yeoh, Mark Yeoh or Kathleen Chew.
2. Sean Cater, David Elliott and Andy Pymer to 31st March 2014.
3. Benefits comprise private medical insurance, company car and fuel benefits.
4. The following Directors received emoluments for services to other Group Companies, Colin Skellett £224,000, Mark Watts £202,000, Sean Cater £146,000, David Elliott £56,000 and Andy Pymer £52,000.
5. 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.

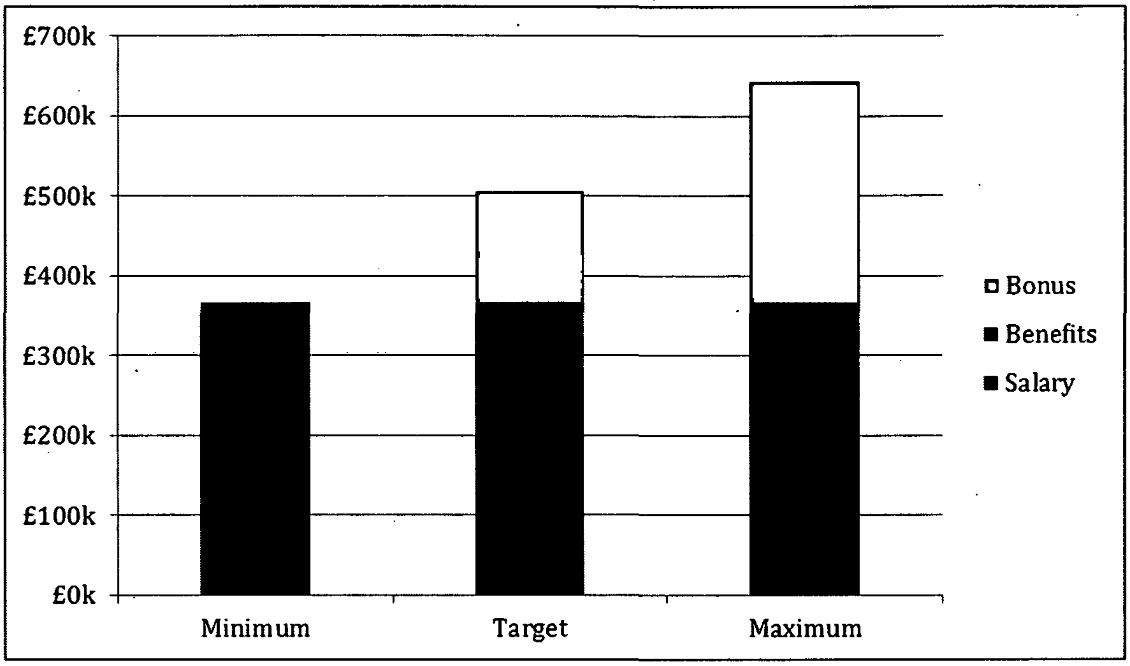
2012-13	Salary £000	Compensation for loss of office £000	Bonus £000	Benefits £000	Pension contributions £000	Total 2012-13 £000
Peter Costain	80	-	-	-	-	80
David Barclay	80	-	-	-	-	80
Gillian Camm	55	-	-	-	-	55
Fiona Reynolds	50	-	-	-	-	50
Jonathon Porritt	9	-	-	-	-	9
Colin Skellett	330	-	137	22	-	489
Sean Cater	175	-	88	13	32	308
David Elliott	171	-	85	15	31	302
Andy Pymer	134	-	57	15	24	230
Mark Watts	167	-	84	13	28	292
Julian Dennis	54	132	-	5	-	191
Total £000	1,305	132	451	83	115	2,086

Jonathan Porritt up to 31 July 2012 and Julian Dennis up to 28 November 2012.

Governance Report

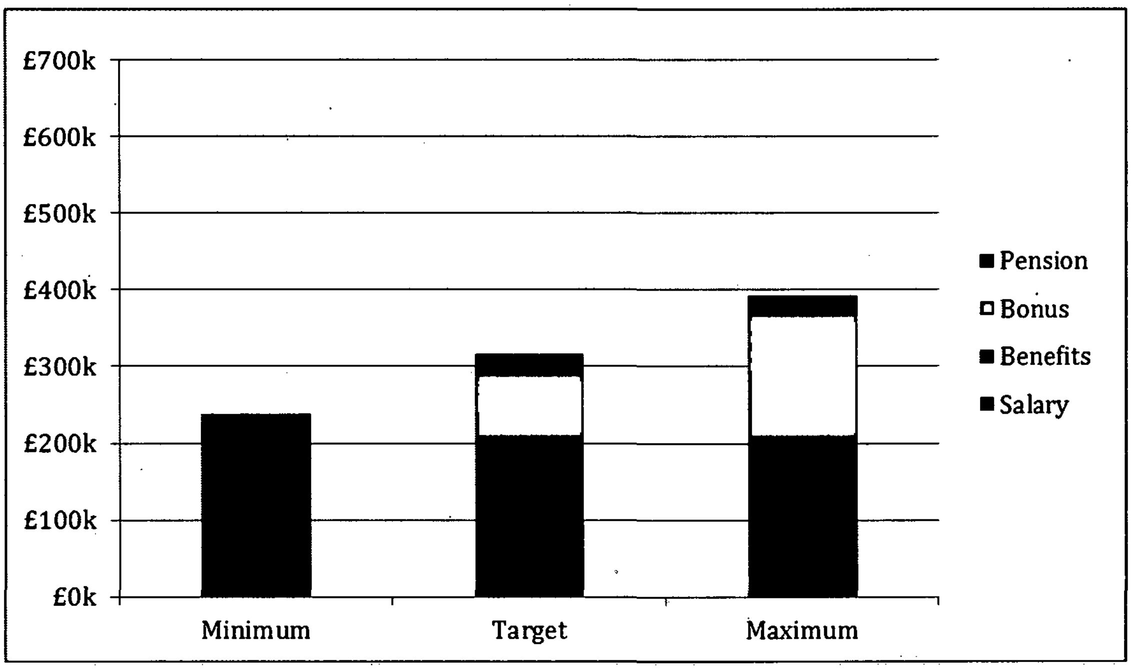
Illustrations of Remuneration Policy

A) Chief Executive Officer – Colin Skellett (using estimated March 14-15 data)



Minimum assumes no bonus earned, target assumes 40% bonus earned and maximum assumes 80% bonus earned. No employer pension contributions.

B) Finance Director and Treasurer – Mark Watts (using estimated March 14-15 data)



Minimum assumes no bonus earned, target assumes 40% bonus earned and maximum assumes 80% bonus earned.

Governance Report

Chairman

The total remuneration for the director performing the role of Chairman (Colin Skellett) was:

	Remuneration 2013-14 £000	Remuneration 2012-13 £000	% change
Chairman - WWSL			
Salary	338	330	2.4%
Bonus	138	137	0.7%
Benefits	22	22	-
As director of other group companies			
Salary	85	82	3.7%
Bonus	134	135	-0.7%
Benefits	5	5	-
Total	722	711	1.5%
All employees WWSL			
Wages and salaries	66,000	62,300	5.9%
Social security costs	6,000	5,600	7.1%
Other pension costs	10,600	10,800	-1.9%
Total	82,600	78,700	5.0%

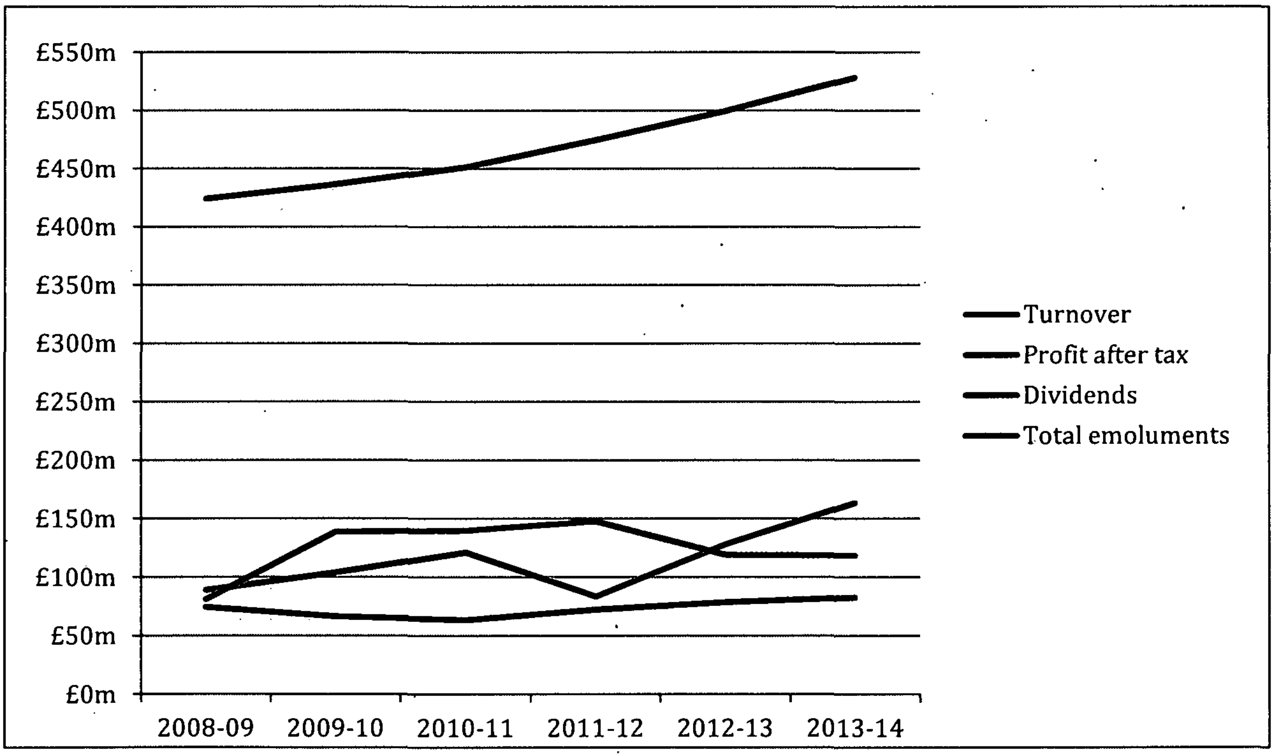
Included in the 2013-14 remuneration for the Chairman was a bonus of £138k representing 41% of salary, the target bonus being 40% of salary and the maximum 80% of salary.

Comparison with remuneration increase for all employees:

The pay increase awarded to the employees of the company on 1 April 2013, for the year 2013-14, was a 2.15% increase over the preceding year. This was based upon the average of November 2012 RPI of 3.0% and November 2012 Average Earnings increase of 1.3%.

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' Defined Benefit Pension Provision

	Pension service completed in years (1)	Accrued pension at 30/06/2013 £pa	Increase in accrued pension during year £pa	Accrued pension at 30/06/2014 £pa	Normal retirement date at 65
Colin Skellett (2)	41	162,279	4,339	166,618	n/a (2)
Mark Watts	25	76,210	4,732	80,942	19/9/2026

(1) Including transfers in and bonus years
(2) Pension in payment.

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.

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 30/6/2013	Exercise price RM	Date of grant	Exercise date	Expiry date	Closing number 30/6/2014
Colin Skellett	87,000	1.65	01/06/2012	01/06/2015	31/03/2021	87,000
Colin Skellett	1,913,000	1.41	01/06/2012	01/06/2015	31/03/2021	1,913,000
Mark Watts	87,000	1.65	01/06/2012	01/06/2015	31/03/2021	87,000
Mark Watts	913,000	1.41	01/06/2012	01/06/2015	31/03/2021	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 twenty ordinary shares held as at 13 March 2014. The share price at 30 June 2014 was RM1.47 or £0.27.

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. One Executive Directors held share warrants during the year.

	Exercise price RM	**Date of grant**	**Expiry date**	**Opening number 30/6/2013**	**Closing number 30/6/2014**
Mark Watts	1.14	12/6/2008	11/6/2018	37,800	37,800

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.

One Executive Directors held 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. YTL Power International Berhad announced a distribution of one share for every twenty ordinary shares held as at 13 March 2014.

	At 30 June 2013	Share distribution	At 30 June 2014
Mark Watts	333,553	16,677	350,230

The share price at 30 June 2014 was RM1.47 or £0.27.

Statutory Accounts

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT, 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 UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

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 applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is 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.

Statutory Accounts

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 2014 set out on pages 44 to 61. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice)

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 42, 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 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; 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 Strategic Report and 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.

Andrew Campbell-Orde (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
100 Temple Street,
Bristol, BS1 6AG
12th September 2014

Statutory Accounts

PROFIT AND LOSS ACCOUNT
For the year to 30 June 2014

	NOTE	Year to 30.06.14 £m	Year to 30.06.13 £m
Turnover	2	**528.4**	499.7
Operating costs	3	**(293.6)**	(274.6)
Operating profit	2	**234.8**	225.1
Interest payable and similar charges	4	**(76.5)**	(84.5)
Interest receivable	4	**1.4**	2.4
Other finance charges	4	**(0.2)**	(2.3)
Profit on ordinary activities before taxation		**159.5**	140.7
Taxation on profit on ordinary activities	5	**4.0**	(12.5)
Profit for the financial year		**163.5**	128.2

The company's turnover and operating profit were generated from continuing activities.

The accompanying notes on pages 47 to 61 are an integral part of this profit and loss account.

Statutory Accounts

BALANCE SHEET
30 June 2014

	NOTE	30.06.14 £m	30.06.13 £m
Fixed assets			
Tangible assets	8	**2,273.0**	2,185.4
Investments	9	**-**	-
		2,273.0	2,185.4
Current assets			
Stock and work in progress	10	**6.7**	6.8
Debtors	11	**176.1**	166.7
Short-term cash investments	12	**76.0**	144.7
		258.8	318.2
Creditors - amounts falling due within one year	13	**(200.8)**	(204.3)
Net current assets		**58.0**	113.9
Total assets less current liabilities		**2,331.0**	2,299.3
Creditors - amounts falling due after more than one year	14	**(1,897.5)**	(1,888.5)
Provisions for liabilities	15	**(88.8)**	(104.7)
Retirement benefit obligations	16	**(80.2)**	(88.9)
Deferred income	17	**(16.6)**	(17.1)
Net assets	2	**247.9**	200.1
Capital and reserves			
Called up equity share capital	18	**81.3**	81.3
Profit and loss account	19	**166.6**	118.8
Shareholders' funds		**247.9**	200.1

The accompanying notes on pages 47 to 61 are an integral part of this balance sheet.
The financial statements were approved by the board of directors on 12 September 2014 and signed on its behalf by:

Mark Watts
Director

Statutory Accounts

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
For the year to 30 June 2014

	NOTE	**Year to 30.06.14 £m**	Year to 30.06.13 £m
Profit for the financial year		**163.5**	128.2
Actuarial gain recognised in the pension scheme	**19**	**7.6**	16.5
Deferred tax arising on actuarial gain in the pension scheme	**19**	**(4.7)**	(5.1)
Total recognised gains and losses relating to the financial year		**166.4**	139.6

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS
For the year to 30 June 2014

		Year to 30.06.14 £m	Year to 30.06.13 £m
Opening shareholders' funds		**200.1**	179.8
Profit attributable to shareholders		**163.5**	128.2
Dividends	**7**	**(118.6)**	(119.3)
Actuarial gain recognised in the pension scheme	**19**	**7.6**	16.5
Deferred tax arising on actuarial gain in the pension scheme	**19**	**(4.7)**	(5.1)
Closing shareholders' funds		**247.9**	200.1

The notes on pages 47 to 61 are an integral part of these financial statements.

NOTES TO THE ACCOUNTS
For the year to 30 June 2014

1 **Accounting policies**

a. **Basis of preparation**

The following accounting policies have been applied consistently in dealing with items that are considered material in relation to the financial statements.

The financial statements have been prepared on a basis consistent with the last financial year, under the historic cost accounting rules, in accordance with applicable accounting standards in the United Kingdom and, except for the treatment of certain grants and contributions (see note 1f) in accordance with the Companies Act 2006.

The directors have considered the financial position of the company and have concluded that it will be able to meet its 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.

The company is exempt by virtue of section 400 of the Companies Act 2006 from the requirement to prepare group financial statements. The financial statements present information about the company as an individual undertaking and not about its group.

b. **Turnover**

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.

c. **Tangible fixed assets and depreciation**

Tangible fixed assets comprise infrastructure assets and other assets.

i 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. Expenditure on infrastructure assets relating to enhancements of the network is treated as additions which are included at cost after deducting connection charges and grants.

The depreciation charge for infrastructure assets is the estimated level of average annual expenditure required to maintain the operating capability of the network, based upon the company's independently certified asset management plan. No other depreciation is charged on infrastructure assets because the network of systems is required to be maintained in perpetuity and therefore has no finite economic life.

ii Other assets include properties, plant and equipment and are shown at cost less accumulated depreciation. Freehold land is not depreciated. Other assets are depreciated evenly over their estimated economic lives, which are principally as follows:

Buildings and operational structures	15 -80 years
Plant, machinery and vehicles	3 – 30 years
Other assets	4 - 15 years

d. **Leased assets**

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease. The assets are depreciated over the shorter of their estimated useful lives and the period of the lease.

e. **Investments**

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

NOTES TO THE ACCOUNTS (continued)

1 **Accounting policies (continued)**

f. **Grants and contributions**

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 (note 17). Grants and contributions relating to infrastructure assets have been deducted from the cost of those assets. This is not in accordance with the requirements of the Companies Act 2006 which requires assets to be stated at their purchase price or production cost, without deduction of grants and contributions which would be accounted for as deferred income. The departure from the requirement of the Act is, in the opinion of the directors, necessary to give a true and fair view. This is because infrastructure assets are not depreciated directly and accordingly the related grants and contributions would not be recognised through the profit and loss account. The effect on the value of fixed assets is disclosed in note 8.

g. **Stock**

Stock and work in progress are stated at cost less any diminution in value. In respect of work in progress, cost includes labour, materials and attributable overheads.

h. **Foreign currency**

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

The assets and liabilities and profit and loss accounts of overseas subsidiary undertakings are translated at the closing exchange rates. Profit and loss accounts of such undertakings are consolidated at the average rates of exchange during the year. Gains and losses arising on these translations are taken to reserves, net of exchange differences arising on related foreign currency borrowings.

i. **Research and development**

Research and development expenditure is written off in the year in which it is incurred.

j. **Taxation**

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised with discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

k. **Pensions**

The company operates a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the company. Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. The scheme has been closed to new members since 2009.

The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full. The movement in the scheme surplus / deficit is split between operating charges, finance items and, in the Statement of Total Recognised Gains and Losses, actuarial gains and losses.

The company also operates a defined contribution pension scheme. Contributions to the scheme are charged to the profit and loss account in the period to which they relate.

l. **Cash flow**

Under Financial Reporting Standard 1 (revised 1996) the company is exempt from the requirement to prepare cash flow statements on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.

m. **Joint arrangements**

The company has certain contractual arrangements with other participants to engage in joint activities that do not create an entity carrying on a trade or business of its own. The company includes its share of assets, liabilities and cash flows in such joint arrangements in the financial statements.

NOTES TO THE ACCOUNTS (continued)

1 Accounting policies (continued)

n. Finance costs

Finance costs of debt are recognised in the profit and loss account over the term of the instrument at a constant rate on the carrying amount.

o. Debt

Debt is initially stated at the amount of the net proceeds after the deduction of issue costs. The carrying amount is increased by the finance cost in respect of the accounting year and reduced by payments made in the year. The finance cost of debt is allocated to periods over the term of the debt at a constant rate on the carrying amount.

p. Interest rate instruments

Interest rate instruments may be used to mitigate against interest rate movements on the company's external financing. Interest payable or receivable is accounted for on an accruals basis over the life of the hedge.

q. Dividends on shares presented within shareholders' funds

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.

r. Share-based payments

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.

Statutory Accounts

NOTES TO THE ACCOUNTS (continued)

2 Segmental analysis

		Year to 30.06.14 £m	Year to 30.06.13 £m
	Substantially all of the turnover, operating profit and net assets derive from the United Kingdom.		
a.	Turnover		
	Regulated	**520.3**	492.5
	Intra group	**8.1**	7.2
		528.4	499.7
b.	Operating profit		
	Regulated	**234.8**	225.1
	Intra group	**-**	-
		234.8	225.1
c.	Net assets		
	Regulated	**247.9**	200.1
	Intra group	**-**	-
		247.9	200.1

3 Operating costs

	Year to 30.06.14 £m	Year to 30.06.13 £m
Manpower costs (note 6b)	**53.8**	52.6
Materials and consumables	**33.4**	27.2
Other operational costs	**77.4**	72.5
Depreciation	**128.1**	122.5
Amortisation of grants and contributions	**(0.7)**	(0.7)
Loss on disposals of fixed assets	**1.6**	0.5
	293.6	274.6
Operating costs include:		
Operating leases for plant and machinery	**2.0**	1.5
Research and development	**0.1**	0.1
Directors' remuneration	**1.9**	2.1

	Year to 30.06.14 £000	Year to 30.06.13 £000
Auditor's remuneration:		
Audit of these financial statements	**149**	144
AMP6 price review services	**114**	-
Tax compliance services	**5**	14
Other tax advisory services	**8**	21
All other services	**58**	1
	334	180

NOTES TO THE ACCOUNTS (continued)

	Year to 30.06.14 £m	Year to 30.06.13 £m
4 Net interest payable		
Interest payable:		
To fellow subsidiary undertakings	**74.7**	80.0
On bank loans	**2.9**	3.9
On finance leases	**(1.1)**	0.6
Total interest payable	**76.5**	84.5
Interest receivable on short-term deposits	**(1.4)**	(2.4)
Other finance charges	**0.2**	2.3
Net interest payable	**75.3**	84.4

5 Taxation

a. Analysis of tax (credit) / charge in the year

	Year to 30.06.14 £m	Year to 30.06.13 £m
Corporation tax:		
UK corporation tax at 22.5% (2013 – 23.75%)	**28.8**	31.1
Adjustments in respect of previous years	**(18.5)**	(1.4)
Total corporation tax charge	**10.3**	29.7
Deferred tax – current year:		
Origination and reversal of timing differences	**(28.6)**	(7.5)
Decrease / (increase) in discount	**12.0**	(10.3)
	(16.6)	(17.8)
Deferred tax – prior year:		
Origination and reversal of timing differences	**18.0**	1.0
(Increase) in discount	**(15.7)**	(0.4)
	2.3	0.6
Total deferred tax (credit)	**(14.3)**	(17.2)
Taxation (credit) / charge on profit on ordinary activities	**(4.0)**	12.5

b. Current tax reconciliation

	Year to 30.06.14 £m	Year to 30.06.13 £m
Profit on ordinary activities before tax	**159.5**	140.7
Current tax at 22.5% (2013 – 23.75%)	**35.9**	33.4
Group relief for nil consideration	**(1.7)**	(1.7)
Adjustments in respect of previous years	**(18.5)**	(1.4)
Capital allowances for the year (greater) / less than depreciation	**(2.2)**	2.3
Payment of lease creditor capital	**(1.5)**	(1.6)
Other timing differences	**(1.7)**	(1.3)
Total corporation tax charge - as above	**10.3**	**29.7**

c. Reductions in the UK corporation tax rate from 26% to 24% (effective from 1 April 2012) and to 23% (effective 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively. Further reductions to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. This will reduce the company's future current tax charge accordingly. The deferred tax liability at 30 June 2014 has been calculated based on the 20% rate substantively enacted at the balance sheet date.

d. Deferred tax was calculated at 23% at 30 June 2013, which reduced to 20% at 30 June 2014 reducing the gross deferred tax liability by £36.1m.

NOTES TO THE ACCOUNTS (continued)

6 Directors and employees

		Year to 30.06.14 £m	Year to 30.06.13 £m
a.	Total employment costs of the company were:		
	Wages and salaries	**66.0**	62.3
	Social security costs	**6.0**	5.6
	Other pension costs	**10.6**	10.8
		82.6	78.7
b.	Total employment costs are charged as follows:		
	Capital schemes	**23.1**	20.7
	Infrastructure renewals expenditure	**5.7**	5.4
	Manpower costs (note 3)	**53.8**	52.6
		82.6	78.7

		Year to 30.06.14 £000	Year to 30.06.13 £000
c.	Directors' remuneration		
	Total remuneration (including benefits in kind)	**1,900**	2,086
	Highest paid director (including benefits in kind)	**498**	489

		30.06.14 number	30.06.13 number
d.	Monthly average number of employees during the year - Billing Services	**330**	332
	- All other staff	**1,875**	1,806
	- Total	**2,205**	2,138

7 Dividends

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

	Year to 30.06.14 £m	Year to 30.06.13 £m
Dividends in the year 119.21p per share on 81,350,000 ordinary shares (2013 – 118.01p)	**96.9**	96.0
Final dividend of 26.61p per share on 81,350,000 ordinary shares (2013 – 28.67p)	**21.7**	23.3
	118.6	119.3

8 Tangible fixed assets

	Freehold land & buildings	Infra-structure assets	Plant machinery & vehicles	Other assets	Payments on account & assets in course of construction	Total
	£m	£m	£m	£m	£m	£m
Cost						
At 1 July 2013	702.2	1,350.2	1,268.4	114.4	127.3	3,562.5
Additions	3.2	81.6	70.6	5.0	63.6	224.0
Transfers on commissioning	3.4	14.2	54.3	4.3	(76.2)	-
Disposals	(1.0)	-	(13.1)	-	-	(14.1)
Grants and contributions	-	(6.2)	-	-	-	(6.2)
At 30 June 2014	**707.8**	**1,439.8**	**1,380.2**	**123.7**	**114.7**	**3,766.2**
Depreciation						
At 1 July 2013	228.9	490.5	615.6	42.1	-	1,377.1
Charge for the year	14.1	47.4	60.0	6.6	-	128.1
Disposals	(0.5)	-	(11.5)	-	-	(12.0)
At 30 June 2014	**242.5**	**537.9**	**664.1**	**48.7**	-	**1,493.2**
Net book value						
At 30 June 2014	**465.3**	**901.9**	**716.1**	**75.0**	**114.7**	**2,273.0**
At 1 July 2013	473.3	859.7	652.8	72.3	127.3	2,185.4

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.

Other assets include furniture and fittings, laboratory and other equipment.

The net book value of assets held under finance leases is £34.8m (2013 - £38.7m).

The depreciation charge for the year on assets held under finance leases is £7.0m (2013 - £6.5m).

The net book value of infrastructure assets at 30 June 2014 is stated after the deduction of grants and contributions amounting to £139.5m (2013 - £133.3m) in order to give a true and fair view (note 1f).

Included in the cost of infrastructure assets is £548.8m (2013 - £502.6m) of expenditure on maintaining the network, and £537.9m (2013 - £490.5m) of depreciation included in the profit and loss account.

Included in freehold land and buildings above is an amount of £11.5m (2013 - £11.4m) in respect of land which is not depreciated.

9 Investments

The company has an investment of £13,000 (2013 - £13,000) in 100% of the £1 ordinary shares of a subsidiary company, Wessex Water Services Finance Plc.

NOTES TO THE ACCOUNTS (continued)

		30.06.14 £m	30.06.13 £m
10	**Stock and work in progress**		
	Raw materials and consumables	**2.8**	2.6
	Work in progress	**3.9**	4.2
		6.7	6.8
11	**Debtors**		
	Trade debtors	**65.8**	61.4
	Owed by fellow subsidiary undertakings	**33.0**	30.0
	Prepayments and accrued income	**71.0**	69.0
	Other debtors	**6.3**	6.3
		176.1	166.7
12	**Short-term cash investments**		
	Short-term bank deposits	**76.0**	144.7
		76.0	144.7

£29.0m of short-term bank deposits mature within 1 month, £10.0m within 3 months and £37.0m within 4 months. Interest receivable on short-term bank deposits is disclosed in note 4.

		30.06.14 £m	30.06.13 £m
13	**Creditors - amounts falling due within one year**		
	Bank overdraft	**13.1**	16.5
	Obligations under finance leases	**8.4**	7.8
	Trade creditors	**8.8**	9.0
	Amounts owed to subsidiary undertaking	**30.8**	30.7
	Amounts owed to other group companies	**0.7**	1.2
	Dividends	**21.7**	23.3
	Other creditors	**1.9**	2.4
	Corporation tax	**16.5**	17.7
	Taxation and social security	**2.0**	1.9
	Accruals and deferred income	**96.9**	93.8
		200.8	204.3

NOTES TO THE ACCOUNTS (continued)

14 Creditors - amounts falling due after more than one year

		30.06.14 £m	30.06.13 £m
Loans repayable	- in more than 1 year, but not more than 2 years	**100.0**	-
	- in more than 2 years, but not more than 5 years	**140.0**	100.0
	- in more than 5 years	**75.0**	215.0
		315.0	315.0
Finance lease repayable	- in more than 1 year, but not more than 2 years	**9.2**	8.6
	- in more than 2 years, but not more than 5 years	**24.3**	31.9
	- in more than 5 years	**-**	2.8
		33.5	43.3
Inter company loans - in more than 5 years		**1,548.5**	1,529.2
Other		**0.5**	1.0
		1,897.5	1,888.5

The inter company loans are due to a subsidiary company Wessex Water Services Finance Plc in respect of the proceeds of the following bond issues lent to the company:

	30.06.14 £m	30.06.13 £m
Bond at 5.375% repayable in March 2028	**198.5**	198.4
Bond at 5.75% repayable in October 2033	**346.5**	346.4
Bond at 4.0% repayable in September 2021	**304.8**	305.4
Index linked bond at 3.52% plus inflation repayable in July 2023	**71.5**	69.5
Index linked bond at 2.186% plus inflation repayable in June 2039	**59.5**	58.0
Index linked bond at 1.75% plus inflation repayable in July 2046	**96.2**	93.5
Index linked bond at 1.75% plus inflation repayable in July 2051	**96.2**	93.6
Index linked bond at 1.369% plus inflation repayable in July 2057	**96.2**	93.5
Index linked bond at 1.374% plus inflation repayable in July 2057	**96.2**	93.6
Index linked bond at 1.489% plus inflation repayable in November 2058	**61.0**	59.1
Index linked bond at 1.495% plus inflation repayable in November 2058	**61.0**	59.1
Index linked bond at 1.499% plus inflation repayable in November 2058	**60.9**	59.1
	1,548.5	1,529.2

15 Provisions for liabilities

	Deferred Tax £m	Restructuring costs £m	Total £m
At 1 July 2013	104.5	0.2	104.7
Utilised during year	-	(0.2)	(0.2)
Provided in year	-	0.4	0.4
Origination and reversal of timing differences	(12.4)	-	(12.4)
Increase in discount	(3.7)	-	(3.7)
At 30 June 2014	**88.4**	**0.4**	**88.8**

Restructuring costs relate to the severance costs of a redundancy programme announced in the year.

15 **Provisions for liabilities (continued)**

	30.06.14 £m	30.06.13 £m
The elements of deferred taxation are as follows:		
Accelerated capital allowances	**241.0**	253.3
Other timing differences	**(0.5)**	(0.4)
Undiscounted provision for deferred tax	**240.5**	252.9
Discount	**(152.1)**	(148.4)
Discounted provision for deferred tax	**88.4**	104.5

16 **Pensions**

FRS 17 pension liability (see note 16e)	**98.8**	113.9
FRS 17 deferred tax asset	**(19.8)**	(26.2)
Unfunded and compensatory added years pension	**1.2**	1.2
	80.2	88.9

a. The defined benefit scheme operated by the company, which covers the majority of staff, is the Wessex Water Pension Scheme (WWPS). The assets are held in separate trustee administered funds. The pension cost charged to the profit and loss account has been determined on the advice of independent qualified actuaries and is such as to spread the cost of pensions over the service lives of the members of the scheme. The scheme has been closed to new members.

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. The total pension cost for the year under FRS 17, including amounts set aside for early retirees and other finance income, was £10.8m (2013 - £13.1m). Actuarial gains and losses have been recognised in the period in which they occur through the Statement of Total Recognised Gains and Losses.

c. The latest actuarial valuation for WWPS was undertaken at 31 December 2010. The assumptions which have the most significant effect on the results of a valuation are those relating to the discount rate for scheme liabilities and the rate of increase in salaries and pensions. It was assumed that the pre retirement discount rate would be 6.3% and the post retirement discount rate 5.3%, that salary increases would be 3.5% per annum in year 1, 3.0% in years 2 and 3 and 4.3% thereafter and that present and future pensions would increase between 2.2% and 3.3% per annum. The market value of the WWPS assets as at 31 December 2010 was £345.3m which represented 81.2% of the actuarial value of the accrued benefits of £425.2m, a deficit of £79.9m. The next actuarial valuation was at 30 September 2013 and the results will be published by 31 December 2014.

In response to this valuation the company agreed to pay additional contributions of £8.6m per annum at 31 March 2012, and at 31 March for a further 9 years.

d. The actuarial valuation described above has been updated at 30 June 2014 by a qualified actuary using revised assumptions that are consistent with the requirements of FRS 17. Investments have been valued, for this purpose, at fair value. The major assumptions used by the actuary were:

	30.06.14	30.06.13
Rate of increase in salaries - short term	**2.25% to 2.5%**	2.15% to 3.4%
Rate of increase in salaries - long term	**3.8%**	4.2%
Rate of increase in pensions in payment	**2.3% or 3.1%**	2.4% or 3.2%
Rate of increase in pensions in payment - reduced level members	**2.1%**	2.2%
Discount rate	**4.4%**	4.6%
Inflation assumption – RPI	**3.3%**	3.4%
Inflation assumption – CPI	**2.3%**	2.4%

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 27.0 years if they are male, and for a further 29.3 years if they are female. For a member who retires in 2034 at age 60 the assumptions are that they will live, on average, for a further 28.6 years after retirement if they are male, and a further 31.0 years after retirement if they are female.

16 **Pensions (continued)**

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 4.4% to 4.3% would increase the scheme liabilities by £9.5m from £566.5m to £576.0m, increasing the scheme deficit to £108.3m. An increase in the inflation assumption of 0.1% (from 2.3% to 2.4% for CPI and 3.3% to 3.4% for RPI) would increase the scheme liabilities by £8.8m from £566.5m to £575.3m, increasing the scheme deficit to £107.6m.

e. The value of the assets and liabilities were as follows:

	30.06.14	30.06.13
	£m	£m
Equities	**241.6**	188.8
Property	**21.9**	45.2
Government Bonds	**115.4**	108.8
Corporate Bonds	**88.0**	78.9
Cash	**0.8**	0.4
Total fair value of the assets	**467.7**	422.1
Present value of defined benefit obligations	**(566.5)**	(536.0)
Deficit in the scheme	**(98.8)**	(113.9)

The expected rates of return were as follows:

	%	%
Equities	**7.5**	**7.8**
Property	**6.8**	**7.2**
Government Bonds	**3.3**	**3.3**
Corporate Bonds	**4.3**	**4.2**
Cash	**0.9**	**0.8**
	5.8	**5.9**

Narrative description of the basis used to determine expected value:

Wessex Water Services Ltd employs a building block approach in determining the long-term rate of return on pension assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed long-term rate of return of each asset class is set out within this note. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation of the scheme as at 30 June 2014.

f. Additional analysis:

	30.06.14	30.06.13
	£m	£m
Analysis of profit and loss charge		
Current service cost	**10.4**	10.6
Past service cost	**0.2**	0.2
Interest cost	**24.5**	22.6
Expected return on scheme assets	**(24.3)**	(20.3)
Expenses recognised in the profit and loss account	**10.8**	13.1
Changes to the present value of defined benefit obligations during the year		
Opening present value of defined benefit obligations	**536.0**	516.6
Current service cost	**10.4**	10.6
Interest cost	**24.5**	22.6
Contributions by scheme participants	**0.2**	0.2
Actuarial losses on scheme liabilities	**12.9**	2.7
Net benefits paid out	**(17.7)**	(16.9)
Past service cost	**0.2**	0.2
Closing present value of defined benefit obligations	**566.5**	536.0

NOTES TO THE ACCOUNTS (continued)

16 Pensions (continued)

Changes to the fair value of scheme assets during the year

	30.06.14 £m	30.06.13 £m
Opening fair value of scheme assets	**422.1**	380.8
Expected return on scheme assets	**24.3**	20.3
Actuarial gains on scheme assets	**20.5**	19.2
Contributions by the employer	**18.3**	18.5
Contributions by scheme participants	**0.2**	0.2
Net benefits paid out	**(17.7)**	(16.9)
Closing fair value of scheme assets	**467.7**	422.1

Actual return on scheme assets

Expected return on scheme assets	**24.3**	20.3
Actuarial gains on scheme assets	**20.5**	19.2
Actual return on scheme assets	**44.8**	39.5

Analysis of amounts recognised in Statement of Total Recognised Gains and Losses

Total actuarial gains	**7.6**	16.5
Cumulative amount of (losses) recognised	**(140.8)**	(148.4)

History of asset values, present value of liabilities, deficit in the scheme and experience gains and losses

	30.06.14 £m	30.06.13 £m	30.06.12 £m	30.06.11 £m	30.06.10 £m
Fair value of scheme assets	**467.7**	422.1	380.8	359.8	311.6
Present value of scheme liabilities	**(566.5)**	(536.0)	(516.6)	(431.6)	(411.4)
Deficit in scheme	**(98.8)**	(113.9)	(135.8)	(71.8)	(99.8)
Experience gains / (losses) on scheme assets	**20.5**	19.2	(4.9)	24.7	10.8
Experience (losses) / gains on scheme liabilities	**(9.7)**	0.2	(3.1)	0.8	2.8

17 Deferred income

	30.06.14 £m	30.06.13 £m
Grants and contributions:		
At 1 July	**17.1**	17.7
Received in the year	**0.2**	0.1
Less amortisation	**(0.7)**	(0.7)
At 30 June	**16.6**	17.1

18 Called up equity share capital

81,350,000 ordinary shares of £1 each:		
Allotted, called up and fully paid	**81.3**	81.3

NOTES TO THE ACCOUNTS (continued)

19 Profit and loss account

	30.06.14 £m	30.06.13 £m
At 1 July	**118.8**	98.5
Profit attributable to shareholders	**163.5**	128.2
Dividends (note 7)	**(118.6)**	(119.3)
Actuarial gains net of taxation	**2.9**	11.4
At 30 June	**166.6**	118.8

20 Financial instruments

Short term debtors and creditors have been excluded from the financial instruments disclosure other than £76.0m of short term deposits (2013 - £144.7m) and £21.5m of short term borrowings (2013 - £24.3m).

The company has financed its activities through a combination of short term borrowings, long term loans and leases and bonds issued by its subsidiary company Wessex Water Services Finance Plc. At 30 June 2014 there were £100.0m undrawn facilities (2013 - nil).

a. Interest rate and currency exposure

	Fixed rate borrowings 2014 £m	**Floating rate borrowings 2014 £m**	**Total borrowings 2014 £m**	Fixed rate borrowings 2013 £m	Floating rate Borrowings 2013 £m	Total borrowings 2013 £m
Sterling	**1,548.5**	**294.0**	**1,842.5**	1,529.2	237.9	1,767.1

The average interest rates and average period to maturity of the fixed rate borrowings are as follows:

	Interest rate % 2014	**Period Years 2014**	Interest rate % 2013	Period years 2013
Sterling	**3.8**	**23.7**	3.8	24.9

Floating rate borrowings with interest rates moving in line with LIBOR comprise £76.0m of short term deposits (2013 - £144.7m), £21.5m of short term borrowings (2013 - £24.3m) and £348.5m (2013 - £358.3m) of long term borrowings.

b. Fair values

	Book value £m 2014	**Fair value £m 2014**	Book value £m 2013	Fair value £m 2013
Borrowings less than 1 year	**(54.5)**	**(54.5)**	(120.4)	(120.4)
Floating rate borrowings over 1 year	**348.5**	**348.5**	358.3	358.3
Fixed rate borrowings over 1 year	**1,548.5**	**1,832.1**	1,529.2	1,791.6
	1,842.5	**2,126.1**	1,767.1	2,029.5

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.

20 Financial instruments (continued)

c. Movement in net debt

	1 July 2013 £m	Cash Flow £m	Non cash items £m	**30 June 2014 £m**
Short term cash investments	144.7	(68.7)	-	**76.0**
Bank overdraft	(16.5)	3.4	-	**(13.1)**
Loans repayable after one year	(315.0)	-	-	**(315.0)**
Finance leases repayable within one year	(7.8)	(0.6)	-	**(8.4)**
Finance leases repayable after one year	(43.3)	9.8	-	**(33.5)**
Bonds repayable after one year	(1,529.2)	-	(19.3)	**(1,548.5)**
	(1,767.1)	(56.1)	(19.3)	**(1,842.5)**

21 Commitments and guarantees

a. There were £0.1m (2013 - £0.1m) of operating lease payments under leases on land and buildings due within the next year, which expire in over 5 years. There were no commitments under other operating leases.

b. Capital expenditure contracted but not provided at 30 June 2014 was £128.0m (2013 - £81.6m).

c. The company has guaranteed Bonds of £1,548.5m (2013 - £1,529.2m) issued by its wholly owned subsidiary company Wessex Water Services Finance Plc.

22 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.

<u>2011 UK Plan</u>

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 FRS 20 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 £0.6m was recognised in the profit and loss account for FRS 20. 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 1 July 2013 and 30 June 2014.

Granted – Ordinary shares of RM0.50 each	Outstanding 1 July 2013	Granted	Forfeited	Outstanding at 30 June 2014
01/06/2012 Unapproved	9,519,000	-	(78,000)	9,441,000
01/06/2012 Approved	41,099,000	-	(796,000)	40,303,000
TOTAL	50,618,000	-	(874,000)	49,744,000

NOTES TO THE ACCOUNTS (continued)

23 Contingent liabilities

There are no material contingent liabilities at 30 June 2014 for which provision has not been made in these financial statements.

24 Related parties

There are no related party transactions requiring disclosure in these financial statements. As the company is a wholly owned subsidiary of Wessex Water Ltd (note 25), the company has taken advantage of the exemption contained in FRS 8 'Related Party Disclosures' and has therefore not disclosed transactions or balances with entities which form part of the group.

25 Ultimate parent company

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.