

WESSEX WATER SERVICES FINANCE PLC

Annual Report and Financial Statements 30 June 2018

Registered in England and Wales No. 3704265

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STRATEGIC REPORT

Principal activities

The sole activity of the Company is to issue bonds, the proceeds of which are lent to the immediate parent company Wessex Water Services Ltd (WWSL).

The bonds are admitted to the Official List of the UK Listing Authority and to the London Stock Exchange plc.

The bond proceeds are lent to WWSL on the same terms as the bonds themselves. WWSL guarantees the bonds, hence protecting the Company from any risk.

The market and fair values of the bonds are disclosed in note 10, along with a description of the risks associated with the financial instruments.

Profit and dividend

There was no profit in the year (2017 - £nil).

The Directors did not recommend the payment of a dividend in either year.

Review of activities

The only activity of the Company is to issue Bonds on behalf of the parent company WWSL.

There are no employees and no expenses incurred by the Company.

Note 10(d) explains the strength of WWSL in terms of its Licence to operate. It also explains how the risks on the Bonds are mitigated. WWSL guarantees the bonds, hence protecting the Company from any risk.

The Directors conclude that the Company does not run any major risks and they are confident about the future viability of the Company.

The Strategic Report was approved by the Board of Directors on 3 December 2018 and signed on its behalf by:



Mark Watts
Director

DIRECTORS' REPORT

The Directors present their report and accounts for the year to 30 June 2018.

Internal control and risk management

The Company's policy on risk identification and management is subject to annual review by the Board. The Board reviews and holds ultimate responsibility for the risk process and for the identification and mitigation of risks.

Charitable and political donations

There were no charitable or political donations in either year.

Directors

The Directors of the Company during the year were;

Colin Skellett

Mark Watts

Directors' emoluments in respect of services to group companies are disclosed in the accounts of Wessex Water Services Ltd, Wessex Water Ltd and YTL Utilities (UK) Ltd (see note 12).

The Directors were granted ordinary share options of Malaysian Ringgit RM0.50 each in YTL Power International Berhad, a parent company (see note 13).

	Opening number 30/6/2017	Exercise price RM	Date of grant	Exercise date	Expiry date	Exercise	Closing number 30/6/2018
<i>2011 UK Plan</i>							
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

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 auditors are 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 auditors are aware of that information.

Re-appointment of auditor

EY LLP are engaged as auditor of the Company for the current financial year. Last year the auditor was KPMG LLP. In accordance with best practice, the Company took the opportunity to seek tenders for the audit service to rotate off the audit and appointed EY LLP as their new auditor.

By order of the Board,



Mark Watts – Director
Claverton Down
Bath BA2 7WW
3 December 2018

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Company financial statements for each financial year. Under that law they are required to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations or have no realistic alternative but to do so.

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 its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report that complies with that law and those regulations.

Responsibility statement of the Directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company; and
- the strategic report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings, together with a description of the principal risks and uncertainties that they face.

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

Opinion

We have audited the financial statements of Wessex Water Services Finance Plc for the year ended 30 June 2018 which comprise the Income statement and Statement of other comprehensive income, the Balance sheet, the statement of changes in equity, the Cash flow statement and the related notes 1 to 14, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 30 June 2018 and of its result for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Overview of our audit approach

Key audit matters	<ul style="list-style-type: none">• We have identified an inherent risk over bonds. The accounting treatment of financial instruments may be complex and thus there is a heightened risk of error in the valuation of financial instruments.
Materiality	<ul style="list-style-type: none">• Overall materiality of £8.2m which represents 0.5% of total assets.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF WESSEX WATER SERVICES FINANCE PLC
(continued)

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>Accounting for listed debt (£1.6m value of risk, PY comparative £1.6m value)</p> <p><i>Refer to the Accounting policies (page 13); and Note 8 of the Financial Statements (page 16-17)</i></p> <p>We have identified an inherent risk over bonds. The accounting treatment of financial instruments may be complex and thus there is a heightened risk of error in the valuation of financial instruments.</p>	<p>We have performed the below procedures in relation to the identified inherent risk:</p> <ul style="list-style-type: none"> • We have obtained and reviewed the key terms of the bond agreement for each of the fixed interest and indexed linked bonds and have tied through to the client prepared schedules. • We have performed a recalculation of the interest charge for the year and compared it to the interest charge as calculated by the client schedules. 	<p>We concluded that the bond interest and debt calculations are in line with the bond agreements and the accounting treatment as defined for financial instruments under IAS 39.</p>

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the company and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed. All audit work was performed directly by the audit engagement team.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the company to be £8.2 million which is 0.5% of total assets. We believe that total assets provide us with an appropriate and generally accepted benchmark for materiality for a company holding listed debt.

In the prior year audit, KPMG adopted a materiality of £32.0 million based on 2% of total assets.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the company’s overall control environment, our judgement was that performance materiality was 75% of our planning materiality, namely £6.1m. We have set performance materiality at this percentage due to a past history of few misstatements indicating a lower risk of misstatement in the financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WESSEX WATER SERVICES FINANCE PLC *(continued)*

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.4m, which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which 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.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WESSEX WATER SERVICES FINANCE PLC *(continued)*

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are:
 - Companies Act 2006
 - Financial Reporting Council (FRC)
 - Tax Legislation (governed by HM Revenue and Customs)
- We understood how Wessex Water Services Finance Plc is complying with those frameworks by reading internal policies and codes of conduct and assessing the entity level control environment, including the level of oversight of those charged with governance. We made enquiries of the Company's legal counsel and internal audit of known instances of non-compliance or suspected non-compliance with laws and regulations. We corroborated our enquiries through review of correspondence with regulatory bodies. We designed our audit procedures to identify non-compliance with such laws and regulations identified in the paragraph above. As well as enquiry and attendance at meetings, our procedures involved a review of the reporting to the above committees and a review of board meetings and other committee minutes to identify any non-compliance with laws and regulations. Our procedures also involved journal entry testing, with a focus on journals meeting our defined risk criteria based on our understanding of the business.
- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur by making enquiries of senior management. We planned our audit to identify risks of management override, tested higher risk journal entries and performed audit procedures to address the potential for management bias, particularly over areas involving significant estimation and judgement. Further discussion of our approach to address the identified risks of management override are set out in the key audit matters section of our report.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved making enquiries of key management and legal counsel, reviewing key policies, inspecting legal registers and correspondence with regulators and reading key management meeting minutes. We also completed procedures to conclude on the compliance of significant disclosures in the Annual Report and Financial Statements with the requirements of the relevant accounting standards and UK legislation.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WESSEX WATER SERVICES FINANCE PLC *(continued)*

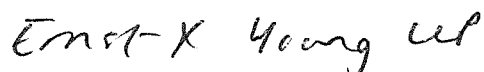
A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Other matters we are required to address

- We were appointed by the company on 6 March 2018 to audit the financial statements for the year ending 30 June 2018 and subsequent financial periods.
- The period of total uninterrupted engagement including previous renewals and reappointments is 1 year, covering the year ending 30 June 2018 .
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the company and we remain independent of the company in conducting the audit.
- The audit opinion is consistent with the additional report to the audit committee.

Use of our report

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.



Paul Mapleston (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Bristol
Date: 3 December 2018

INCOME STATEMENT AND STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2018

	<i>Note</i>	2018	2017
		£000	£000
Revenue	2	78,316	68,002
Operating cost		(78,316)	(68,002)
Operating profit		<u>-</u>	<u>-</u>
Financial income		-	-
Financial expenses		<u>-</u>	<u>-</u>
Net financing expense		<u>-</u>	<u>-</u>
Profit before and after tax, and total comprehensive income		<u><u>-</u></u>	<u><u>-</u></u>

The notes on pages 15 to 23 are an integral part of these financial statements.

BALANCE SHEET*At 30 June 2018*

	<i>Note</i>	2018 £000	2017 £000
Non-current assets			
Other financial assets	4	<u>1,605,820</u>	<u>1,584,046</u>
		<u>1,605,820</u>	<u>1,584,046</u>
Current assets			
Trade and other receivables	5	31,205	31,045
Cash and cash equivalents	6	<u>13</u>	<u>13</u>
		<u>31,218</u>	<u>31,058</u>
Total assets		<u><u>1,637,038</u></u>	<u><u>1,615,104</u></u>
Current liabilities			
Trade and other payables	7	<u>(31,205)</u>	<u>(31,045)</u>
		<u>(31,205)</u>	<u>(31,045)</u>
Non-current liabilities			
Other interest-bearing loans and borrowings	8	<u>(1,605,820)</u>	<u>(1,584,046)</u>
		<u>(1,605,820)</u>	<u>(1,584,046)</u>
Total liabilities		<u><u>(1,637,025)</u></u>	<u><u>(1,615,091)</u></u>
Net assets		<u><u>13</u></u>	<u><u>13</u></u>
Equity			
Share capital	9	13	13
Retained earnings		<u>-</u>	<u>-</u>
Total equity		<u><u>13</u></u>	<u><u>13</u></u>

Registered in England and Wales No. 3704265.

The notes on pages 13 to 21 are an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 3 December 2018 and signed on its behalf by:



Mark Watts
Director

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2018

	<i>Note</i>	Share capital £000	Retained earnings £000	Total equity £000
Balance at 1 July 2016		13	-	13
Effect of change in accounting policy		-	-	-
Balance at 1 July 2016 restate		13	-	13
Total comprehensive income for the year		-	-	-
Balance at 30 June 2017		13	-	13
Balance at 1 July 2017		13	-	13
Total comprehensive income for the year		-	-	-
Balance at 30 June 2018		13	-	13

CASH FLOW STATEMENT

For the year ended 30 June 2018

	<i>Note</i>	2018	2017
		£000	£000
Cashflow used in operating activities			
Profit for the year		-	-
<i>Adjustments for:</i>			
Financial income		-	-
Financial expense		-	-
Taxation		-	-
		<hr/>	<hr/>
		-	-
		<hr/>	<hr/>
(Increase)/Decrease in trade and other receivables		(160)	19
Increase/(Decrease) in trade and other payables		160	(19)
		<hr/>	<hr/>
		-	-
		<hr/>	<hr/>
Tax paid		-	-
		<hr/>	<hr/>
Net cashflow used in operating activities		-	-
		<hr/>	<hr/>
Increase/(decrease) in cash and cash equivalents		-	-
Cash and cash equivalents at 1 July	6	13	13
		<hr/>	<hr/>
Cash and cash equivalents at 30 June		13	13
		<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies

1.1 Basis of preparation

Wessex Water Services Finance Plc (the “Company”) is a private company incorporated, domiciled and registered in England in the UK. The registered number is 2366648 and the registered address is Wessex Water Operations Centre, Claverton Down, Bath, BA2 7WW.

The Company financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU (“Adopted IFRSs”) and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Judgements made by the Directors, in the application of these accounting policies, that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 14.

No statement of changes in equity is disclosed within the accounts, given that the company has no distributable profit within the current or prior year. A reconciliation of share capital is performed in note 9.

1.2 Measurement convention

The financial statements are prepared on the historical cost basis.

1.3 Going concern

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

1.4 Financial instruments

Cash and cash equivalents

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

Interest-bearing borrowings

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

1.5 Impairment of financial assets

Financial assets (including receivables)

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

1.5 Impairment excluding inventories and deferred tax assets (continued)

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

1.6 Expenses – Financing Income and Expenses

Revenue represents interest income on loans receivable from the immediate Parent Company. Interest receivable is calculated using the effective interest rate method. The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or liability or, where appropriate, a shorter period.

1.7 Taxation

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

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years. Current tax for the year has been nil (2017 – nil).

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax for the year has been nil (2017 – nil).

1.8 Dividends

Dividends are proposed by the Board and immediately afterwards are authorised by the shareholder and are therefore recognised as a liability in the accounts until paid. The company has not paid dividends in 2018 as there were no distributable reserves (2017 dividends paid were nil).

1.9 Issued Adopted IFRS not yet applied

IFRS 9 Financial Instruments (Mandatory for years commencing on or after 1 January 2018)

The Company's financial assets and liabilities can all be classified as amortised cost under IFRS 9 and as such there will be no impact from adoption of the new standard. The current methodology for calculation of impairment of trade receivables is expected to closely align with the "expected credit losses" model required by IFRS 9, however the impact is still being determined.

NOTES TO THE FINANCIAL STATEMENTS (continued)**2 Operating profit**

There were no expenses incurred by the company in either year as they were borne by other group companies. Audit fees were £3k (2017: £3k).

The Directors did not receive any remuneration from the Company during the year ended 30 June 2018 (2017: £nil). The Directors did not receive any remuneration from the Parent Company in respect of this company (2017: £nil). Other than the directors, the company had no employees.

3 Finance income and expense

	2018	2017
	£000	£000
<i>Finance income</i>		
Interest receivable from parent company	78,316	68,002
Total finance income	78,316	68,002
<i>Finance expense</i>		
On bond issues	(78,316)	(68,002)
	(78,316)	(68,002)
Net interest payable	-	-

4 Other Financial Assets

	2018	2017
	£000	£000
Non-current		
Intercompany loans repayable in more than 12 months	1,605,820	1,584,046
	1,605,820	1,584,046

Intercompany Loans consist of bonds lent to the parent with the same terms as bonds issued by the Company. See Note 8 for details of bonds issued by the Company.

5 Trade and other receivables

	£ 000's	£ 000's
Interest receivable	31,205	31,045
	31,205	31,045

This is interest receivable from the immediate parent.

6 Cash and cash equivalents

	2018	2017
	£000	£000
Cash at bank	13	13

NOTES TO THE FINANCIAL STATEMENTS (continued)
7 Trade and other payables

	2018 £000	2017 £000
Current		
Interest payable	31,205	31,045
	<u>31,205</u>	<u>31,045</u>

8 Other interest-bearing loans and borrowings

	2018 £000	2017 £000
Non-current liabilities		
Bank loans	-	-
Finance lease liabilities	-	-
Listed Bonds	1,605,820	1,584,046
	<u>1,605,820</u>	<u>1,584,046</u>

	Currency	Nominal interest rate	Year of maturity	Maturity value 2018 £000	Carrying amount 2018 £000	Maturity value 2017 £000	Carrying amount 2017 £000
<i>Listed bonds</i>							
Fixed Rate Bond	Sterling	5.375%	2028	200,000	198,595	200,000	198,487
Fixed Rate Bond	Sterling	5.75%	2033	350,000	346,178	350,000	346,021
Fixed Rate Bond	Sterling	4.00%	2021	300,000	302,095	300,000	302,764
Index Linked Bond	Sterling	3.52%	2023	50,000	77,705	50,000	75,511
Index Linked Bond	Sterling	2.186%	2039	50,000	65,003	50,000	62,889
Index Linked Bond	Sterling	1.75%	2046	75,000	104,516	75,000	101,565
Index Linked Bond	Sterling	1.75%	2051	75,000	104,516	75,000	101,566
Index Linked Bond	Sterling	1.369%	2057	75,000	104,517	75,000	101,566
Index Linked Bond	Sterling	1.374%	2057	75,000	104,517	75,000	101,566
Index Linked Bond	Sterling	1.489%	2058	50,000	66,059	50,000	64,037
Index Linked Bond	Sterling	1.495%	2058	50,000	66,059	50,000	64,037
Index Linked Bond	Sterling	1.499%	2058	50,000	66,060	50,000	64,037
				<u>1,400,000</u>	<u>1,605,820</u>	<u>1,400,000</u>	<u>1,584,046</u>

The Index-linked bonds accrue annually in line with the Retail Prices Index each year. Maturity value is the agreed contractual repayment value at the inception of the loan.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

8 Other interest-bearing loans and borrowings *(continued)*

Changes in liabilities arising from financing activities

	1st July 2017	Cash flows	Reclassi- fied on disposal	Foreign exchange	Changes in fair value	New leases	Other	30th June 2018
	£m	£m	£m	£m	£m	£m	£m	£m
Non-current interest-bearing loans and borrowings (excluding items listed below)	1,584,046	-	-	-	-	-	21,774	1,605,820
Total liabilities from financing activities	1,584,046	-	-	-	-	-	21,774	1,605,820

The 'Other' column includes the effect of reclassification of the non-current portion of interest-bearing loans and borrowings and the effect of accrued but not yet paid interest on interest-bearing loans and borrowings. The company classifies interest paid as cash flows from operating activities.

9 Share capital

Ordinary shares

	2018 £	2017 £
Authorised		
<i>Allotted, called up and fully paid</i>		
49,998 shares of £0.26 each	12,999	12,999
2 shares of £1 each	2	2
Issued at 30 June 2017	13,001	13,001
Shares classified as liabilities	-	-
Shares classified in shareholders' funds	13,001	13,001
	13,001	13,001

NOTES TO THE FINANCIAL STATEMENTS (continued)**10 Financial Instruments****(a) Fair values of financial instruments**

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

The fair values of long term intercompany loans are classified as level 1 in the IFRS 13 fair value hierarchy and have a carrying value of £1,605,820k and a fair value of £2,158,759k.

The fair values of long term fixed rate listed bonds are classified as level 1 in the IFRS 13 fair value hierarchy and have a carrying value of £1,605,820k and a fair value of £2,158,759k.

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

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

	Carrying amount 2018 £000	Fair Value 2018 £000	Level 1 2018 £000	Level 2 2018 £000	Carrying amount 2017 £000	Fair Value 2017 £000	Level 1 2017 £000	Level 2 2017 £000
Loans and receivables								
Cash and cash equivalents (Note 6)	(13)	(13)		(13)	(13)	(13)		(13)
Intercompany loans repayable in more than 12 months (Note 4)	(1,605,820)	(2,158,759)	(2,158,759)	-	(1,584,046)	(2,240,914)	(2,240,914)	-
Total financial assets	(1,605,833)	(2,158,772)	(2,158,759)	(13)	(1,584,059)	(2,240,927)	(2,240,914)	(13)
Other interest-bearing loans and borrowings (Note 8)	1,605,820	2,158,759	2,158,759	-	1,584,046	2,240,914	2,240,914	-
Total financial liabilities	1,605,820	2,158,759	2,158,759	-	1,584,046	2,240,914	2,240,914	-
Total financial instruments	(13)	(13)	-	(13)	(13)	(13)	-	(13)

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

10 Financial Instruments *(continued)*

(b) Credit risk

Financial risk management

Credit risk is the risk of financial loss to the Company if the parent company fails to meet its contractual obligations.

This risk is mitigated as the parent company has a credit rating BBB+ by Moody's, also maintains its gearing ratio under 70%.

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

	2018	2017
	£000	£000
Cash and cash equivalents	13	13
	13	13

(c) Cash flow hedges

The Company does not have any cash flow hedges (2017 – none).

(d) Liquidity risk

Financial risk management

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)**10 Financial Instruments (continued)**

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

	Carrying amount	Contractual cash flows	Year 1	Years 2 to 5	Over 5 years
	2018 £000	2018 £000	2018 £000	2018 £000	2018 £000
Non-derivative financial instruments					
Inter-company loans	1,605,820	4,785,408	57,368	523,047	4,204,993
Total financial instruments	<u>1,605,820</u>	<u>4,785,408</u>	<u>57,368</u>	<u>523,047</u>	<u>4,204,993</u>
	Carrying amount	Contractual cash flows	Year 1	Years 2 to 5	Over 5 years
	2017 £000	2017 £000	2017 £000	2017 £000	2017 £000
Non-derivative financial instruments					
Inter-company loans	1,584,046	3,852,556	56,700	530,300	3,265,556
Total financial instruments	<u>1,584,046</u>	<u>3,852,556</u>	<u>56,700</u>	<u>530,300</u>	<u>3,265,556</u>

(e) Market risk

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

Interest rate risk

At the year

	2018 £000	2017 £000
Fixed rate instruments	846,868	847,272
Floating rate instruments	-	-
Index linked instruments	<u>758,952</u>	<u>736,774</u>
	<u>1,605,820</u>	<u>1,584,046</u>

The Company policy is to keep an appropriate mix of fixed rate and index linked financial instruments.

Sensitivity

There are no floating rate instruments where the interest charge is subject to changes in the interest rate.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

10 (f) Capital Management

For the purpose of the Company's capital management, capital includes issued capital, share premium and all other equity reserves attributable to the equity holders of the parent. The primary objective of the Company's capital management is to maximise the shareholder value.

The Company manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the financial covenants. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Company monitors capital using a gearing ratio for the parent company Wessex Water Services Ltd (WWSL), which is net debt divided Regulatory Asset Base (RAB). The Company's policy is to keep the gearing ratio of WWSL below 70%. The Company includes within net debt, interest bearing loans and borrowings, less cash and short-term deposits.

11 Contingencies

There are no material contingent liabilities at 30 June 2018 for which provision has not been made in these accounts (2017: £nil)

12 Related parties

There were no transactions with Directors.

There have been no transactions with pre-penultimate, penultimate and ultimate holding companies described in note 13.

Significant transactions with related parties

	2018	2017
	£000	£000
Sales of goods and services:		
Immediate holding company	78,316	68,002
Year-end balances owing by:		
Immediate holding company	1,605,820	1,584,046

13 Ultimate parent company and parent company of larger group

The immediate parent company is Wessex Water Services Ltd.

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.

14 Accounting estimates and judgements

In preparing the financial statements and applying the accounting policies, the Company is required to make reasonable estimates and judgements based on the available information. The carrying value of bonds is based on known factors determined by the bond agreements and fair values as estimates as described in note 10.

