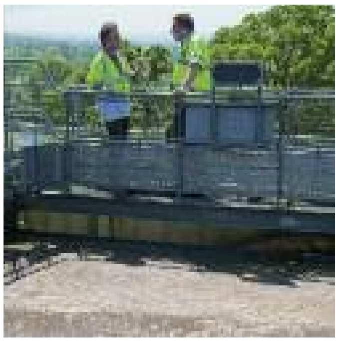
2012 annual review and accounts

striking the balance



Wessex Water

a YTL company

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About this report

This annual review combines our reporting on finance, performance and sustainability.

For further information on our sustainability programme see our website **www.wessexwater.co.uk**

About Wessex Water

Our aims

Wessex Water aims to provide high quality, sustainable water and environmental services which:

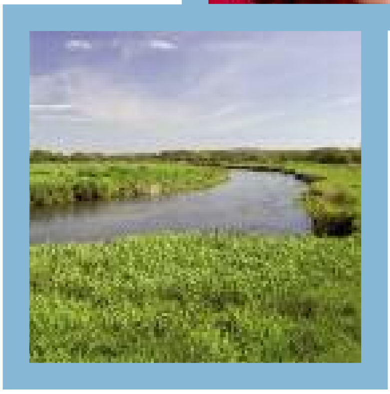
- give customers good service and value for money
- protect and improve the environment
- provide employees with the opportunity for personal development and a satisfying career
- give our investors a good return on their investment.

Our values

We aim to be the best and value everybody's contribution in our pursuit of excellence.

We are honest and ethical in the way we conduct our business.

We treat one another, our customers and the environment with respect.



Facts and figures

Wessex Water supplies 1.3 million customers with around 280 million litres of water a day.

We have:

- 97 water sources
- 110 water treatment works
- 209 booster pumping stations
- 340 service reservoirs and water towers
- and some 11,500 kilometres of water mains.

Wessex Water takes away and treats around 470 million litres of sewage from 2.7 million customers every day.

Our sewerage system includes over:

- 35,000 kilometres of sewers
- 400 sewage treatment works
- 1,600 pumping stations.

THE WESSEX WATER REGION

Financial highlights

- Regulatory capital value £2,543m
- Turnover £467.5m
- Debt to capital value ratio 64%.

Chairman's introduction

The past year once more presented Wessex Water with a set of challenging conditions to which the company and its staff have again responded magnificently.

We have delivered a strong set of results, with the best levels of customer service, the highest levels of customer satisfaction, meeting all regulatory outputs and beating efficiency targets.

We put our customers at the heart of everything we do and last year we once more topped Ofwat's service incentive mechanism (SIM) performance league table – the fourth consecutive year that we have provided the highest levels of customer service and satisfaction in the industry.

The frost, snow and ice of 2010-2011 were replaced in 2011-2012 by another dry winter that brought environmental drought to much of our region until the exceptional rainfall in April.

It is now 35 years since water use restrictions were last placed on our customers. We have invested considerably to improve the resilience of our network and reduce leakage and this, together with a great contribution from customers in reducing water use, meant we were able to maintain this record. We were also able to pump water into key sections of rivers to maintain flows.

Our resilience is being further improved by the construction of our regional water grid, which has now begun and will continue until 2018.

Over the year we responded to the drought by beating our leakage target and fixing 12,000 leaks in the process. Despite the population of our region growing by 15% in the last 20 years, we continued to reduce the amount of water we needed to extract from the environment for public water supplies to 334Ml/day – the lowest ever level.

Last October government required us to take ownership and responsibility for the performance and operation of around 17,000 kilometres of private sewers – doubling the length of our sewer network. Our planned approach to the transfer meant that to date we have absorbed the additional costs within the current price limits set by Ofwat and seen no reduction in customer satisfaction as a consequence.

As the difficult economic climate and the squeeze on incomes continues we are working hard to ensure that our charges are affordable for all. More than 12,000 households are now benefiting from our affordability schemes to reduce bills and help those who have fallen into debt.

Our compliance with drinking water standards continues to exceed 99.9% and compliance with sewage discharge consents continued at 100%. Our compliance with the EU's mandatory bathing water standards is 100% while compliance with the stricter guideline standard is 89.4%.

We were the leading water company in the government's Carbon Reduction Commitment league table at 30th place out of around 2,000 companies. We have reduced our costs under this scheme as well as our energy consumption – a clear indicator of our commitment to efficiency.

We have made very good progress in delivering our quality and environmental programme and wherever possible we continue to be innovative by developing lowest whole-life cost sustainable solutions and trialling new technologies, rather than building conventional end-of-pipe treatment.

Our work continues to improve storm overflows and we have expanded our programme to install telemetry at coastal overflows, ahead of our environmental obligations. In addition to this we have completed schemes to reduce pollution from storm overflows in Weymouth, in preparation for this summer's Olympic and Paralympic sailing events.

Operating profit increased from £212.1m to £219.0m but the increased cost of financing the business and an increase in taxation, resulted in a reduction of profit after tax from £115.5m to £93.2m.

During the year our capital investment totalled £178m, making a significant contribution to the economy in our region, creating and sustaining jobs and investment across the supply chain. Our efficiency allowed us to deliver a post-tax return of 6.6%.

The work of our customer liaison panels ensures direct input from our customers and ensures that their views inform everything we do and I would like to take this opportunity to thank all the members for their invaluable contribution.

It would be unrealistic to expect the next few years to prove anything other than difficult for customers and businesses alike. But at Wessex Water we will continue to meet the challenge of delivering services to customers and the environment in the most efficient and affordable way possible.

Our efficiency and service quality have made us industry leaders. As a result, customers' bills are lower than they would have been and we have been able to deliver the returns our investors require. With the help of our dedicated and committed staff we will ensure this remains the case.

Colin Skellett
Chairman

Highlights

- We completed our 35th consecutive year without imposing water use restrictions for customers despite exceptionally dry weather.
- Our water abstraction from the environment has continued to fall – made possible by reducing leakage and encouraging customers to use water wisely.
- We once again beat our leakage target, fixing 12,000 leaks in the process.
- We continued design of a water supply grid to add further resilience to supplies and facilitate the transfer of spare water to neighbouring regions in future.
- For the fourth year in a row we have topped Ofwat's league tables for customer service.
- We further improved customer satisfaction while taking on responsibility for the performance and operation of 17,000 kilometres of private sewers – doubling the length of our sewer network.
- We helped more than 12,000 vulnerable households with our affordability schemes.
- We achieved operating efficiency savings offsetting inflation and delivered our capital investment in the first two years of this regulatory cycle at 20% below the allowed cost.
- We achieved a post-tax return of 6.6%.
- We met all of our required environmental outputs.
- We won a number of awards from stakeholders and partners.
- We were named Utility of the Year at the annual utility industry achievement awards.
- We were named by the Scottish Water regulator as the most efficient retailer of water services in Britain.
- We were named as the leading water company in the government's Carbon Reduction Commitment league table.

The past year

Our financial results reflect our strong focus on efficiency, with operating profit increasing from £212.1m to £219.0m. However, the increased cost of financing the business together with an increase in taxation, reduced profit after tax from £115.5m to £93.2m.

Turnover increased by £22.6m or 5.1% to £467.5m, largely as a result of a 2011-12 average price increase of 5.4% offset by a reduction from customers switching to meters.

Operating costs increased from £126.2m to £135.8m. However, these figures are distorted by a large accounting credit adjustment in the prior year in respect of a change in the definition of pensionable salary for pension accounting. Additional business taxes accounted for £4.4m of the increase, and the additional annual running cost of achieving new environmental obligations was a further £0.6m. Like-for-like operating costs therefore rose by just £1.0m (0.8%), a good result considering the relatively high level of price inflation in the economy.

Interest charges increased from £62.2m last year to £81.5m this year. The increase is primarily due to higher inflation on index linked bonds. During the year we successfully refinanced a £75m term loan that matured and issued a new £200m fixed rate bond which will mature in 2021. Continued access to capital at reasonable rates is essential and our history of delivery has enabled us to raise finance at amongst the lowest rates in the industry.

The corporation tax charge in the year was £19.6m, a reduction of £15.3m from last year, reflecting a one-off credit for the tax treatment of certain infrastructure income and a reduction in the corporation tax rate. Meanwhile deferred tax increased by £25.2m primarily because of a reduction in the discount rate we are required to use in the calculation.

Our regulatory capital value increased by £147m, from £2,396m to £2,543m. Gearing at 31 March 2012, calculated as net debt divided by regulatory capital value, was 64%.

The principal risks faced by the business are shown on pages 39 and 40.

Our service performance is summarised opposite.

Our service performance is summarised below.

Service to customers and the environment	Service level 2005-10 average	Service level 2010-11	Service level 2011-12	Service vs 2005-10 average
CUSTOMER SERVICE				
SIM customer satisfaction score	New measure	89%	91%	Industry leader
SIM customer contact score (lower is better)	New measure	119	109	Industry leader
Billing contacts dealt with in 5 days	100%	100%	100%	Same
Written complaints dealt with in 10 days	100%	100%	100%	Same
WATER SUPPLY				
Water quality compliance	>99.9%	>99.9%	>99.9%	Same
Properties at risk of receiving low pressure	178	173	166	Better
Properties experiencing supply interruptions over 12 hours	79	61	21	Better
Properties experiencing supply restrictions	0%	0%	0%	Same
Total leakage (million litres per day)	73	71	69	Better
SEWERAGE				
Properties at risk of internal flooding more than once in 10 yrs	345	102	92	Better
Properties internally flooded	126	94	108	Better
ENVIRONMENTAL STANDARDS				
Compliance with EA abstraction licences	100%	100%	100%	Same
Population served by compliant sewage treatment works	99.9%	100%	100%	Better
Number of pollution incidents	105	85	66	Better
Beaches meeting mandatory standards	100%	100%	100%	Same
Satisfactory sludge disposal	100%	100%	100%	Same
Greenhouse gas emissions (tonnes CO_2 equivalent)	161,000	160,000	149,000	Better

Awards

Our performance and innovation during the year were recognised by a number of awards. We were particularly pleased to be named Utility of the Year at the annual Utility Industry Achievement Awards. In addition:

- our Target Twenty water efficiency campaign won two awards, including Best Marketing Campaign at the annual Utility Industry Achievement Awards
- we won People Initiative of the Year at the Water Industry Achievement Awards for our work with the Prince's Trust
- our innovative low carbon, low cost approach to the refurbishment of the sewage treatment works at Weymouth won two 3R (Refurb, Rethink, Retrofit) awards.

Customers and community

Our aim is to provide the best possible service to all our customers and last year we were once again the industry leader of Ofwat's service incentive mechanism. But we continue to look for ways to improve customer service and meet expectations, focusing on resolving problems first time, improving our processes and speed of response and improving communication.

In brief

- Best performing water and sewerage company in England and Wales.
- Assisted more than 12,000 vulnerable households with our affordability schemes.
- Improved customer satisfaction while taking on responsibility for the performance and operation of 17,000 kilometres of private sewers – doubling the length of our sewer network.
- Received Wiltshire Citizens Advice Bureau Best Partner award for our successful partnership working with Wiltshire CAB and other CABs across our region.
- Retained our government Customer Service Excellence award.
- Improved and proactive service – complaints fell by 40%.
- Ongoing work to tackle local incidents of discoloured water.
- High levels of engagement and communication, eg, use of Smartphone apps.
- Advice on reducing bills and becoming more water efficient.
- Improved voice for customers through our liaison panels and scrutiny group.

In detail

Customer service

Last year we were once again the industry leader of Ofwat's service incentive mechanism. However, led by our internal customer experience group we continue to look for ways to improve customer service and meet expectations. We focus on resolving problems first time, improving our processes and speed of response and improving communication.

If things go wrong we work hard to resolve complaints at first stage and offer no quibble compensation where we fail.

Both billing and operational complaints have fallen again this year, with total complaints falling by 40%.

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

During the last year we set up a customer scrutiny group (CSG) to work with us over the next few years as we develop our five-year and 25-year business plans for the regulator Ofwat. The CSG will make sure our customer research is robust and reflects the views of all customer groups across our region and together with the work of our customer liaison panels ensures more feedback from our customers to inform everything we do.

Affordability, tariffs and debt recovery

Our work with Citizens Advice, the Money Advice Trust and local debt advice agencies to help customers who have difficulty paying their bills remains of the utmost importance.

This year around 12,000 customers benefited from our tariffs including the Assist scheme, enabling those with the greatest difficulty in paying to make a modest contribution towards water and sewerage costs, and the Restart scheme, aimed at getting customers back on track with payments.


A meeting of our customers and communities panel

In September 2011 we received the Best Partner award from Wiltshire Citizens Advice Bureau in acknowledgement of our innovative work on affordability and the success of our partnerships with CAB across our region.

Drinking water quality

Reducing the risk of discoloured water remains a high customer priority and during 2011 significant mains rehabilitation work was completed in Bridgwater and West Somerset. Over the next two years the mains water system will also be improved in the Taunton area.

We are removing as much of the lead pipe as possible by proactively changing pipework identified through our monitoring programmes and in response to customer enquires.

Sustainable management of nitrate levels in our water sources continues through our catchment management work. Expert advice is provided to farmers so that they can optimise their use of fertiliser while still maintaining crop yields and thus reduce the quantity of surplus nitrate.

Education and water efficiency

We continue to work with customers across our region to engage them in what we do and encourage them to use water wisely.

Over the last year our education advisers met with more than 13,500 pupils at schools or at our education centres. They delivered lessons about our water and sewage treatment as well as activities on environmental topics and water saving.

We provide educational information to customers through our website and publications, encourage use of our online water and energy calculator, attend events and offer our free home water audits. We promote water efficient products to customers through our online shop as well as distributing free WaterSave packs which include a save a flush bag, a shower timer, a shower regulator and a self audit form.

A water audit under way at a customer's home

We provided a free water audit service to businesses and schools to encourage water efficiency and identify any areas where they can reduce their usage.

We launched our Bag it and Bin it app, which is free to download, communicating to people what should and should not be put down the toilet.

Watermark awards

We continue to support community projects through our Watermark Awards. The grant scheme is organised by the Conservation Foundation and can help any organisation with their environmental projects.

Challenges

- Providing good, affordable service and managing customer debt in the current economic climate.
- Ensuring bills are sustainable for all.
- Engaging customers in saving water and addressing concerns about drought.

Customers and community: Target Twenty campaign

Our customer engagement activities were particularly visible during the period of environmental drought earlier this year. Through both national media coverage and heightened local awareness, customers have become more informed about the importance of using water wisely and the relationship between water and the environment.

Our award-winning Target Twenty campaign was launched in summer 2011 and is an ongoing customer engagement initiative aimed at delivering water efficiency messages and tips to our customers and to raising awareness of the importance of conserving water.

The campaign encourages domestic customers to be H_2O heroes by saving 20 litres of water per person per day. Customers pledge to save water through simple changes to their daily habits and can do so online or request a form from our call centre.

Our website details tips and actions such as installing a save a flush and turning the tap off when you brush your teeth, along with their associated savings, allowing customers to decide what they could do, and how they could achieve their saving. Many of the pledged actions are reductions to hot water use, such as reducing showering time, also helping customers achieve energy savings as well.

We launched an H_2O hero competition in autumn 2011 to encourage younger generations of customers to share their families' water saving tips. Many customers entered the competition, sharing alternative and innovative ways of saving water in their homes and gardens.

The aim of the campaign was to engage with as many customers as possible and overall last year our customers saved three million litres of water every single day. The campaign has also raised awareness of the free devices we offer to customers and last year more than 30,000 devices were sent out.

Target Twenty won Best Marketing Campaign at the annual Utility Industry Achievement Awards.

TARGET TWENTY

One of our H_2O heroes

Customer liaison panels

We have two panels linked directly to customers – one for domestic customers and communities and one for business customers.

Customers and communities panel

This panel, chaired by Gillian Camm, one of Wessex Water's non-executive directors, focuses on domestic customers and covers issues such as investment priorities, customer policy and standards of service, accessibility to services, affordability and help for low income households, public health issues and the company's community initiatives.

The panel includes representatives from local authorities and a diverse range of organisations, bringing expertise from a variety of areas; understanding customers' issues and hearing the latest thinking from experts helps improve the service we provide.

Business customers panel

The business customer panel is chaired by John Coppack, managing director of Bristol Wessex Billing Services Ltd. It focuses on issues relevant to businesses of all sizes and comprises members from a variety of businesses enabling access to a range of views across our 90,000 business customers, helping us to address their individual business needs.

From 2016 changes in regulation surrounding retail competition mean business customers will be able to choose their water supplier. Working closely with them now is important if we are to retain their business in future.

Our finance

Finance

We need to give confidence to investors that we are operating in an efficient and sustainable way to ensure they continue to invest. We strive to create long-term stability to achieve long-term investment without which our business would not operate properly.

Our business is an energy intensive one and energy costs for last year were in the region of £18m. Through reducing our energy consumption we were able to save 5% of these costs. By working to reduce our carbon footprint we are also able to reduce the associated tax while also cutting down our impact on the environment.

In brief

- We continue to attract amongst the lowest financing costs in the industry.
- We achieved a post-tax return of 6.6%.
- Savings of approximately £1m against budget through the in-house energy bonus scheme.
- Savings in power consumption achieved this year reduced the cost of CRC by approximately £80k.
- Long-term stability in charges and an appropriate level of investment in our assets for environmental improvements and a return to our shareholder.
- Reduction in the operational costs of our business through highlighting key areas of savings such as energy efficiency initiatives.

In detail

Finances

In the second year of the current price review period, against a background of difficult economic conditions for all our customers, we have been able to produce a very solid set of financial results for the year. Operating profit increased from £212.1m to £219.0m. However, allowing for an increase in finance costs, along with an increase in deferred taxation, profit after tax fell from £115.5m to £93.2m.

Turnover

Turnover increased by £22.6m or 5.1% to £467.5m. This is principally as a result of the 2011-12 allowed price increase from Ofwat of 5.4%. Overall the level of metered sales held up well in the year, but there was a reduced income effect from customers switching to meters.

Operating costs

Operating costs increased from £126.2m to £135.8m. However, these figures are distorted by a prior year accounting credit in respect of a change in the definition of pensionable salary for pension accounting. Without this adjustment operating costs rose by £6.0m. There were increases in business rates (which accounted for £2.9m of this increase), carbon tax and the cost of new obligations. However, this was offset by some efficiency savings.

Capital investment

In 2011-12 we delivered gross capital expenditure of £178m (£172.6m net), which is a considerable increase on £109.0m net last year. And after two years of the current price review period (AMP5) our capital expenditure represents 80% of the Final Determination. During the year we have delivered more regulatory outputs than required in our determination, while successfully taking on the responsibility for private sewers halfway through the year which doubled the size of our sewerage network.

The Drinking Water Inspectorate (DWI) reviewed all the AMP5 quality projects and was satisfied that project planning and progress is as expected. The Environment Agency (EA) has also signed off the total number of outputs required under the National Environment Programme (NEP). One output could not be completed in the year due to the prolonged dry weather, an alternative output was advanced in its place and the original output has subsequently been completed as a result of the recent wet period and signed off by the EA.

We have been able to deliver the capital outputs despite the following constraints:

- a slower start to investment in circumstances where we were not allowed an early-start programme
- delays due to increasingly more stringent third party land and planning constraints
- ongoing lower levels of customer-led investments including metering
- a review of our risk-based prioritisation to ensure we were targeting our investment in the right areas having overspent capital maintenance against determination in AMP4.

In addition, there has been significant volatility around capital price inflation and this has had an effect on our spend against determination to date in the AMP.

Historical cost capital maintenance charges (depreciation and the infrastructure maintenance charge) increased by £6.1m from £106.6m to £112.7m. The increase is a result of a £6.3m increase in the infrastructure maintenance charge, while depreciation reduced by £0.2m as the increase in income on disposal of assets exceeded the increase in base depreciation from the continuing capital investment programme.

Interest and tax

Interest charges increased from £62.2m last year to £81.5m this year. The major factor behind this increase was the inflation rate on index linked bonds which accrue based on March and November RPI figures.

For the November based index linked bonds the interest charge for the majority of 2010-11 was based on the November 2009 RPI of 0.3% but for 2011-12 was based on the November 2010 RPI of 4.7%. The other factor increasing interest charges was the increase in net debt of £86.6m during the year. In all the cost of debt increased from 3.8% last year to 5.1% this year.

The corporation tax charge in the year was £19.6m, a reduction of £15.3m from £34.9m last year. There was a one-off credit of £8.8m in the current year following agreement with HMRC over the tax treatment of certain infrastructure income. The reduction in the corporation tax charge was also helped by the fact that the corporation tax rate fell from 28% last year to 26% this year.

Members of the Wessex Water energy team at Shaftesbury sewage treatment works in Dorset

Deferred tax moved significantly from a small credit of £0.5m last year to a charge of £24.7m this year. This movement of £25.2m consists of a £18.4m reduction in deferred tax discounting and a £6.8m lower reduction in gross deferred tax than last year.

Deferred tax discounting fell because the discount rate used at the year end had fallen significantly compared to the previous year.

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 wishes to ensure that gearing stays at or below 70% in order to secure the current credit ratings and ongoing access to the capital markets.

Cashflow and finance

Net debt increased by £86.6m to £1,626.1m. This comprised:

- cash inflow from operating activities of £303.2m, less
- capital investment cash outlay of £149.7m, less
- interest payments of £79.2m, less
- tax payments of £31.5m, less
- dividend payments of £129.4m.

In the past year we have refinanced a maturing £75m term loan and issued a new £200m 4% fixed rate bond which will mature in 2021. As a result liquidity at year end was £236m comprising £211m cash bank deposits and £25m undrawn bank facilities.

The regulatory capital value increased by £147m, from £2,396m to £2,543m, of which £86m related to the impact of inflation. Gearing at 31 March 2012, calculated as net debt divided by regulatory capital value, was 64%.

Energy bonus

Energy use has been a major focus of operations during 2011-12; with an annual bill of almost £19m for 2010-11 it represents a significant proportion of our operational costs.

As a result the energy bonus was introduced in March 2011.

It is a scheme designed to engage all operational staff who have an impact on energy consumption, from operators up to senior managers. To ensure staff had the knowledge required to save energy on their sites we introduced a range of methods, eg, interactive energy audits, energy calculators, regular reports and competition between the teams via energy league tables.

The end result was a £1m saving against the budget during 2011-12.

Triad information

Triads (times of peak demand between November and February in the electricity network) cost us almost £350,000 in 2010-11 – a substantial portion of our annual electricity bill, particularly significant since triad only applies to around 200 of our larger sites, out of 2,500 with an electricity supply.

It is a cost over which we have some control; if we do not use electricity at triad times we can avoid these extra charges which are typically 700 times more than electricity used outside these times.

Operational staff focused on avoiding these periods during 2011-12, both by improving our control systems to account for high cost electricity periods and reacting on the day to triad warnings received from the control room.

As a result our triad costs were reduced to £300,000 for 2011-12 despite the year on year increase in the triad rates.

Challenges

- Continuing to secure long-term financing, ensuring sustainability and stability for the business.
- Developing innovative technologies to improve efficiencies and ensure continuous savings, particularly in energy.
- Avoiding the creation of waste in order to make savings on landfill taxes.

Finance: leakage

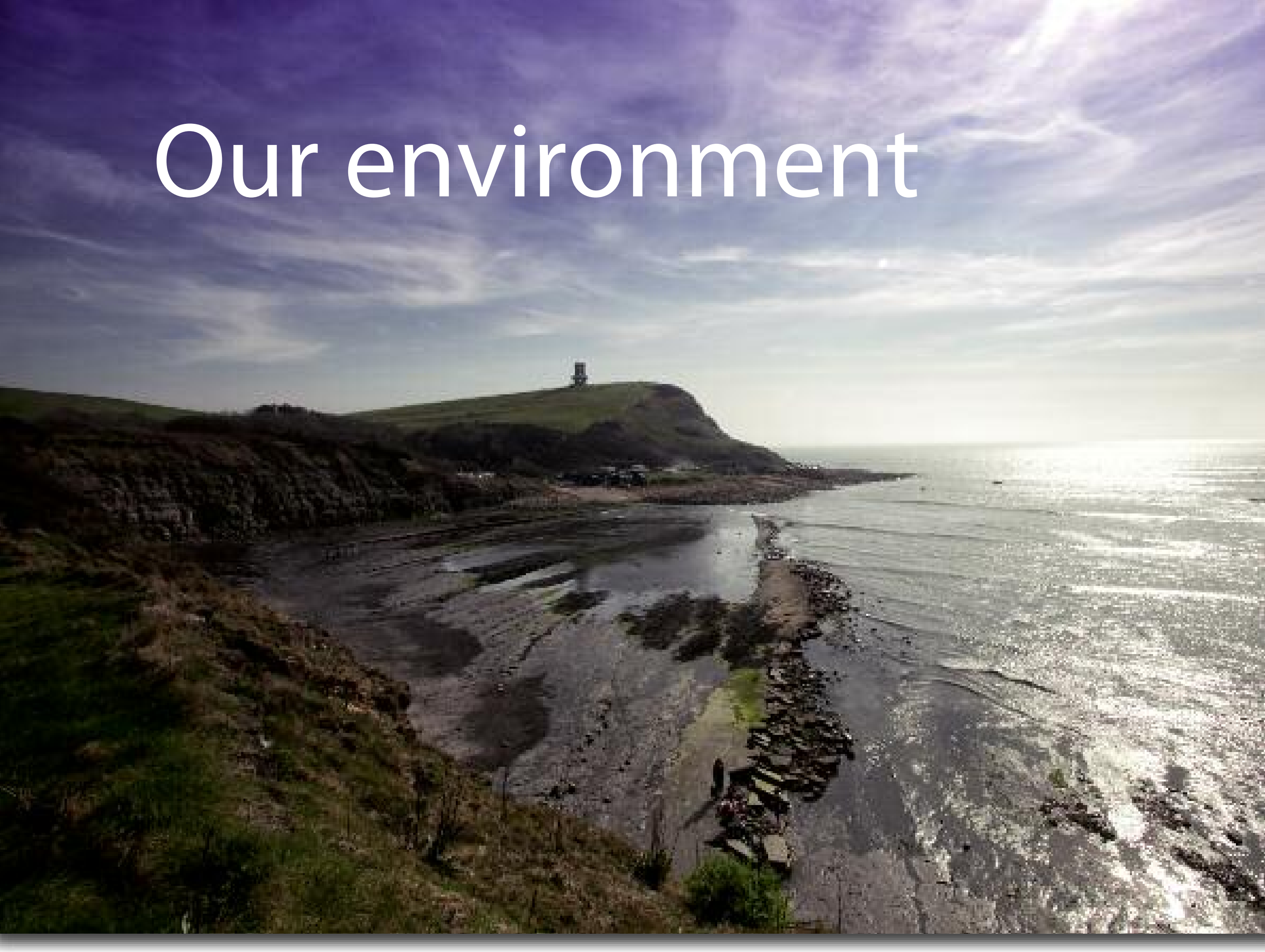
To ensure we are able to meet current and future water demand, we are always looking at ways to reduce wastage through leakage. We repair more than 1,000 leaks every month on our network of 11,500km of water mains and in excess of 500,000 service pipes.

The target for leakage is set at 71Ml/d (megalitres per day) by our regulator Ofwat and we aim to keep below that. Ofwat bases the target on the economic level of leakage – the point at which the cost of fixing leaks outweighs the benefits.

Our leakage technicians and repair teams use innovative technology and employing hydrophone equipment, for instance, for targeting trunk main leakage has proved very successful. We continue to maintain our pressure management areas by carrying out planned preventative maintenance on pressure control valves.

We monitor the supply network by analysing information from specialist data loggers that measure water pressure at strategic points. Together with maintenance this has enabled us to make considerable leakage savings and allowed us to respond as early as possible to potential bursts and to detect leaks.

These innovations have helped us to continue to drive leakage lower than the target agreed with Ofwat.



Our environment

The environment customer liaison panel

The environment panel is chaired by Julian Dennis, director of compliance and sustainability, and focuses on environmental issues such as biodiversity, particularly on our own landholding, Sites of Special Scientific Interest (SSSIs), water resources and our sustainability vision.

The panel comprises members from organisations such as councils, National Farmers Union (NFU), Country Landowners Association, the Environment Agency, RSPB, Surfers Against Sewage and Natural England. Experts in their fields, their knowledge, ideas and guidance help us build a strong business plan.

In brief

- 99.98% compliance with drinking water standards.
- 100% compliance with sewage discharge consents.
- 100% compliance with mandatory bathing water standard for 7th year in a row and 89.4% compliance with stricter guideline standard.
- 98% of our SSSI landholdings are now in favourable or recovering status.
- Leading water company in the Carbon Reduction Commitment (CRC) league table.
- Won a bid to Defra to receive funding for a collaborative catchment initiative on the rivers Frome and Piddle in Dorset.
- Won a Green Apple Gold award for catchment management work and a silver award in the International Green awards.
- Won a Green Apple award for waste reduction and recycling work which will help us to meet our goal of zero waste to landfill by 2020.
- Launch of our wildlife calendar on the Wessex Water website, promoting wildlife and conservation in our region.

In addition we have continued:
- improving our discharges to reduce the impacts on aquatic life and deliver cleaner rivers and beaches
- improving the diversity of the wildlife on the land we own, much of which has public access
- looking for ways to work together to deliver more sustainable solutions with multiple environmental benefits.

In detail

Quality and environmental programme
We have made very good progress in delivering the AMP5 quality and environmental programme. Wherever possible we continue to be innovative by developing lowest whole-life cost sustainable solutions and trialling new technologies, rather than building conventional end-of-pipe treatment, which includes our successful sustainable phosphorus removal trial at Somerton sewage treatment works.

Catchment management
Our catchment management activities have expanded to cover 15 catchments where nitrate or pesticide pollution is having an impact on raw water quality. We now have a team of six professionals providing advice and working in partnership with farmers to help reduce the impact of agriculture on our aquifers and reservoirs.


Work at Weston-super-Mare, below, will improve the quality of discharges to bathing waters such as Sand Bay

Storm overflows and Coastwatch

Our work to improve storm overflows continues and we have sped up our programme to install telemetry at coastal overflows, ahead of our environmental obligations. In addition to this, we have completed schemes to reduce pollution from storm overflows in Weymouth, in preparation for this summer's Olympic and Paralympic sailing events.

Following a successful trial of Coastwatch during 2011, we have extended the information on our website to provide more details on the designated bathing waters within our region, and display the spill history for 40 overflows at 27 bathing beaches.

Bathing Water Directive

Work has started at Weston-super-Mare sewage treatment works on a £26m scheme to improve secondary treatment and storm storage to meet the requirements of the revised Bathing Water Directive.

Commissioning is due to start in summer 2012 and will be completed two years in advance of the new directive. The scheme involves increasing the secondary treatment and ultraviolet disinfection capacity which will improve the quality of discharges from the works as well as increasing storm storage to reduce the frequency of overflows during wet weather.

Environmental investigations

The last year has seen significant progress in our programme of investigations aimed at ensuring sound science is applied to the identification of possible future work and the development of more sustainable solutions.

Many are now drawing to a close including:

- investigating the impact of discharges from Wessex Water assets on bathing water quality in Somerset
- trialling reed beds as a more sustainable process for phosphorus removal

- assessing the impact of discharges from Wessex Water assets and other sources on the nutrient levels in Poole Harbour, River Frome, and Bere Stream, all of which are Sites of Special Scientific Interest (SSSI) in Dorset
- investigating the presence and fate of certain priority hazardous substances through different types of treatment processes.

Biodiversity

We are currently meeting and exceeding the target in the new England Biodiversity Strategy regarding our Site of Special Scientific Interest (SSSI) landholding. Since November 2011, 98% of our SSSIs are now either in favourable or unfavourable-recovering status (exceeding the target of 95%).

During phase 4 of our Biodiversity Action Plan, we continue to support our conservation partners in the region through the Partners Programme. Each of the seven projects we are helping to fund has been progressing well, despite issues surrounding the challenging funding environment. They are successfully contributing to the overall aim of conserving and enhancing species and habitats in our region by:

- delivering on-the-ground improvements in the water environment. The Dorset Wild Rivers project has provided 3km of river enhancement work in the last year
- building successful partnerships across the region. The BAP Scientific Services project has created a link between the biodiversity community and more than 100 academics in the region's universities to support biodiversity research while offering the first in a series of free training courses on biodiversity science
- undertaking detailed scientific research or monitoring to enhance our understanding of biodiversity. Buglife's Springs and Seepages project has surveyed 11 sites on the Blackdown Hills and around Charmouth to identify specialist invertebrate species in these rarely investigated habitats.

Work is taking place to improve the health of rivers such as the Piddle

Bugs, bats, birds and bees

We have just completed the first phase of our five-year biodiversity project aimed at understanding the importance of 16 of our sites with the greatest potential for birds, bats and invertebrates. The first phase involved very detailed surveying of the sites to understand the species which our sites support. The projects have attracted volunteers to supplement the professional surveys and provide local species information in understudied areas.

Frome and Piddle catchment initiative

We are hosting the Frome and Piddle catchment initiative, a collaborative approach working with several organisations including the EA, Natural England, Dorset Wildlife Trust, fisheries, organisations, councils and catchment sensitive farming.

The aim is to deliver environmental improvements to help meet national targets in the area. The first stage, currently underway, is drawing up a catchment plan.

Carbon management

To attain our aim of being a truly sustainable company we have set ourselves the target of becoming carbon neutral.

We have made significant steps to date but will need to make more investment in the future. We are currently talking to our customers about the pace of that investment.

In Operations we saved 13GWh over the year; installing more automatic meter reading (AMR) meters has further improved our ability to obtain accurate information about energy use and enabled us to quickly identify increased energy usage at sites and solve issues highlighted by this use that may have gone undetected for long periods.


The micro hydro renewable turbine at Sutton Poyntz WTW

Combined with associated increases in the accuracy of supplier billing, these activities have saved us around 1.8GWh over the past year.

The first micro hydro renewable turbine began generating power at Sutton Poyntz water treatment works in September 2011 and since then it has generated more than 18,000 kWh.

The Carbon Reduction Commitment

The Carbon Reduction Commitment Energy Efficiency Scheme (CRC EES) is aimed at 2,000 participants – mainly large businesses and public sector organisations – who report energy use and associated carbon dioxide emissions.

In October 2011 the first league table was published and we were top of the water sector (being placed 30th overall).

Our first purchase of CRC EEC allowances will take place in July 2012 and our bill is expected to be approximately £1.5m. The savings in power consumption this year will have reduced the cost of CRC allowances by approximately £80k.

Challenges

- We are increasingly under pressure to try to do more for less, from trying to deliver higher quality treatment using less energy, to delivering wider landscape scale biodiversity benefits for less money.
- Understanding how we use the services provided by the environment, eg, chalk grassland within our catchments or the natural filtration of groundwater, and the value that represents to the company and society in general:
  – how do you assess the value of a species rich grassland or a low nutrient watercourse?
  – who should pay to preserve this asset or service?
- Balancing the delivery of the long-term carbon target with the ability of customers to afford increasingly more costly carbon reduction solutions.

Environment: ecological effects of drought on river ecosystems

Aquifers feed many of the rivers in our region and their flow has been significantly lower than usual this winter and spring.

Low river flow at this time of year is not as dramatic as in late summer when headwater streams may dry completely and flow in the lower reaches appears to stop. The winter/spring flow is environmentally important encouraging salmon and trout to swim upstream to spawn in gravel beds cleaned of the silt deposited during the summer and autumn; whereas low flows in spring allow algae to smother the beds of water crowfoot that provide habitat and cover for invertebrates and fish.

If a dry summer follows a dry winter as in 1976 the environmental impacts are more dramatic with normally permanent headwater streams and tributaries drying completely.

Water supply abstraction also has an effect on river flow and abstraction licensing is the main way of ensuring our water supply activities do not have an unacceptable impact on the environment. Our licences specify the maximum amount of water that can be taken each day and each year. At 17 of our sites the licence is reduced when river flow falls below a given threshold.

The bulk of abstraction in our region (80%) is from groundwater sources. Abstraction from an aquifer causes groundwater levels to be lowered around the borehole. The impact of lower groundwater levels on river flows depends on the size and location of the borehole relative to the river, but the impacts are generally offset and not immediate.

For groundwater sources, the licence may require a compensatory stream support when river flow falls below a given threshold. We operate 18 stream supports where we pump water from an underground aquifer and discharge it into a watercourse to maintain flow in the stream throughout the year at thresholds specified in our licences. Stream support on the Chitterne Brook, for example, maintains a permanent flow that allows trout to spawn and the fry to develop in years when there is very little aquifer recharge over winter.

We are undertaking a number of environmental investigations to monitor the impacts of these abstractions. We are continuing flow and ecology surveys in the Upper Avon to provide a baseline for measuring the changes which may occur when abstractions reduce in the Wylye and Bourne catchments in the future. We are also monitoring the effect of stream support on the Chitterne Brook, Upper Wylye and River Bourne. Most of our studies include flow gauging, sampling for invertebrates and surveys of aquatic plants and fish populations.

On our surface water reservoirs the environment downstream is protected by the release of a minimum prescribed compensation flow. This flow is typically higher than would naturally occur during a dry summer if the reservoir was not there.

To minimise the effect of a drought to both our customers and the environment we work with the Environment Agency to prepare a drought plan detailing a range of actions to reduce demand, as well as identifying additional sources of water with least environmental impact.

Our employees

A leadership training session

Employees

Employees are at the heart of everything we do and without them we would not achieve such outstanding results. We believe in providing training and development opportunities as well as supporting an appropriate work life balance; looking after the wellbeing of staff is important and reflected through a variety of employee benefit schemes.

In brief

- Exceptional employee performance in challenging conditions.
- More than 1,600 employees attended training courses.
- Staff survey revealed we have a highly engaged workforce ensuring employees go the extra mile for customers.
- Continuous upskilling of staff ensures highest levels of service in all areas of our business.
- £167,000 raised for Water Aid – a new record.
- Eureka! and our innovation and technology forum bring improvements and efficiencies resulting in savings passed on to customers.

In detail

Exceptional performance

The last year presented continuing challenges because of the economic situation and the variable weather conditions. Our employees worked exceptionally hard through frost, drought and flood to continue providing outstanding service to customers.

Training

We are committed to providing a comprehensive training programme of continued development and upskilling for our staff and legal, regulatory and technical training continue to be our main priorities.

During the year more than 1,600 people took part in a range of development programmes including regulatory and craft, IT, practical tool box talks and vocational professional development.

We have continued to invest in a range of National Vocational Qualifications (NVQs), in our Operations and WECS divisions with staff successfully achieving NVQ certificates in electrical and mechanical engineering, sewage treatment, plant operation, customer services and team leadership.

Our leadership capability programme, delivered in partnership with ACUA – Coventry University's business arm – was a success and 16 of our managers achieved their certificate in professional development.

In addition, the business has launched a series of management and leadership programmes, ranging from induction for new managers to senior management development programmes, and HR masterclasses.

Staff continue to develop key business skills through our Business 4 Life programme, run by Wessex Water and WaterAid, while supporting the charity. We raise money for WaterAid by promoting regular employee donations and raising the charity's profile with our customers and stakeholders. This year the total raised, including money from Business 4 Life, was a record £167,000.

Learn @ Lunch

To complement staff training there is a comprehensive programme of internal lunchtime presentations from all areas of the business, designed to broaden staff knowledge as well as updating people on new ideas and ways of working.

Health and safety

Health and safety remains a vitally important indicator of our performance and we continue to work hard to maintain high levels of welfare. Health and safety advisers work throughout the business to ensure the safety of employees and others who could be affected by our activities.

There were 12 reportable incidents in 2011, below the five-year average of 18 and the 14 reportable incidents in 2010.

Innovative working

Our Eureka! scheme has been running for seven years and encourages staff to suggest ways to improve efficiency and quality. Financial rewards are given to those who suggest an idea that is successfully implemented.

Since the programme began participation has grown and over the last year 143 entries were submitted with 26 staff receiving £100 for their suggestions. Three overall winners were awarded a combined total of £10,000.

Their ideas delivered efficiencies in de-sludging and improvements in the operation of biological aeration filters at sewage treatment works, and cost savings when replacing an automated control unit at Taunton sewage treatment works.

Our innovation and technology forum continues to grow and is successful at trialling ideas, equipment and technologies which may provide the treatment solutions of the future. The forum draws together experts from across the company to promote innovative work and fund prospective projects.

During the year, seven projects were funded including several trialling systems to improve the efficiency of phosphorus removal and de-sludging, which will reduce energy consumption and costs and reduce our carbon footprint.

Eureka! scheme winner Ivor Whittle

Challenges

- Continued staff engagement is essential to ensure employees perform well and remain willing to go the extra mile for customers.
- Leadership and staff development remain a high priority for the future.
- Recruiting good candidates and continuing to build our reputation as a sought after employer is vital. Work has begun on this by simplifying and updating our recruitment system to ensure a quick recruitment process.
- Our performance appraisal system must be further developed.
- Talent management and succession planning are critical to the continued high performance of our business.

Employees and drought

Drought poses a serious challenge requiring a co-ordinated response from many of our teams – effective collaboration ensures expertise and experience is shared to achieve a good outcome.

Our employees continuously assess the water resource available to us, monitoring storage levels and using computer models to predict our water resource position, taking into account predicted weather patterns and rainfall.

The water resource management plan (WRMP) is reviewed every five years and helps with business planning, and every three and a half years the drought plan is reviewed irrespective of the weather or water resource position.

Using guidelines from the Environment Agency, members of the water resources, supply planning and economic regulation teams all contribute to both the WRMP and drought plan.

Every month representatives from the water resources, supply planning, regulatory science and network management teams attend supply strategy meetings to discuss the best way to proceed in the prevailing situation. These meetings bring together different teams and network managers co-ordinate the delivery of the decisions, often through operational staff.

Dry weather also prompts more enquiries from customers so when the Environment Agency announced an environmental drought earlier this year, staff from public relations and across the business worked to ensure accurate and useful information was given to customers through television, radio, newspaper reports and leaflets.

Alongside the customer services unit they ensured up-to-date, accurate information was available to answer customer enquiries and concerns and to promote water efficiency.

The water resources team regularly reports to the group management team (GMT) on the resource situation and in 2011 the prolonged dry weather led GMT to call for a dry weather action plan. The water resources and supply planning teams drew up a list of potential work that could ease the situation if it were to continue for an extended period.

From this action plan solutions were selected for implementation; upgrades and refurbishments at Monkton Combe and Poole were designed and implemented by staff in WECS (Wessex Engineering and Construction Services) and are due to be completed in summer 2012.

These solutions were a result of the combined effort of staff from many different areas of the business and without coordination and cooperation it would be very easy for a challenging situation to become even more difficult.

Our infrastructure

Shaftesbury sewage treatment works in Dorset

Services and planning panel

The services and planning panel is chaired by David Elliott, director of regulation and assets and includes members from district, borough and county councils, as well as other major customers in the area. The main topics the panel discusses are to do with future planning and development.

In brief

- £178m invested in maintaining and improving services to our customers and the environment.
- Met all our regulatory outputs.
- Successful transfer of private sewer ownership while maintaining excellent levels of customer service despite increased workload.
- Our 35th consecutive year without imposing water use restrictions for customers despite continued dry weather in our region.
- Good progress on water supply grid to ensure increased security of supply.
- Additional water source brought on stream to ensure supplies continue during dry periods.
- £400,000 upgrade of Weymouth sewage treatment works to change the way air is used at the site reducing energy consumption costs by around £150,000.
- Reduction in the number of properties at risk of flooding due to inadequate capacity.
- Continued asset improvement to ensure first-class performance.

In detail

Asset management

Our approach to risk and asset management is to ensure risks associated with operational service are understood and managed throughout the business in order to prioritise maintenance and investment.

Installation of a new work and asset management system across the company has been managed to ensure maximum effectiveness. The system is being extended to all parts of the business, enabling us to continue improving our asset knowledge processes.

A new asset management framework is helping to develop a more integrated approach to the definition and monitoring of asset performance, condition, and compliance, and identifying further improvements to the management of operational service risk.

Modelling and analytical tools applying a 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 an operational, 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.

The engineering auditor, Halcrow, says this approach is an example of asset management best practice.

Using Ofwat's serviceability toolkit we assessed our serviceability as stable for the fifth consecutive year.

Water supply

Work on our water supply grid continues with parts of the programme in outline design and advance preparations ongoing to minimise the risk of third party, land and planning constraints later in the scheme. Construction has begun this year and will continue until 2018.

The average supply interruption over the year was 0.6 hours. Around 80% of our interruptions are planned work to improve the quality of our network and customers are warned in advance.

Dry weather period

Two dry winters during 2010-2011 and 2011-2012 were followed by an exceptionally dry early spring in 2012 when February and March received only 36% of average rainfall and seven water companies in the south and east of England introduced temporary use bans (previously known as hosepipe bans).

The capacity of secondary treatment and ultraviolet disinfection is being increased at Weston-super-Mare

Our water resources remained satisfactory with reservoirs around 84% full and groundwater levels low for the time of year, but above the very low levels of the 1975-76 drought. Given this resource position Wessex Water did not impose any restrictions on customer use.

During the dry weather we took a number of measures to support river flows, an issue of particular concern to our customers. The measures included:

- where possible reducing our abstraction from boreholes that affect sensitive rivers
- pumping up to 91 Ml/d of water into critical sections of rivers to support flows
- bringing on stream a new water resource at the lower end of the Bristol Avon to provide an additional 7 Ml/d of new water
- moving to next day repair of leaks
- mounting an extensive advertising campaign to encourage customers to play their part in water conservation.

Wet weather returned in April and by the end of the month reservoirs were full, rivers in flood and groundwater rising strongly at most sites.

Leakage

Over the last year we have continued to make good progress on leakage. We have moved towards a next day repair of leaks and successfully beat our new lower leakage target.

Sewage flooding

Despite a minor reverse from the previous year the total number of internal flooding incidents was below our long-term average and, when normalised against sewer length, we continue to lead the industry in this area.

We have removed a total of 117 properties and external areas from our flooding registers and now have the lowest ever number of properties at risk of sewer flooding due to inadequate capacity.

We are continuing to work with local councils in the development of surface water management plans and flood management strategies and have written to key contacts to encourage future jointly funded partnership schemes.

Private sewers transfer

Last October an estimated 17,000km of private sewers and laterals were brought into Wessex Water ownership following changes made by the government.

Prior to October a comprehensive transition plan was developed to ensure the transfer went smoothly with more than 1.2 million legal notices and other information distributed to sewerage customers about the changes, followed by a build up of resources to ensure call centre, scheduling and operational workload could be managed.

A procurement exercise, initiated in 2010, engaged a framework of seven drainage contractors to supplement in-house unblocking and repair services.

Six months after transfer, workload on sewerage has more than doubled and is still increasing. Our customer satisfaction survey shows more than 95% of customers rated the sewerage service they received as good or very good.

Infrastructure improvements

Asset improvement continues and we have completed extensions at Hazelbury Bryan sewage treatment works in Dorset, in order to increase flows to treatment and reduce storm overflows.

We have also made improvements to 11 overflows in Bristol, including completing an £8m scheme at Ashton Avenue sewage pumping station.

The £26m scheme at Weston-super-Mare sewage treatment works is on track for completion next year and includes improved secondary treatment and storm storage to enhance quality of discharges and reduce frequency of spills.

The design of extensions to six sewage treatment works to reduce levels of phosphorus in the Somerset Levels has progressed well, and construction work has started at Yeovil and Shepton Mallet sewage treatment works.

Construction work has been completed at Bishops Lydeard sewage treatment works in Somerset to improve the quality of effluent discharged to the river.

Challenges

- Drought and the development of infrastructure to meet the demands of dry weather conditions; stream support infrastructure and identifying and bringing new water sources into supply are necessary.
- Climate change bringing more frequent periods of dry weather and very heavy rainfall. Planning for this now is critical to dealing successfully with these issues and providing infrastructure to capture rain when it is abundant and save it for times of drought will be essential.
- The drainage infrastructure will need to cope with high rainfall and floods and continued investment in this area will be important.
- Population growth will test our resources and infrastructure and advising customers and encouraging water saving behaviours will help with this.

Infrastructure: the water supply grid

The water supply grid is an eight-year project to improve the security of supply for customers. By linking areas of our region that have a water deficit with areas of the region with surplus water it will allow us to meet customers' demand for water and provide increased resilience during periods of drought. It will also help with managing the planned reduction in some of our abstraction licences to improve flows to rivers and help protect their ecology.

The project comprises more than 25 new schemes across Somerset, Wiltshire and Dorset and will involve over 150 km of new pipelines, 30 new pumping stations and 11 new storage tanks.

Using this more sustainable approach we are able to meet the demand for water, deal with deteriorating raw water quality, particularly due to nitrates, and deliver environmental benefits without developing new water resources or providing additional treatment.

Our region is environmentally rich, containing protected species and a variety of designated sites including Sites of Special Scientific Interest (SSSIs), County Wildlife Sites and World Heritage Sites. For example, Areas of Outstanding Natural Beauty (AONB) cover more than 50% of the area.

To preserve these natural habitats and resources we undertake important environmental and engineering surveys to help us understand and address environmental considerations during design and construction.

Construction techniques such as trenchless technology will be used to pass under sensitive river locations, railways and major roads. We intend to build the new pipelines in a way that will cause minimum disruption to local communities and aim to build sustainably by minimising construction traffic movements and re-using materials where feasible.

We are carrying out external consultation with key interest groups and members of the public to ensure the views of all stakeholders are incorporated into new site designs and pipeline routes.

The project, which began in 2010, will be completed in 2018, with some elements due to be completed in 2013.

Water supply grid work at Kingston St Mary

Innovating for a sustainable future

The years since privatisation have seen very significant improvements in the water sector. There have been marked improvements in service to customers and in the quality of our water environment and we have put sustainability at the core of our business.

The sector has attracted £100bn of private investment to deliver these improvements – investment made because water companies are seen as low risk. The stability and confidence of the legislative and regulatory regimes has meant cheaper finance, which in turn helps to keep customer bills lower than they might otherwise be.

However, in this period bills have gone up by 50% more than inflation, environmental improvements are no longer so immediate and visible, climate change is set to increase pressure on resources, energy consumption has risen by 150% to meet new standards and business customers now want to see greater choice.

During the year the government outlined its response to the challenges ahead in the water white paper and Ofwat has published its framework for setting price limits after 2015.

We have worked constructively with both government and regulators to ensure those who make and implement policy are focusing on the key challenges. We will continue to do so as government and regulators flesh out their proposals.

We believe that reform is required but that it should be characterised by evolution and not by revolution, with recognition that there is an overriding need for stability.

Challenges

There are clearly a number of pressing challenges:

- we provide very high levels of customer service – but customer expectations continue to grow
- we continue to make significant investments to address climate change and become more efficient – but affordability problems are worsening
- the benefits of more sustainable ways of managing water, such as catchment management initiatives are becoming clearer – but demanding timescales and quality improvements show little sign of abating
- we continue to innovate to deliver outcomes that are more sustainable and cheaper for customers – but complex regulation gets in the way by incentivising the wrong behaviours.

Innovating for customers and service delivery

Recognising the need to meet future challenges in a more sustainable way we have taken the lead by innovating across a number of areas, including the following.

Resilience

We are currently preparing to build a water supply grid so that if we have a problem in one part of our system, we can continue to supply water from others.

This is an integrated, holistic way of delivering a number of outcomes; the grid will not only improve the resilience of our assets in the face of climate change, but also allow blending of water sources to overcome deteriorating raw water quality, reduce abstractions from environmentally sensitive rivers and allow transfers of water across our region.

In addition it will enable trading with neighbouring companies and we are working with Sembcorp Bournemouth and Cholderton Water on the potential for trading water.

But this approach needs to extend across all water company boundaries and companies should be encouraged to share water.

We need Ofwat to reform incentives to encourage this to happen, eg, it could exclude the costs of buying water from its comparative efficiency assessments. And companies could keep the return they make from selling water to neighbours for longer.

Affordability of charges

Around one in 10 customers spends more than 5% of their disposable income on water and sewerage services. The number of customers falling into arrears continues to grow with bad debt now adding £15 a year to the average household bill.

We believe in the need to keep water bills affordable for all and have responded by introducing our innovative Assist scheme, the first social tariff in the sector. More than 7,000 households are benefiting, with an average discount of £200.

We see the need to develop a sustainable charging system that will change customers' behaviour and increase satisfaction but we need government to give a stronger mandate on social tariffs.

There should be a presumption that companies will introduce such tariffs and government must allow companies access to Department of Work and Pensions data on benefit claimants to cut the costs of administering these schemes. In this way we could use our knowledge of our customers and affordability issues in our region to implement an effective scheme that all customers can support.

Meeting customer expectations

We must respond to growing customer expectations. For business customers this means greater choice in the services they receive and the bills they pay and, ultimately, competition in who supplies their services.

We separated the majority of our retail function in 2001 creating a legally distinct joint-venture company with Bristol Water which has focused management on delivering outcomes and given greater visibility of costs, thus driving efficiency.

Today we have the most efficient billing operation in the sector and our business customers are also served by a dedicated corporate solutions team.

Effective customer engagement with all customers should be very much 'business as usual' for companies and we have established four customer liaison panels – customers and community, services and planning, environment and business, for this purpose.

Our new customer scrutiny group, which includes representatives from the panels, provides a further structured forum for the discussion of important topics, including options for the next business plan, ensuring customers' views will be reflected in matters such as price setting and the services they receive.

Incentives for sustainable improvements to the quality of rivers and beaches

The water industry has made real improvements to water and effluent quality but frequently these have been asset and energy intensive, significantly increasing our carbon footprint.

Over the last few years we have been implementing innovative solutions involving lower capital expenditure and energy costs, such as catchment management. This costs less, is more sustainable, has wider benefit for the environment and involves working with the community. Early work, including our River Frome pilot, is very promising.

But we feel that Ofwat needs to offer incentives for these sustainable solutions and the Environment Agency must take a more flexible approach to consenting, eg, consents could vary by time of year and flow in the receiving water.

Summary

On occasions the work of a water and sewerage company involves managing the extremes of drought and flood, a fact dramatically demonstrated this spring when parts of our region were declared in environmental drought, followed swiftly by April rainfall that was nearly 300% of average and resulted in widespread river flooding and full reservoirs.

During the dry weather it was not necessary for us to impose restrictions on our customers' use of water – we have not done so since 1976. The level in our reservoirs dropped no lower than 84% but river flows, particularly in the Wylye, were low.

So we implemented a number of measures to support flows, including pumping up to 30 million litres of water a day into critical sections of rivers. If the dry weather had continued this would have increased up to 91 million litres a day.

The rain is now getting down into the aquifers which are the source of much of our water – groundwater levels are back to normal and in some places above average. The environmental drought status has been formally withdrawn.

The work we have done together with our customers on water saving, alongside our innovative schemes and our efforts to bring leakage down to 15%, amongst the lowest in Europe, contributed significantly to our successful negotiation of the dry weather period.

It proves that working together makes us stronger and demonstrates that in addition to our use of innovation and sustainable solutions we must always work with our customers to ensure we remain resilient to future challenges.

WESSEX WATER SERVICES LIMITED
BOARD OF DIRECTORS - Executive directors

From left to right: Sean Cater, David Elliott, Colin Skellett, Mark Watts and Julian Dennis

Colin Skellett – Executive chairman
A chartered chemist and engineer by training, he has been working 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 joint chairman of GWE Business West, and 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 shortly after the acquisition of Wessex Water by Enron.

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.

Julian Dennis – Director of compliance and sustainability
A microbiologist, he studied for his PhD while with the Public Health Laboratory Service at the Centre for Applied Microbiology and Research at Porton Down, before joining Thames Water in 1988, where he was appointed chief scientist in 1999. Julian joined Wessex Water in May 2003.

He is a director of UKWIR and chair of Sustainability South West. He previously chaired BSI, ISO and CEN technical committees.

David Elliott – Director of regulation and assets
He has 26 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.

Sean Cater – Director of operations and construction
He has more than 30 years' experience in the construction and engineering industry. Sean 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.

WESSEX WATER SERVICES LIMITED
BOARD OF DIRECTORS - Non-executive directors

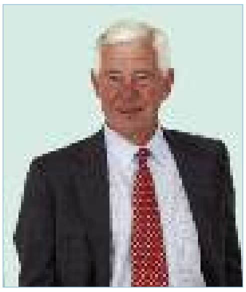
INDEPENDENT

David Barclay –

former vice chairman of Dresdner Kleinwort Wasserstein (DrKW). Non-executive deputy chairman of John Lewis plc. Member of the Board of the British Library. Appointed 1 November 2005. Chairman of Audit Committee.

Gillian Camm –

Chair of the board of governors – University of the West of England, Deputy Lieutenant Gloucestershire, vice president Quartet Community Foundation, chair Wycliffe College, member Society of Merchant Venturers. Appointed 1 November 2011.



Peter Costain –

former deputy chairman of Costain Group Plc 1995-1997 and chief executive 1980-1995. Non-executive director since 1999. Chair of Pensions Committee.

Jonathon Porritt CBE –

environmental freelance writer and broadcaster, co-director of the Prince of Wales's Business and Sustainability Programme and co-founder director of Forum for the Future. Appointed 1 June 2005. Chairman of Wessex Water's Sustainability Panel and Stakeholder Forum.

+ Alternate director to Francis Yeoh

SHAREHOLDER

Francis Yeoh CBE –

managing director of YTL Corporation Berhad, Malaysia since 1988. A founder member of the Malaysia Business Council and member of Malaysia's Capital Markets Advisory Council and the Barclays Asia-Pacific Advisory Committee. Director since May 2002.

Hong Yeoh –

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

Mark Yeoh –

executive director responsible for the YTL hotels and resorts division. He graduated from King's College, University of London with an LLB (Hons) and was subsequently called to the Bar at Gray's Inn, London in 1988. He 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, YTL Vacation Club Berhad and Wessex Water Limited. Director since July 2003.

+Kathleen Chew –

group legal adviser for 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.

RISK AND COMPLIANCE STATEMENT FOR THE REGULATORY YEAR 2011-12

Introduction

The Water Services Regulation Authority (WSRA) requires the board to provide an annual risk and compliance statement (the Compliance Statement). The Compliance Statement is to confirm that the company has complied with all its relevant statutory, operating licence and regulatory obligations that have not been confirmed by other processes, and that it is taking appropriate steps to manage and/or mitigate the risks it faces. The company is required to report by exception any instances where a regulatory output has not been met. The annual review contains information about progress with outputs and gives details of key performance and financial information for customers, investors and regulators.

Most of the information in the annual review and used for the purposes of the compliance statement is based on factual information from events that have occurred. Occasionally, reliance is placed on estimates that have been made in good faith, based on reasonable assumptions and consistent with those made in previous years except where otherwise stated.

Compliance Statement

The WSRA requires the board confirm in the Compliance Statement that:

- the board has a full understanding of and is meeting, in all material respects, its statutory, licence and regulatory obligations
- the company is meeting, in all material respects, relevant regulator and customer expectations as demonstrated by those outputs and service standards set out in its business plan and funded through the Final Determination
- the board is satisfied that the company has sufficient processes and internal systems of control to fully meet its obligations, or has disclosed any modification or failure to meet such obligations
- the company has appropriate systems and processes in place to allow the board to identify, manage and review risks. Major risks and the appropriate management of them are described below
- the company has sufficient financial and management resources for the whole year
- the company has sufficient rights and assets available to enable a special administrator to run the business
- any trade with associate companies was at arm's length and no cross subsidy arose
- directors' pay is linked to standards of performance as disclosed in note 6 to the accounts
- any failure to deliver outputs agreed at the final determination has been disclosed
- the company is compliant with condition F6A.6 on credit ratings
- greenhouse gas reporting complies with Defra reporting requirements.

Output review

Outputs agreed with regulators or promised to customers in the Final Determination are kept under constant review by the company's senior managers. A monthly report is prepared for directors and senior managers detailing progress with the delivery of outputs and highlighting instances where such delivery may be at risk.

Where there is a risk of failing to deliver an output, potential mitigation strategies are assessed to see if the project can be brought back on schedule. If a major issue, such as land acquisition or planning permission, means that an output cannot be met, senior managers engage with the relevant regulator, the Environment Agency (EA) or the Drinking Water Inspectorate (DWI), to discuss the future course of action, including the potential advancement of other outputs.

A report is made to each board meeting showing progress against scheduled outputs. The board reviews the report and proposed mitigations where difficulties have been experienced.

The annual review has a section which considers in detail the outputs expected by Ofwat, DWI, EA, and other regulators, as well as those promised to customers in the Final Determination.

Customer expectations are continuously tested through a range of mechanisms:

- feedback cards are left with all customers visited, upon departure
- each day we contact a random selection of customers who have had work done the previous day, to seek further feedback

- each month an independent telephone survey is undertaken of a random selection of customers who have contacted the company during the month
- each year, an independent tracking survey gauges customer views
- focus groups are used to analyse customer attitudes to the services provided by the company and to guide future planning
- our four customer laison panels will be used as a key part of the PR14 price setting regime to consider various aspects of the business for the future. These panels will report to the customer scrutiny group, which comprises an independent chairman, representatives of the regulators and representatives of the customer liaison panels. This group will consider the key issues to be addressed in the strategic direction statement and the business plan.

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 whilst 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 comprising senior managers, executive directors and the board.

A group of senior managers from different parts of the business form the risk group. This group is charged with identifying all risks to the business, including emerging ones, to form the corporate risk register. All identified risks are scored and all mitigations are reviewed with experts in the relevant area.

Assessment of both the impact of any risk, and the probability of it occurring, must by its nature be subjective. Risks are scored using a best practice process which assesses probability and impact on a five by five grid (the highest score being the biggest risk). Wherever possible, a risk is measured by its potential financial impact on the company in the next five years, whether direct or indirect, including any possible impact on the price review process in 2014.

Where a high scoring risk is identified, the risk group reviews what additional measures could be put in place to reduce its impact to an acceptable level. These potential additional measures are presented to the risk committee to review.

The risk committee, comprising the executive directors, scrutinise and challenge 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 audit committee uses the risk register to review and make recommendations to the board about the company's risk policy and controls.

The risk group and risk committee formally review the risk register at six-monthly intervals. The business performance manager (risk co-ordinator) adds emerging risks to the register as and when they are identified. Major new risks are reported to the board.

Principal risks

The 12 principal risks are:

1. **Poor site/asset knowledge** Accurate information about the location of the company's assets is central to their protection and maintenance. A project to improve asset records in all areas of the business including the newly transferred private sewers is underway.

2. **Water infrastructure serviceability** Studies are underway to better understand the link between bursts and leaks and the true condition and serviceability of the assets. WSRA has been engaged with the process.

3 **Information management and digital security** The company holds and processes large volumes 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. A project to improve understanding of the importance of data integrity and to enhance security measures is in place.

4 **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 via adherence to processes and procedures. New staff are trained in the importance of following them.

5 **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.

6 **Health and safety incident** Serious injury or death of a staff member or third party could expose the company to prosecution under health and safety legislation and the Corporate Manslaughter Act. Health and safety processes and procedures are implemented via training and monitored to secure compliance.

7 **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.

8 **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.

9 **Leakage** Failure to control leakage could breach a regulatory output and lead to loss of an important resource at times of drought. The company sets a tighter level of leakage than the official target. The existing regulatory approach to leakage control is the most cost effective way of achieving the economic level of leakage.

10 **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.

11 **Major pollution incident** Control of the escape of polluting matter to the environment is a central to the company's business. Adherence to processes and procedures is central to that aim. No major pollution incidents were recorded during the year.

12 **Integrity** Considerable damage could be done to the reputation of the company by a rogue or radicalised employee or contractor. References are obtained for new starters and CRB checks are undertaken for those working in particularly sensitive positions.

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

Assurance

In compiling the Compliance Statement the company pays close attention to its performance reporting and verification procedures. It has a detailed procedures manual setting out the process for completing every aspect of the annual review including the Compliance Statement. This is updated to reflect all changes to reporting requirements and is approved by the audit committee.

The process for completion of this annual review including the Compliance Statement was considered and approved by the audit committee in April 2012 following the publication of Ofwat Reporting Requirements in March 2012.

The Compliance Statement was reviewed by the audit committee on 6 June 2012 and by the full board later that day. The audit committee received presentations from company executive directors and managers involved in compiling the Compliance Statement, KPMG (the Auditor) and Halcrow (the Engineering Auditor).

Board endorsement of the Compliance Statement

At the board meeting the directors were able to consider the Compliance Statement together with an oral report from the chairman of the audit committee, and to question the executive directors.

The board was satisfied that it could make the Compliance Statement in the form appearing above.

Colin Skellett
Chairman

COMPANY KEY PERFORMANCE INDICATORS

Key performance indicators	Performance level			Performance 2005-10 average	Status
	2005-10 average	2010-11	2011-12		
CUSTOMER SERVICE					
Service Incentive Mechanism (SIM)*	New measure	83	85	Industry leader	a
SIM customer satisfaction score	New measure	89%	91%	Industry leader	b
SIM customer contact score (lower is better)	New measure	119	109	Industry leader	b
Billing contacts dealt with in 5 days	100%	100%	100%	Same	b
Written contacts dealt with in 10 days	100%	100%	100%	Same	b
WATER SUPPLY					
Serviceability water non-infrastructure*	Stable	Stable	Stable	Same	a
Serviceability water infrastructure*	Stable	Stable	Stable	Same	a
Water quality compliance	>99.9%	>99.9%	>99.9%	Same	b
Properties at risk of receiving low pressure	178	173	166	Better	b
Properties experiencing supply interruptions over 12 hours	79	61	21	Better	b
Water supply interruptions (hours per property served)*	New measure	0.8	0.6	New measure	d
Properties experiencing supply restrictions	0%	0%	0%	Same	b
Total leakage (million litres per day)*	73	71	69	Better	a
Security of supply index*	100%	100%	100%	Same	a

Key performance indicators	Performance level			Performance 2005-10 average	Status
	2005-10 average	2010-11	2011-12		
SEWERAGE					
Serviceability sewerage non-infrastructure*	Stable	Stable	Stable	Same	a
Serviceability sewerage infrastructure*	Stable	Stable	Stable	Same	a
Properties internally flooded	126	94	108	Better	b
Repeat flooding incidents*	New measure	27	37	New measure	c,g
Properties at risk of internal flooding more than once in 10 years	345	102	92	Better	b
ENVIRONMENTAL STANDARDS					
Compliance with EA abstraction licences	100%	100%	100%	Same	b
Discharge permit consent compliance*	98.3%	98.7%	99.7%	Better	a
Population served by compliant sewage treatment works	99.9%	100%	100%	Better	b
Number of pollution incidents	105	85	66	Better	b
Pollution incidents (sewerage) per 1,000km*	5.0	5.0	3.6	Better	a
Serious pollution incidents (sewerage) per 10,000km*	1.4	0	1.1	Better	a
Pollution incidents (supply) per 10,000km*	8.7	13	5.2	Better	a
Beaches meeting mandatory standards	100%	100%	100%	Same	b
Satisfactory sludge disposal*	100%	100%	100%	Same	a
Greenhouse gas emissions (tonnes CO_2 equivalent)*	161,000	160,000	149,000	Better	e
FINANCIAL					
Post-tax return on capital*	6.9%	6.5%	6.6%	Lower	f
Credit rating*	BBB+	BBB+	BBB+	Same	f
Gearing*	66%	64%	64%	Lower	f
Interest cover*	na	2.8	3.1	na	f

*Ofwat have published a number of key performance indicators to be published annually as part of a balanced approach to regulation. These indicators are included within the list above. The status has been allocated as follows:

a Status is allocated in accordance with Ofwat key perfomance indicators guidance – March 2012.

b Status based on comparison with 2005-10 average.

c Status is allocated as follows: Less than 89 is green based on the assumption that the total number of repeats in the report year shouldn't be greater than the lowest number of properties that have suffered an internal flooding incident since 1999. More than 89 and less than 136 is amber, greater than 136 is red. 136 represents the average number of properies suffering an internal flooding incident between 1999 to 2012.

d Status based on comparison with company average for 2010-11 and 2011-12. ± 25% from average is green, above 25% in one year is amber, above 25% for two years or more is red.

e As Ofwat key performance indicators guidance with projected figure for 2014-15 confirmed as 146,000 tonnes CO_2 equivalent

f Internal company targets met.

g We include repeat floodings in the year to better reflect customers' experience. This goes beyond the requirements of the reporting standard.

CORPORATE GOVERNANCE

Corporate governance

Wessex Water is committed to high standards of corporate governance. As a private company its shares are not listed on the stock exchange. However, under Condition F of its Instrument of Appointment as a water and sewerage undertaker ("the Licence") it is required to conduct its water and sewerage businesses as if they were the company's sole businesses as a public limited company. In so doing the directors take account of the principles of good governance in the UK Corporate Governance Code as approved for the purposes of the Listings Rules of the Financial Services Authority in the context of the company's circumstances as a private company with a single shareholder.

The board

The board annually reviews and approves the company's Organisation and Control Arrangements which set out the principal duties of the board, matters reserved for its decision and the terms of reference of its committees. Matters reserved to the board include strategy, material changes to the company's management and control structure, approval of board appointments, approval for payment of material contracts, risk management, health and safety policy, disposal of material assets, approval of the annual operating budget, significant changes in accounting policy, approval of dividend policy and defence or settlement of material litigation.

The board meets at least bimonthly.

The executive directors are appointed on one year rolling contracts. Four independent non-executive directors are appointed to the board meeting the the requirements of Condition P of the Licence. Three non-executive directors are appointed by the company's sole shareholder.

The following were directors of the company during the year and subsequently:

Colin Skellett – executive chairman
David Barclay *
Lesley Bennett ** (resigned 31 December 2011)
Gillian Camm* (appointed 1 November 2011)
Sean Cater
Kathleen Chew +
Peter Costain *
Julian Dennis
David Elliott
Jonathon Porritt CBE *
Mark Watts
Francis Yeoh CBE #
Hong Yeoh #
Mark Yeoh #

* Independent non-executive director
* * Independent customer director
Non-executive director
+ Alternate director to Francis Yeoh

Board committees

Four formal committees have been established:
- audit committee
- risk management committee
- remuneration committee; and
- nomination committee.

Audit committee

The primary function of the committee is to review the reporting of financial and other information, the auditing of risk, the systems of internal control, the effectiveness and objectivity of internal and external processes and to maintain appropriate relationships with the company's external auditors KPMG Audit Plc. The terms of reference of the committee include all matters indicated by the Combined Code, and the committee considers any other corporate governance issues referred to it by the board.

The committee meets at least four times a year. Membership comprises three independent non-executive directors. The committee has access to the company's finance director and treasurer, the financial controller, the head of internal audit and the company's external auditors.

Members: David Barclay, chairman, Gillian Camm and Peter Costain.

Risk management committee

The purpose of the 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 committee meets at least annually or at such shorter intervals as may be necessary to consider changes to the company's business risks.

Members: all executive directors.

Remuneration committee

The role of the remuneration committee is to ensure that the company's directors and senior managers are fairly rewarded for their overall contribution to company performance, giving due regard to market rates, individual performance and the financial health of the company. The committee reviews proposals for the total remuneration package, to include salary, bonus, pensions and other benefits as well as recommending policies and best practice. Salary and bonus levels are benchmarked against the HAY Industrial and Services Sector comparison of companies, with jobs sized in relation to scope, role, responsibilities and impact to determine salary. Bonus payments are made annually on the basis of a weighted average of company, department and individual performance. Company performance includes measurement against Ofwat performance targets.

The remuneration committee is exclusively comprised of non-executive directors of the board and meets during the year as necessary.

Members of the remuneration committee do not participate in decisions concerning their own remuneration.

Members: Hong Yeoh, chairman, David Barclay, Peter Costain, Francis Yeoh and Mark Yeoh.

Nomination committee

The nomination committee's duty 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 successional needs.

Members: Hong Yeoh, Francis Yeoh, Colin Skellett and Mark Yeoh.

Internal control

The board maintains full control and direction over strategic, financial, risk management, organisational and regulatory issues.

The board has ensured that an organisational structure is in place that has defined lines of responsibility and delegation of authority. There are established systems for capital authorisations and asset disposal. Regular reviews of the key risk items that may affect the company are held at board level and in the risk management committee. The board receives a management report detailing all relevant financial, operational and regulatory matters that affect the company.

The board ensures that the company maintains an internal audit department that is charged with carrying out reviews of capital expenditure and adherence to business and financial control procedures. The board receives an annual report about the company's management of risk and compliance with the company's internal risk and financial management systems. The board receives regular updates on changes to the legal and regulatory framework within which the company's business operates.

The company secretary reports changes to corporate governance requirements and best practice to the board.

DIRECTORS' REPORT

The directors have pleasure in presenting their report and the audited non-statutory accounts (subsequently referred to as accounts) for the year to 31 March 2012. The financial year end of all group companies is 30 June, but under the conditions of appointment of the company (under the Water Industry Act 1991) the company is required to prepare regulatory accounts for the 12 months ended 31 March each year.

Non-statutory accounts have been prepared for the same period to allow users of the regulatory accounts to reconcile those results to the company accounts. Under the terms of its Licence as a water and sewerage undertaker the company is required to prepare a statement of corporate governance as if it were a listed company.

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 0.3% price limit for Wessex Water Services Ltd from 1 April 2010, before adjustment for inflation. The announcement also included price limits for each of the four subsequent years of 0.3%, 1.9%, 1.9% and 1.5%, before adjustment for inflation, for the years commencing 1 April 2011, 2012, 2013 and 2014 respectively.

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 special training facilities 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 company's full environment 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 31 March 2012.

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 31 March 2012 trade creditors represented approximately 33 days trade purchases (2011 - 30 days). The company does not follow any specific external code or standard on payment policy.

Charitable donations

During the year £350,000 was donated to UK charities (2011 - £359,000), of which £250,300 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

The following directors have been granted ordinary share options of Malaysian Ringgit RM0.50 each in YTL Power International Berhad.

	Opening number	Exercise price RM	Date of grant	Exercise date	Expiry date	Exercised	Expired	Closing number
SA Cater	1,400,000	1.61	28/11/2008	28/11/2011	29/11/2011	(1,400,000)	-	-
PJL Dennis	1,816,900	1.82	16/05/2005	16/05/2008	29/11/2011	(583,000)	(1,233,900)	-
DJ Elliott	240,000	1.32	13/12/2002	13/12/2005	29/11/2011	-	(240,000)	-
M T Watts	240,000	1.32	13/12/2002	13/12/2005	29/11/2011	(240,000)	-	-

The market price of share options exercised in the year was RM1.91934 and the gain on exercise was RM634,838.

The interests in shares of Francis Yeoh, Hong Yeoh and Mark Yeoh are disclosed in the accounts of YTL Power International Berhad. There were no other interests in shares of group companies that are disclosable in these accounts.

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

Auditor

A resolution to reappoint KPMG Audit Plc as auditor of the company will be proposed at the Annual General Meeting.

By order of the board
Andrew Phillips – Company secretary
29 June 2012

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors of Wessex Water Services Ltd ("the directors") have accepted responsibility for the preparation of these non-statutory accounts for the year ended 31 March 2012 on the basis set out in note 1a to the non-statutory accounts. These non-statutory accounts are intended by the directors to give a true and fair view of the state of affairs of the company and of the profit or loss for that period.

They have decided to prepare the non-statutory accounts in accordance with UK Accounting Standards (UK Generally Accepted Accounting Practice).

In preparing these non-statutory accounts, the directors have:

- selected suitable accounting policies and applied them consistently;
- made judgements and estimates that are reasonable and prudent;
- stated whether applicable UK Accounting Standards have been followed, subject to any material departures being disclosed and explained in the non-statutory accounts; and
- prepared the non-statutory accounts on the going concern basis as they believe that the company will continue in business.

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE DIRECTORS OF WESSEX WATER SERVICES LTD

We have audited the non-statutory accounts of Wessex Water Services Ltd for the year ended 31 March 2012 set out on pages 50 to 71. These non-statutory accounts have been prepared for the reasons set out in note 1a to the non-statutory accounts and on the basis of the financial reporting framework of UK Accounting Standards (UK Generally Accepted Accounting Practice) and as if applicable UK law applied to them.

As explained in note 1a, these non-statutory accounts have been prepared by the directors of the company for the year ended 31 March 2012, which is not the company's statutory financial year, in order to comply with Condition F of the Instrument of Appointment by the Secretary of State for the Environment to Wessex Water Services Ltd as a water and sewerage undertaker under the Water Industry Act 1991 (the "Regulatory Licence"). Statutory accounts for the year to 30 June 2011 have been filed with the Registrar of Companies.

This report is made solely to the company in accordance with the terms of our engagement. Our audit work has been undertaken so that we might state to the company those matters we have been engaged to state to it in this 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 for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and KPMG Audit Plc

As explained more fully in the Statement of Directors' Responsibilities on page 48, the directors are responsible for the preparation of the non-statutory accounts, which are intended by them to give a true and fair view. Our responsibility is to audit, and express an opinion on, the non-statutory accounts in accordance with the terms of our engagement letter dated 27 May 2010 and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board (APB's) Ethical Standards for Auditors.

Scope of the audit of the non-statutory accounts

A description of the scope of an audit of accounts is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm

Opinion on the non-statutory accounts

In our opinion the non-statutory accounts:

- give a true and fair view of the state of the company's affairs as at 31 March 2012 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, as if those requirements were to apply.

AC Campbell-Orde (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
100 Temple Street
Bristol
BS1 6AG
29 June 2012

PROFIT AND LOSS ACCOUNT

For the year to 31 March 2012

	NOTE	2012 £m	2011 £m
Turnover	2	467.5	444.9
Operating costs	3	(248.5)	(232.8)
Operating profit	2	219.0	212.1
Interest payable and similar charges	4	(81.7)	(61.1)
Interest receivable	4	1.2	0.6
Other finance costs		(1.0)	(1.7)
Profit on ordinary activities before taxation		137.5	149.9
Taxation on profit on ordinary activities	5	(44.3)	(34.4)
Profit attributable to shareholders	19	93.2	115.5

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

The accompanying notes on pages 53 to 71 are an integral part of this profit and loss account.

BALANCE SHEET

At 31 March 2012

	NOTE	2012 £m	2011 £m
Fixed assets			
Tangible assets	8	2,069.2	2,010.9
Investments	9	-	-
		2,069.2	2,010.9
Current assets			
Stock and work in progress	10	6.3	5.2
Debtors	11	153.9	131.9
Cash at bank and in hand	12	211.0	63.0
		371.2	200.1
Creditors - amounts falling due within one year	13	(171.7)	(196.4)
Net current assets	32	199.5	3.7
Total assets less current liabilities		2,268.7	2,014.6
Creditors - amounts falling due after more than one year	14	(1,811.9)	(1,515.4)
Provisions for liabilities and charges	15	(115.3)	(92.7)
Retirement benefit obligations	16	(83.0)	(52.7)
Deferred income	17	(17.9)	(18.7)
Net assets	2	240.6	335.1
Capital and reserves			
Called up equity share capital	18	81.3	81.3
Profit and loss account	19	159.3	253.8
Shareholders' funds	20	240.6	335.1

The accompanying notes are an integral part of this balance sheet.

The accounts on pages 50 to 71 were approved by the board of directors on 29 June 2012 and signed on its behalf by:

Colin Skellett
Chairman

Mark Watts
Director

Company Registration No. 2366648

CASH FLOW STATEMENT
For the year to 31 March 2012

	NOTE	Year to 31.03.12 £m	Year to 31.03.11 £m
Net cash inflow from operating activities	21	303.2	294.2
Returns on investments and servicing of finance	22	(79.2)	(59.7)
Taxation		(31.5)	(33.9)
Capital expenditure and financial investment	23	(149.7)	(103.8)
Dividends paid		(129.4)	(106.2)
Cash outflow before financing		(86.6)	(9.4)
Financing	24	222.2	58.1
Increase in cash		135.6	48.7
Reconciliation of cash movement to the movement in net debt			
Increase in cash – above		135.6	48.7
Movement in loans and leases		(222.2)	(58.1)
Movement in net debt	25	(86.6)	(9.4)
Opening net debt	25	(1,539.5)	(1,530.1)
Closing net debt	25	(1,626.1)	(1,539.5)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
For the year to 31 March 2012

	Year to 31.03.12 £m	Year to 31.03.11 £m
Profit for the financial year	93.2	115.5
Total recognised gains relating to the financial year	93.2	115.5
Actuarial (loss) recognised in the pension scheme	(46.5)	(2.9)
Deferred tax arising on gains / (losses) in the pension scheme	9.9	(0.6)
Total gains and losses recognised since last annual report	56.6	112.0

NOTES TO THE ACCOUNTS

For the year to 31 March 2012

1 ACCOUNTING POLICIES

a. Basis of preparation

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

Group accounts have not been prepared as under section 400 of the Companies Act 2006 the company and its subsidiary are included in the consolidated financial statements of Wessex Water Ltd (see note 31).

The non-statutory accounts do not constitute the company's statutory accounts for the years ended 31 March 2012 or 2011. 31 March 2012 is not the accounting reference date for the company. The latest statutory accounts of the company were for the years ended 30 June 2011 and 30 June 2010. Both these statutory accounts have been delivered to the registrar of companies. The auditors have reported on both these statutory accounts; their reports were unqualified and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006. The next statutory accounts of the company will be prepared for the year ending 30 June 2012.

As explained on page 46, these non-statutory accounts have been prepared by the directors for the same period as the regulatory accounts which have to be prepared for the 12 month period ending 31 March each year in order to allow a user of the regulatory accounts to reconcile them to historical cost accounts of the company.

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. In the year to 31 March 2011 and previous years, the company had chosen not to recognise as turnover bills raised for customers who have a record of at least two years' non-payment. This policy was allowed under FRS5 Application Note G – Revenue Recognition. For the year to 31 March 2012 all bills raised will be recognised as turnover to bring the accounting policy in line with the regulatory guidance issued by Ofwat. In the year to March 2012 turnover has been increased by £0.8m and the bad debt charge within operating costs increased by the same value. The prior year has not been restated as the impact on the financial statements is not material.

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

Where assets are financed by leasing arrangements which transfer substantially all the risks and rewards of ownership of an asset to the lessee (finance leases), the assets are treated as if they had been purchased and the corresponding capital cost is shown as an obligation to the lessor. Leasing payments are treated as consisting of a capital element and finance costs, the capital element reducing the obligation to the lessor and the finance charge being written off to the profit and loss account over the period of the lease in reducing amounts in relation to the outstanding obligations. The assets are depreciated over the shorter of their estimated useful lives and the period of the lease. All other leases are regarded as operating leases. Rental costs arising under operating leases are written off in the year they are incurred.

e. 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, 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.

f. Investments

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

g. Stock

Stock and work in progress are stated at the lower of cost and net realisable value. In respect of work in progress, cost includes labour, materials and attributable overheads.

h. Foreign currency

All transactions of UK companies denominated in foreign currencies are translated into sterling at the actual rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

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 group operates a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the group. 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 group also operates a defined contribution section within the main pension scheme. Contributions to the scheme are charged to the profit and loss account in the period to which they relate.

l. 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.

m. 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.

n. Interest rate instruments

Interest rate instruments may be used to hedge 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.

o. Dividends on shares presented within shareholders' funds

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

NOTES TO THE ACCOUNTS

continued

2 SEGMENTAL ANALYSIS

Substantially all of the turnover, operating profit and net assets derive from activities within the United Kingdom. Unregulated activities arise from the use of regulated assets, but are outside the price controls of the regulator.

	2012 £m	2011 £m
a. Turnover		
Regulated	462.4	440.3
Unregulated	5.1	4.6
	467.5	444.9
b. Operating profit		
Regulated	219.0	212.1
Unregulated	-	-
	219.0	212.1
c. Net assets		
Regulated	240.6	335.1
Unregulated	-	-
	240.6	335.1

3 OPERATING COSTS

	2012 £m	2011 £m
Manpower costs (note 6b)	45.3	40.3
Materials and consumables	26.7	24.2
Other operational costs	63.8	61.7
Depreciation	114.0	106.1
Amortisation of grants and contributions	(0.8)	(0.9)
(Gain) / loss on disposals of fixed assets	(0.5)	1.4
	248.5	232.8
Operating costs include:		
Operating leases for plant and machinery	1.2	1.2
Research and development	0.1	0.1
Directors' remuneration (note 6c)	1.6	1.4
Fees paid to the auditor	0.2	0.1

	2012 £000	2011 £000
Auditor's remuneration:		
Audit of these financial statements	146	135
All other services	88	-
	234	135

4 NET INTEREST PAYABLE

	2012 £m	2011 £m
Interest payable:		
To group companies	74.5	54.9
On bank loans	6.3	4.8
On finance leases	0.9	1.4
Total interest payable	81.7	61.1
Interest receivable on short term bank deposits	(1.2)	(0.6)
Net interest payable	80.5	60.5

5 TAXATION

	2012 £m	2011 £m
a. Taxation on profit on ordinary activities		
Current year corporation tax:		
UK corporation tax at 26% (2011 – 28%)	32.0	37.4
Adjustments in respect of previous years	(12.4)	(2.5)
Total corporation tax charge	19.6	34.9
Deferred tax – current year:		
Origination and reversal of timing differences	(16.3)	(15.1)
Decrease in discount	35.4	14.8
	19.1	(0.3)
Deferred tax – prior year:		
Origination and reversal of timing differences	7.2	(0.8)
(Increase) / decrease in discount	(1.6)	0.6
	5.6	(0.2)
Total deferred tax charge / (credit)	24.7	(0.5)
Taxation charge on profit on ordinary activities	44.3	34.4
b. Current tax reconciliation		
Profit on ordinary activities before tax	137.5	149.9
Current tax at 26% (2011 – 28%)	35.7	41.9
Group relief for nil consideration	(1.5)	(1.3)
Capital allowances less than depreciation	2.6	2.9
Payment of lease creditor capital	(1.7)	(1.8)
Other timing differences	(3.1)	(4.3)
Total corporation tax charge – as above	32.0	37.4

c. On 21 March 2012 the Chancellor announced the reduction in the corporation tax rate from 26% to 24% with effect from 1 April 2012. There is no change to the total corporation tax charge shown above, but there is a change to deferred taxation (see note 15b).

NOTES TO THE ACCOUNTS
continued

6 DIRECTORS AND EMPLOYEES

	2012 £m	2011 £m
a. Total employment costs of the company were:		
Wages and salaries	59.3	55.8
Social security costs	5.0	4.8
Other pension costs	5.5	3.6
	69.8	64.2
b. Total employment costs are charged as follows:		
Capital schemes	24.5	23.9
Manpower costs (note 3)	45.3	40.3
	69.8	64.2
	2012 £000	2011 £000
c. Total directors' remuneration		
Salary and fees	1,077	983
Bonuses	426	337
Benefits in kind	70	69
	1,573	1,389

The remuneration above is in respect of five executive directors (2011 – five) and eight non-executive directors (2011 – seven). In determining the directors' pay, the remuneration committee considers the financial and operational performance of the business, including performance against budget and regulatory and customer expectations.

Executive directors have one year rolling contracts of employment. In addition the executive directors received £507k remuneration from other group companies (2011 – £466k). Four directors have benefits accruing under defined benefit pension schemes (2011 – four). The aggregate amount of company contributions to pension schemes in respect of directors was £128k (2011 – £139k).

d. Directors' remuneration and standards of service

Remuneration of the executive directors comprises:

- basic salary
- bonus
- pension plan
- car and health benefits
- unapproved share option scheme of the parent company YTL Power International Berhad.

The remuneration committee sets the annual level of remuneration of the directors. Overall packages are linked to market rates of pay, externally assessed against the HAY Industrial and Services Sector comparison of companies. Basic salary and the other benefits, with the exception of the bonus scheme, are not linked to standards of performance.

The annual bonus of directors is dependent on the achievement of company, team and individual targets. In the case of directors these targets are weighted as 60% company, 20% team and 20% individual. The company targets are Key Performance Indicators covering financial measures, Ofwat service measures, asset performance, environmental and employee issues as shown below;

Financial	profit after corporation tax / operational costs / net capital expenditure / cash flow before dividends / equity return
Service	Service Incentive Mechanism quantitative and qualitative score / drinking water quality / customer service rating / operating cost comparative performance
Asset	regulatory outputs / serviceability / security of supply / leakage
Environmental	energy usage / energy self generation / sewage treatment compliance / bathing water quality / pollutions category 1, 2 and 3
Employees	reportable injuries / employee rating of company / compliance with training plan.

In 2011/2012 all of the company targets were met or bettered, and when taking into account team and individual performance, the following bonus payments were made; SA Cater £110k, CF Skellett £93k, DJ Elliott £90k, MT Watts £73k and PJL Dennis £60k.

	2012 £000	2011 £000
e. Highest paid director		
Salary	210	204
Bonus	110	85
Benefits in kind	15	15
	335	304

The highest paid director had an accrued annual pension entitlement of £54,265 at 31 March 2012 (2011 - £51,363).

	2012 number	2011 number
f. Monthly average number of employees during the year	1,651	1,595

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.

	2012 £m	2011 £m
Final dividend in respect of a prior year not recognised as a liability in that year	21.0	-
Interim dividends for 9 months to 31 December	108.4	75.6
Final dividend for 3 months to 31 March	21.7	-
	151.1	75.6

NOTES TO THE ACCOUNTS

continued

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 April 2011	671.7	1,167.2	1,143.5	96.4	64.5	3,143.3
Additions	1.7	57.1	38.2	6.7	76.5	180.2
Transfers on commissioning	3.8	10.8	31.3	1.9	(47.8)	-
Disposals	(0.9)	-	(8.4)	-	-	(9.3)
Grants and contributions	-	(5.4)	-	-	-	(5.4)
At 31 March 2012	676.3	1,229.7	1,204.6	105.0	93.2	3,308.8
Depreciation						
At 1 April 2011	198.0	395.2	511.2	28.0	-	1,132.4
Charge for the period	13.7	40.3	54.0	6.0	-	114.0
Disposals	(0.4)	-	(6.4)	-	-	(6.8)
At 31 March 2012	211.3	435.5	558.8	34.0	-	1,239.6
Net book value						
At 31 March 2012	465.0	794.2	645.8	71.0	93.2	2,069.2
At 1 April 2011	473.7	772.0	632.3	68.4	64.5	2,010.9

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 £46.7m (2011 – £53.2m).

The depreciation charge for the period on assets held under finance leases is £6.5m (2011 – £6.4m).

The net book value of infrastructure assets at 31 March 2012 is stated after the deduction of grants and contributions amounting to £126.8m (2011 – £121.4m) in order to give a true and fair view (note 1e).

Included in the cost of infrastructure assets is £442.1m (2011 – £397.0m) of expenditure on maintaining the network, and £435.5m (2011 – £395.2m) of depreciation included in the profit and loss account.

Included in freehold land and buildings above is an amount of £11.0m (2011 – £10.6m) in respect of land which is not depreciated.

9 INVESTMENTS

The company has an investment of £13,000 (2011 – £13,000) in 100% of the £1 ordinary shares of a subsidiary company, Wessex Water Services Finance Plc.

10 STOCK AND WORK IN PROGRESS

	2012 £m	2011 £m
Raw materials and consumables	2.8	2.6
Work in progress	3.5	2.6
	6.3	5.2

11 DEBTORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

Trade debtors	48.1	36.6
Owed by group companies	35.0	29.3
Prepayments and accrued income	62.1	59.9
Other debtors	8.7	6.1
	153.9	131.9

12 CASH AT BANK AND IN HAND

Short-term bank deposits	211.0	63.0
	211.0	63.0

£61.0m of short-term bank deposits mature within 1 month, £30.0m within 4 months, £30.0m within 7 months and £90.0m within 10 months.

13 CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

Bank overdraft	18.6	6.2
Loans repayable	-	75.0
Inter company loan	1.3	1.3
Obligations under finance leases	6.3	5.6
Trade creditors	3.1	2.9
Amounts owed to subsidiary company	14.2	12.5
Amounts owed to other group companies	0.6	0.6
Amounts owed to associate company	0.2	0.2
Dividend	21.7	-
Other creditors	2.0	2.8
Corporation tax	9.2	21.1
Taxation and social security	1.7	1.7
Accruals and deferred income	92.8	66.5
	171.7	196.4

The inter company loan is due to a fellow subsidiary company SC Technology GmbH and is repayable on demand.

NOTES TO THE ACCOUNTS
continued

14 CREDITORS – AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

		2012 £m	2011 £m
Loans repayable	- in more than 1 year, but not more than 2 years	50.0	-
	- in more than 2 years, but not more than 5 years	100.0	150.0
	- in more than 5 years	215.0	140.0
		365.0	290.0
Finance lease repayable	- in more than 1 year, but not more than 2 years	7.1	6.3
	- in more than 2 years, but not more than 5 years	26.7	24.0
	- in more than 5 years	24.9	34.7
		58.7	65.0
Inter company loans	- in more than 5 years	1,387.2	1,159.4
Other		1.0	1.0
		1,811.9	1,515.4

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:

	2012 £m	2011 £m
Bond at 5.375% repayable in March 2028	198.3	198.2
Bond at 5.75% repayable in October 2033	346.1	346.0
Bond at 4.0% repayable in September 2021	197.5	-
Index linked Bond at 3.53% plus inflation repayable in July 2023	65.9	62.9
Index linked Bond at 2.186% plus inflation repayable in June 2039	55.8	53.3
Index linked Bond at 1.75% plus inflation repayable in July 2046	88.6	84.6
Index linked Bond at 1.75% plus inflation repayable in July 2051	88.6	84.5
Index linked Bond at 1.369% plus inflation repayable in July 2057	88.6	84.6
Index linked Bond at 1.374% plus inflation repayable in July 2057	88.6	84.5
Index linked Bond at 1.489% plus inflation repayable in November 2058	56.4	53.6
Index linked Bond at 1.495% plus inflation repayable in November 2058	56.4	53.6
Index linked Bond at 1.499% plus inflation repayable in November 2058	56.4	53.6
	1,387.2	1,159.4

15 PROVISIONS FOR LIABILITIES AND CHARGES

	Deferred tax £m	Restructuring costs £m	Total £m
At 1 April 2011	92.7	-	92.7
Provided in year	-	0.4	0.4
Utilised during year	-	(0.2)	(0.2)
Origination and reversal of timing differences	(11.3)	-	(11.3)
Decrease in discount	33.7	-	33.7
At 31 March 2012	115.1	0.2	115.3

	2012 £m	2011 £m
a. Deferred tax is provided as follows:		
Accelerated capital allowances	261.6	272.9
Other timing differences	(0.8)	(0.8)
Undiscounted provision for deferred tax	260.8	272.1
Discount	(145.7)	(179.4)
Discounted provision for deferred tax	115.1	92.7

b. The 2012 Budget on 21 March 2012 announced that the UK corporation tax rate will reduce to 22% by 2014. A reduction in the rate from 26% to 25% (effective from 1 April 2012) was substantively enacted on 5 July 2011, and a further reduction to 24% (effective from 1 April 2012) was substantively enacted on 26 March 2012.

   This will reduce the company's future current tax charge accordingly. The deferred tax liability and FRS17 deferred tax asset at 31 March 2012 have been calculated based on the rate of 24% substantively enacted at the balance sheet date. Had the change to 22% been enacted at the balance sheet date the deferred tax provision above would have decreased by £11.1m to £104.0m, and the deferred tax asset (note 16) would have decreased by £2.1m to £23.6m.

16 PENSION LIABILITY

	2012	2011
FRS 17 pension liability (note 16e)	107.5	69.6
FRS 17 deferred tax asset	(25.7)	(18.1)
Unfunded and compensatory added years pension	1.2	1.2
	83.0	52.7

a. The defined benefit scheme operated by the group, 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 year's service are held outside the defined benefit scheme. The group also operates a defined contribution section within the main pension scheme.

b. The total pension cost of the company under FRS 17, including amounts set aside for employees retiring early and other finance income, was £10.5m (2011 – £6.5m).

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 will be at 31 December 2013.

In response to this valuation the company has 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 to 31 March 2012 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:

	31.03.12	31.03.11
Rate of increase in salaries – short term	2.9%	3.0% to 3.5%
Rate of increase in salaries – long term	4.2%	4.3%
Rate of increase in pensions in payment	2.4% or 3.2%	2.6% or 3.3%
Rate of increase in pensions in payment (reduced level members)	2.2%	2.2%
Discount rate	4.8%	5.6%
Inflation assumption – RPI	3.4%	3.5%
Inflation assumption – CPI	2.4%	2.6%

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 28.8 years if they are female. The assumptions are that a member who retires in 2032 at age 60 will live, on average, for a further 28.6 years after retirement if they are male, and for a further 30.4 years after retirement if they are female.

e. The value of the assets and liabilities at 31 March 2012 and the previous year was as follows:

	31.03.12 £m	31.03.11 £m
Equities	180.2	168.5
Property	27.6	23.7
Government bonds	92.5	138.3
Corporate bonds	81.4	17.1
Other	9.2	7.6
Total fair value of the assets	390.9	355.2
Present value of defined benefit obligations	(498.4)	(424.8)
Deficit in the scheme	(107.5)	(69.6)

The expected rates of return were as follows:

	31.03.12 %	31.03.11 %
Equities	8.1	8.4
Property	7.1	8.1
Government bonds	3.1	4.4
Corporate bonds	4.1	5.1
Other	1.8	1.5
Total	5.9	6.5

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 plan 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 for the scheme as at 31 March 2012.

f. Additional analysis:

	31.03.12 £m	31.03.11 £m
Analysis of profit and loss charge		
Current service cost	9.2	9.3
Past service cost	0.3	(4.5)
Interest cost	23.6	22.6
Expected return on scheme assets	(22.6)	(20.9)
Expense recognised in profit and loss account	10.5	6.5
Changes to the present value of defined benefit obligations during the year		
Opening present value of defined benefit obligations	424.8	405.8
Current service cost	9.2	9.3
Interest cost	23.6	22.6
Contributions by scheme participants	0.3	0.7
Actuarial losses on scheme liabilities	55.2	6.5
Net benefits paid out	(15.0)	(15.6)
Past service cost	0.3	(4.5)
Closing present value of defined benefit obligations	498.4	424.8
Changes to the fair value of scheme assets during the year		
Opening fair value of scheme assets	355.2	325.9
Expected return on scheme assets	22.6	20.9
Actuarial gains on scheme assets	8.7	3.6
Contributions by the employer	19.1	19.7
Contributions by scheme participants	0.3	0.7
Net benefits paid out	(15.0)	(15.6)
Closing fair value of scheme assets	390.9	355.2
Actual return on scheme assets		
Expected return on scheme assets	22.6	20.9
Actuarial gains on scheme assets	8.7	3.6
Actual return on scheme assets	31.3	24.5
Analysis of amounts recognised in Statement of Total Recognised Gains and Losses		
Total actuarial losses	(46.5)	(2.9)
Cumulative amount of losses recognised	(137.4)	(90.9)

NOTES TO THE ACCOUNTS

continued

History of asset values, defined benefit obligations, deficit in the scheme and experience gains and losses	31.03.12 £m	31.03.11 £m	31.03.10 £m	31.03.09 £m	31.03.08 £m
Fair value of scheme assets	390.9	355.2	325.9	256.9	295.7
Present value of scheme liabilities	(498.4)	(424.8)	(405.8)	(303.8)	(316.1)
(Deficit) in the scheme	(107.5)	(69.6)	(79.9)	(46.9)	(20.4)
Experience gains / (losses) on scheme assets	8.7	3.6	44.2	(64.6)	(17.6)
Experience gains / (losses) on scheme liabilities	-	9.1	4.3	(1.1)	(3.4)

17 DEFERRED INCOME

	2012 £m	2011 £m
Grants and contributions:		
At 1 April	18.7	19.6
Received in the year	-	-
Less amortisation	(0.8)	(0.9)
At 31 March	17.9	18.7

18 CALLED UP EQUITY SHARE CAPITAL

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

19 PROFIT AND LOSS ACCOUNT

At 1 April	253.8	217.4
Actuarial losses net of taxation	(36.6)	(3.5)
Profit attributable to shareholders	93.2	115.5
Dividends (note 7)	(151.1)	(75.6)
At 31 March	159.3	253.8

20 SHAREHOLDERS' FUNDS

	2012 £m	2011 £m
At 1 April	335.1	298.7
Actuarial losses net of taxation	(36.6)	(3.5)
Profit attributable to shareholders	93.2	115.5
Dividends (note 7)	(151.1)	(75.6)
At 31 March	240.6	335.1

21 RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	Year to 31.03.12 £m	Year to 31.03.11 £m
Operating profit	219.0	212.1
Depreciation	114.0	106.1
Amortisation of grants and contributions	(0.8)	(0.9)
Provisions	(9.2)	(16.4)
(Profit) / loss on disposal of fixed assets	(0.5)	1.4
(Increase) / decrease in stocks	(1.1)	0.1
(Increase) in debtors	(22.1)	(5.2)
Increase / (decrease) in creditors	3.9	(3.0)
	303.2	294.2

22 RETURNS ON INVESTMENTS AND SERVICING OF FINANCE

Interest received	0.7	0.5
Interest paid	(78.8)	(58.6)
Interest element of finance lease rentals	(1.1)	(1.6)
	(79.2)	(59.7)

23 CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT

Purchase of tangible fixed assets	(158.3)	(111.6)
Sale of tangible fixed assets	3.0	1.3
Connection charges, grants and deferred income	5.6	6.5
	(149.7)	(103.8)

24 FINANCING

Loans and finance leases drawn down	197.4	50.0
Loans and finance leases repaid	(5.6)	(4.9)
Bond non cash movements	30.4	13.0
	222.2	58.1

NOTES TO THE ACCOUNTS
continued

25 MOVEMENT IN NET DEBT

	1 April 2011 £m	Cash flow £m	Non cash items £m	31 March 2012 £m
Cash at bank and in hand	63.0	148.0	-	211.0
Bank overdraft	(6.2)	(12.4)	-	(18.6)
Short term borrowings	(1.3)	-	-	(1.3)
Loans repayable within one year	(75.0)	75.0	-	-
Loans repayable after one year	(290.0)	(75.0)	-	(365.0)
Finance leases repayable within one year	(5.6)	(0.7)	-	(6.3)
Finance leases repayable after one year	(65.0)	6.3	-	(58.7)
Bonds repayable after one year	(1,159.4)	(197.4)	(30.4)	(1,387.2)
	(1,539.5)	(56.2)	(30.4)	(1,626.1)

26 FINANCIAL INSTRUMENTS

Short term debtors and creditors have been excluded from the financial instruments disclosure other than £26.2m (2011 – £88.1m) of short term borrowings.

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 31 March 2012 there were £25.0m (2011 – £100.0m) of undrawn facilities. The company may use derivative financial instruments to reduce the exposure to foreign currency fluctuations and to limit the exposure to floating interest rates.

a. Interest rate and currency exposure

	Fixed rate borrowings 2012 £m	Floating rate borrowings 2012 £m	Total borrowings 2012 £m	Fixed rate borrowings 2011 £m	Floating rate borrowings 2011 £m	Total borrowings 2011 £m
Sterling	1,387.2	449.9	1,837.1	1,159.4	443.1	1,602.5

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

	Interest rate % 2012	Period years 2012	Interest rate % 2011	Period years 2011
Sterling	3.8	27.1	3.8	30.8

£26.2m (2011 – £88.1m) of floating rate borrowings are short term, and £423.7m (2011 – £355.0m) are long term with interest rates moving in line with LIBOR.

b. Fair values

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.

	Book value £m 2012	Fair value £m 2012	Book value £m 2011	Fair value £m 2011
Borrowings less than 1 year	26.2	26.2	88.1	88.1
Floating rate borrowings over 1 year	423.7	423.7	355.0	355.0
Fixed rate borrowings over 1 year	1,387.2	1,661.8	1,159.4	1,248.0
	1,837.1	2,111.7	1,602.5	1,691.1

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.

27 SHARE-BASED PAYMENTS

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

The majority of options were issued under terms approved by the Inland Revenue, the "Approved" scheme, but some were issued to senior employees under an "Unapproved" scheme. The options were for ordinary shares of YTL Power International Berhad of Malaysian Ringgit RM0.50 each. The share option scheme expired on 29 November 2011 and no new share options have been granted to employees of the company since that date.

Granted – Ordinary shares of RM0.50 each	Outstanding at 31 March 2011	Forfeited	Exercised	Expired	At 29 November 2011
13/12/2002 Unapproved	8,378,750	(100,000)	(2,861,250)	(5,417,500)	-
26/12/2002 Approved	2,964,000	(34,000)	(542,000)	(2,388,000)	-
12/12/2003 Unapproved	634,000	-	(434,000)	(200,000)	-
12/12/2003 Approved	1,148,000	-	(304,000)	(844,000)	-
16/05/2005 Unapproved	3,458,900	-	(651,000)	(2,807,900)	-
16/05/2005 Approved	3,708,000	-	(238,000)	(3,470,000)	-
07/08/2006 Unapproved	500,000	-	-	(500,000)	-
07/08/2006 Approved	4,318,150	(136,000)	(222,500)	(3,959,650)	-
20/08/2007 Unapproved	800,000	-	-	(800,000)	-
20/08/2007 Approved	2,903,000	(68,000)	-	(2,835,000)	-
26/06/2008 Unapproved	80,000	-	(10,000)	(70,000)	-
28/11/2008 Unapproved	5,720,000	-	(2,195,000)	(3,525,000)	-
28/11/2008 Approved	9,060,000	(68,000)	(68,600)	(8,923,400)	-
TOTAL	43,672,800	(406,000)	(7,526,350)	(35,740,450)	-

NOTES TO THE ACCOUNTS

continued

The vesting date and exercise price of the share options were as follows:

Granted – Ordinary shares of RM0.50 each	Vesting date	Exercise price RM
13/12/2002 Unapproved	13/12/2005	1.32
26/12/2002 Approved	26/12/2005	1.39
12/12/2003 Unapproved	12/12/2006	1.53
12/12/2003 Approved	12/12/2006	1.70
16/05/2005 Unapproved	16/05/2008	1.82
16/05/2005 Approved	16/05/2008	2.02
07/08/2006 Unapproved	07/08/2009	1.74
07/08/2006 Approved	07/08/2009	1.93
20/08/2007 Unapproved	20/08/2010	2.04
20/08/2007 Approved	20/08/2010	2.27
26/06/2008 Unapproved	20/08/2010	1.80
28/11/2008 Unapproved	28/11/2011	1.61
28/11/2008 Approved	28/11/2011	1.78

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 through to the exercise date. A charge of £0.1m was recognised in the profit and loss account for FRS 20.

28 COMMITMENTS AND GUARANTEES

a. There were £0.1m (2011 – £0.1m) of operating leases under leases on land and buildings due within the next year, which expire in over 5 years. There were no other commitments under operating leases.

b. At 31 March 2012 the company had no interest rate and currency instrument agreements outstanding with commercial banks (2011 – nil).

c. Capital expenditure contracted but not provided at 31 March 2012 was £97.0m (2011 – £37.6m).

d. The company has guaranteed Bonds of £1,387.2m (2011 – £1,159.4m) issued by its wholly owned subsidiary company Wessex Water Services Finance Plc.

29 CONTINGENT LIABILITIES

There are no material contingent liabilities at 31 March 2012 for which provision has not been made in these accounts.

30 RELATED PARTIES

There are no related party transactions requiring disclosure in these accounts. As the company is a wholly owned subsidiary of Wessex Water Ltd (see note 31), the company has taken advantage of the exemption contained in FRS 8 'Related Party Transactions' and has therefore not disclosed transactions or balances with entities which form part of the group.

31 ULTIMATE PARENT COMPANY

The smallest group into which the accounts of the company will be consolidated is that headed by Wessex Water Ltd, a company incorporated in the United Kingdom whose registered address is Wessex Water Operations Centre, Claverton Down Road, Claverton Down, Bath, BA2 7WW.

The ultimate parent company is YTL Corporation Berhad, which is incorporated in Malaysia under the Companies Act 1965, whose registered address is Yeoh Tiong Lay Plaza, 55 Jalan Bukit Bintang, 55100 Kuala Lumpur, Malaysia.

32 GOING CONCERN

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.

REGULATORY ACCOUNTS

Introduction

The company was appointed by the Secretary of State for the Environment as a water and sewerage undertaker under the Water Act 1989 and is required to comply with the Conditions set out in the Instrument of Appointment (the Licence) issued thereunder.

Regulation

Under the conditions of its Licence, granted to the company by the Secretary of State for the Environment the company is obliged to provide the Water Services Regulatory Authority (WSRA) with additional information to that contained in the non-statutory accounts, in order to comply with Licence Condition F. This information is presented on pages 78 to 93.

Ring fencing

Under the conditions of its Licence, the company is at all times required to ensure, so far as reasonably practicable, that if a special administration order were made the company would have available to it sufficient rights and assets (other than financial resources) to enable the special administrator to manage the affairs, business and property of the company.

The company was in compliance with that requirement as at 31 March 2012. In the opinion of the directors:

a. The company will have available to it sufficient financial resources and facilities to enable it to carry out, for at least the next 12 months, the Regulated Activities (including the investment programme necessary to fulfil the company's obligations under the Appointment);

b. the company will for at least the next 12 months have available management resources which are sufficient to enable it to carry out those functions; and

c. all contracts entered into with any associated company include all necessary provisions and requirements concerning the standard of service to be supplied to the appointee, to ensure that it is able to meet all its obligations as a water and sewerage undertaker.

In making this statement the directors made reference to the detailed budget produced for the year to March 2013 and the business plan model through to March 2015. The directors also made reference to the legal ownership of assets, employment contracts, borrowing facilities, the joint venture billing arrangement and the in-house engineering and construction department set up to deliver the capital programme.

Transactions with associates

In the opinion of the directors the company has complied with the objectives and principles of RAG 5.04 in that transactions with associated companies are at arms length and that cross subsidy is not occurring.

Directorships

C F Skellett and M T Watts are also directors of Wessex Water Ltd, Wessex Water Enterprises Ltd, Wessex Water Services Finance Plc, Wessex Engineering & Construction Services Ltd, YTL Utilities Holdings Ltd and Bristol Wessex Billing Services Ltd. C F Skellett is also a director of YTL Utilities (UK) Ltd.

Francis Yeoh, Hong Yeoh and Mark Yeoh are directors of Wessex Water Ltd, YTL Power International Berhad and YTL Corporation Berhad. Hong Yeoh is a director of YTL Utilities (UK) Ltd and YTL Utilities Holdings Ltd, and Francis Yeoh is a director of YTL Utilities (UK) Ltd.

DIRECTORS' RESPONSIBILITIES AND ACCOUNTING POLICIES

Directors' responsibilities

The directors are responsible under Condition F of the Instrument of Appointment by the Secretary of State for the Environment of the company as a water and sewerage undertaker under the Water Industry Act 1991, to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company as at the end of the financial year, and of the profit or loss of the company for that year.

The directors confirm that suitable accounting policies have been used and applied consistently, and reasonable, prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 March 2012.

The directors also confirm that, except for the departure explained in note 1e on page 54 to the financial statements, and in respect of infrastructure renewals accounting as explained below, applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

The directors are responsible for keeping proper accounting records as required by United Kingdom company law, for taking reasonable steps to safeguard the assets of the company, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Accounting policies

These regulatory accounts on pages 78 to 93 do not constitute the company's statutory accounts for the years ended 31 March 2012 or 2011. 31 March 2012 is not the accounting reference date for the company. The latest statutory accounts of the company were for the years ended 30 June 2011 and 2010. Both these statutory accounts have been delivered to the registrar of companies. The auditors have reported on both these statutory accounts; their reports were unqualified and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

The next statutory accounts of the company will be prepared for the year ending 30 June 2012.

Historical cost statements

In accordance with Condition F of the Instrument of Appointment financial statements have been prepared for the appointed and non appointed business to show the profit and loss account, balance sheet and cash flow statements.

The financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom, except for the treatment of certain grants and contributions (see note 1e on page 54). The principal accounting policies are described on pages 53 to 55.

Under FRS15, Tangible Fixed Assets, it is not permitted to recognise provisions or prepayments in respect of infrastructure renewals accounting. In accordance with instructions from the WSRA, set out in a letter RD 11/00 dated 6 April 2000 "Regulatory Accounts for 1999-2000 – Reporting Requirements RAG 3.04", the sections of FRS15 relevant to infrastructure renewals accounting are to be dis-applied. The effect of this on the balance sheet has been shown on page 80.

Turnover recognition

Turnover represents income receivable in the ordinary course of business, excluding VAT, for services provided. Turnover is recognised to the extent that the economic benefits will flow to the company.

There are no differences in turnover recognition between the statutory and regulatory accounts. There are no adjustments between amounts billed (as adjusted by opening and closing accruals) and amounts recorded as turnover.

Income related to water and sewerage services is receivable from occupiers of premises to which services are supplied except where a third party has agreed liability for the charges. Where premises are unoccupied or where no services are supplied charges are not raised, income is not receivable and no turnover is recognised.

DIRECTORS' RESPONSIBILITIES AND ACCOUNTING POLICIES continued

Premises that are furnished are considered to be occupied except in exceptional circumstances such as death or long-term hospitalisation of the customer. We consider premises undergoing refurbishment or being used for storage to be occupied by the owners of the premises.

If details of the occupier of the premises are unknown, the premises are considered to be unoccupied, no charges are raised and no turnover is recognised except where a third party has agreed liability for the charges.

Charges that do not represent income receivable in the ordinary course of business are not recognised as turnover. This includes charges for the recovery of costs related to court action to recover charges overdue.

We do not bill properties speculatively in the name of the occupier. We have processes that seek to determine whether properties are occupied that include, but are not limited to, written correspondence, data matching and visits.

The principles laid out above apply to both new and existing premises.

Current cost statements
The principal accounting policies are described on page 84.

The effect of not applying FRS15 in respect of infrastructure renewals accounting, has been to reduce fixed assets by £6.6m (2011 – £1.8m) and increase working capital by the same amount. Within fixed assets the impact has been to reduce cost by £442.1m (2011 – £397.0m) and reduce accumulated depreciation by £435.5m (2011 – £395.2m).

Reconciliation to the non-statutory accounts
In the non-statutory accounts the company has continued to capitalise customer pipe leak repairs. The impact is to increase historic cost profit after tax and to increase historic cost net assets as shown on page 80.

Principles of cost allocation
In note 7a and 7b of the current cost regulatory statements, direct costs are specifically attributed to services and do not require allocation. Business activities, rates and doubtful debts are allocated according to a specific criteria, relevant to each type of cost. Capital costs are specifically attributed to services and do not require allocation.

INDEPENDENT AUDITORS' REPORT TO THE WATER SERVICES REGULATORY AUTHORITY AND THE DIRECTORS OF WESSEX WATER SERVICES LTD

We have audited the regulatory accounts of Wessex Water Services Ltd for the year ended 31 March 2012 on pages 78 to 92 which comprise:

- the regulatory historical cost accounting statements, comprising the regulatory historical cost profit and loss account, the regulatory historical cost balance sheet, the regulatory historical cost statement of total recognised gains and losses and the historical cost reconciliation between non-statutory and regulatory accounts; and
- the regulatory current cost accounting statements for the appointed business, comprising the current cost profit and loss account, the current cost balance sheet, the current cost cash flow statement and the related notes to the current cost financial statements, including the statement of accounting policies.

These regulatory accounts have been prepared in accordance with the basis of preparation and accounting policies set out in the Statement of Accounting Policies.

This report is made, on terms that have been agreed, solely to the company and the WSRA in order to meet the requirements of Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the company as a water and sewerage undertaker under the Water Industry Act 1991. Our audit work has been undertaken so that we might state to the company and the WSRA those matters that we have agreed to state to them in our report, in order (a) to assist the company to meet its obligation under Condition F to procure such a report and (b) to facilitate the carrying out by the WSRA of its regulatory functions, 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 WSRA, for our audit work, for this report or for the opinions we have formed.

Respective responsibilities of the WSRA, the directors and auditors

As explained more fully in the Statement of directors' responsibilities set out on page 73, the directors are responsible for the preparation of the regulatory accounts and for their fair presentation in accordance with the basis of preparation and accounting policies. Our responsibility is to audit and express an opinion on the Regulatory Accounts in accordance with International Standards on Auditing (UK and Ireland), except as stated in the 'Scope of the audit of the regulatory accounts' below, and having regard to the guidance contained in Audit 05/03 'Reporting to Regulators of Regulated Entities' issued by the Institute of Chartered Accountants in England and Wales. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the regulatory accounts

An audit involves obtaining evidence about the amounts and disclosures in the regulatory accounts sufficient to give reasonable assurance that the regulatory accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the regulatory accounts. In addition, we read all the financial and non-financial information in the regulatory accounts to identify material inconsistencies with the audited regulatory accounts. If we become aware of any apparent misstatements or inconsistencies we consider the implications for our report.

We have not assessed whether the accounting policies are appropriate to the circumstances of the company where these are laid down by Condition F. Where Condition F does not give specific guidance on the accounting policies to be followed, our audit includes an assessment of whether the accounting policies adopted in respect

INDEPENDENT AUDITORS' REPORT TO THE WATER SERVICES REGULATORY AUTHORITY AND THE DIRECTORS OF WESSEX WATER SERVICES LTD continued

of the transactions and balances required to be included in the regulatory accounts are consistent with those used in the preparation of the non-statutory financial statements of the company. Furthermore, as the nature, form and content of regulatory accounts are determined by the WSRA, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit opinion under International Standards on Auditing (UK & Ireland).

Opinion on regulatory accounts
In our opinion, the regulatory accounts:

- fairly present in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA and the accounting policies set out on pages 73, 74 and 84, the state of the company's affairs at 31 March 2012 on a historical cost and current cost basis, and its historical cost and current cost profit and its current cost cash flow for the year then ended; and
- have been properly prepared in accordance with Condition F, the Regulatory Accounting Guidelines and the accounting policies.

Basis of preparation
Without modifying our opinion, we draw attention to the fact that the regulatory accounts have been prepared in accordance with Condition F of the Appointment and the Regulatory Accounting Guidelines, the accounting policies set out in the statement of accounting policies and, in the case of the regulatory historical cost accounting statements, under the historical cost convention.

The regulatory accounts are separate from the non-statutory financial statements of the company and have not been prepared under the basis of United Kingdom Generally Accepted Accounting Practice ('UK GAAP'). Financial information other than that prepared on the basis of UK GAAP does not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in non-statutory financial statements prepared in accordance with the Companies Act 2006. Furthermore, the regulatory historical cost accounting statements on pages 78 to 80 have been drawn up in accordance with Regulatory Accounting Guideline 3.06, in that infrastructure renewals accounting as applied in previous years should continue to be applied and accordingly, that the relevant sections of Financial Reporting Standards 12 and 15 be disapplied. The effect of this departure from Generally Accepted Accounting Practice and a reconciliation of the balance sheet drawn up on this basis to the balance sheet drawn up under the Companies Act 2006 is given on page 80.

Opinion on other matters prescribed by Condition F

Under the terms of our contract, we have assumed responsibility to provide those additional opinions required by Condition F in relation to the accounting records. In our opinion:

- proper accounting records have been kept by the appointee as required by paragraph 3 of Condition F; and
- the regulatory accounts are in agreement with the accounting records and returns retained for the purpose of preparing the regulatory accounts.

Other matters

The nature, form and content of regulatory accounts are determined by the WSRA. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the WSRA's purposes. Accordingly, we make no such assessment.

Our opinion on the regulatory accounts is separate from our opinion on the non-statutory financial statements of the company for the year ended 31 March 2012 on which we report, which are prepared for a different purpose. Our audit report in relation to the non-statutory financial statements of the company (our 'non-statutory audit') was made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our non-statutory audit work was undertaken so that we might state to the company's members those matters we are required to state to them in a non-statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our non-statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

AC Campbell-Orde (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
100 Temple Street
Bristol
BS1 6AG
29 June 2012

HISTORICAL COST PROFIT AND LOSS ACCOUNT
For the year to 31 March 2012

	2012 Appointed £m	2012 Non appointed £m	2012 Total £m	2011 Appointed £m	2011 Non appointed £m	2011 Total £m
Turnover	462.4	5.1	467.5	440.3	4.6	444.9
Operating costs	(173.6)	(5.1)	(178.7)	(158.1)	(4.6)	(162.7)
Depreciation	(72.9)	-	(72.9)	(71.2)	-	(71.2)
Operating income	0.5	-	0.5	(1.4)	-	(1.4)
Operating profit	216.4	-	216.4	209.6	-	209.6
Other income	0.3	-	0.3	0.4	-	0.4
Interest payable	(81.5)	-	(81.5)	(62.2)	-	(62.2)
Profit on ordinary activities before taxation	135.2	-	135.2	147.8	-	147.8
Current taxation	(19.6)	-	(19.6)	(34.9)	-	(34.9)
Deferred taxation	(24.7)	-	(24.7)	0.5	-	0.5
Profit for the year	90.9	-	90.9	113.4	-	113.4
Ordinary dividend	(151.1)	-	(151.1)	(75.6)	-	(75.6)
Transfer to reserves	(60.2)	-	(60.2)	37.8	-	37.8

The non appointed business comprises those activities for which the Appointee is not a monopoly supplier or involve the optional use of assets owned by the Appointee.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES For the year to 31 March 2012

	2012 Appointed £m	2012 Non appointed £m	2012 Total £m	2011 Appointed £m	2011 Non appointed £m	2011 Total £m
Profit for the year	90.9	-	90.9	113.4	-	113.4
Actuarial losses net of tax	(36.6)	-	(36.6)	(3.5)	-	(3.5)
Total recognised gains	54.3	-	54.3	109.9	-	109.9

HISTORICAL COST BALANCE SHEET

At 31 March 2012

	2012 Appointed £m	2011 Appointed £m
Fixed assets		
Tangible fixed assets	2,038.9	1,987.7
Current assets		
Stocks	6.3	5.2
Debtors	153.9	131.9
Infrastructure renewals prepayment	6.6	1.8
Cash at bank and in hand	211.0	63.0
	377.8	201.9
Creditors – amounts falling due within one year		
Borrowings	(26.2)	(88.1)
Corporation tax	(8.7)	(20.6)
Dividends payable	(21.7)	-
Other creditors	(114.6)	(87.2)
	(171.2)	(195.9)
Net current assets	206.6	6.0
Total assets less current liabilities	2,245.5	1,993.7
Creditors – amounts falling due after more than one year		
Borrowings	(1,810.9)	(1,514.4)
Other creditors	(1.0)	(1.0)
	(1,811.9)	(1,515.4)
Provisions for liabilities and charges		
Deferred tax	(115.1)	(92.7)
Retirement benefit obligations	(83.0)	(52.7)
Other provisions	(0.2)	-
Deferred income	(17.9)	(18.7)
Net assets	217.4	314.2
Capital and reserves		
Called up share capital	81.3	81.3
Profit and loss account	136.1	232.9
Equity shareholders' funds	217.4	314.2

There are no assets, liabilities or shareholders' funds attributed to the non appointed business at either year end.

The regulatory information on pages 78 to 93 was approved by the board of directors on 29 June 2012.

Colin Skellett
Chairman

Mark Watts
Director

RECONCILIATION FROM REGULATORY ACCOUNTS TO NON-STATUTORY ACCOUNTS

At 31 March 2012

	2012 £m	2011 £m
Profit and loss account		
Per regulatory accounts	90.9	113.4
Capitalisation of customer pipe leak repairs	2.3	2.1
Per non-statutory accounts	93.2	115.5
Balance sheet		
(a) Fixed assets		
Per regulatory accounts	2,038.9	1,987.7
Capitalisation of customer pipe leak repairs – current year	2.3	2.1
Capitalisation of customer pipe leak repairs – prior years	21.4	19.3
Infrastructure renewals expenditure under FRS 15	6.6	1.8
Per non-statutory accounts	2,069.2	2,010.9
(b) Current assets		
Per regulatory accounts	377.8	201.9
Infrastructure renewals expenditure under FRS 15	(6.6)	(1.8)
Per non-statutory accounts	371.2	200.1
(c) Creditors – amounts falling due within one year		
Per regulatory accounts	(171.2)	(195.9)
Tax adjustment on prior year customer pipe leak repairs	(0.5)	(0.5)
Per non-statutory accounts	(171.7)	(196.4)
(d) Reserves		
Per regulatory accounts	136.1	232.9
Capitalisation of customer pipe leak repairs – current year	2.3	2.1
Capitalisation of customer pipe leak repairs – prior years	20.9	18.8
Per non-statutory accounts	159.3	253.8

CURRENT COST PROFIT AND LOSS ACCOUNT FOR APPOINTED BUSINESS

For the year to 31 March 2012

	NOTE	2012 £m	2011 £m
Turnover	4	462.4	440.3
Current cost operating costs	7	(277.8)	(251.1)
Operating income	4	(0.8)	(3.1)
Working capital adjustment	4	(1.0)	(1.5)
Current cost operating profit	5	182.8	184.6
Other income		0.3	0.4
Interest payable		(81.5)	(62.2)
Financing adjustment		33.0	49.7
Current cost profit before taxation		134.6	172.5
Corporation tax		(19.6)	(34.9)
Deferred tax		(24.7)	0.5
Current cost profit attributable to shareholders		90.3	138.1
Ordinary dividend		(151.1)	(75.6)
Transfer to reserves		(60.8)	62.5

The accompanying notes on pages 84 to 91 form part of the current cost regulatory accounts.

CURRENT COST BALANCE SHEET FOR APPOINTED BUSINESS At 31 March 2012

	NOTE	2012 £m	2011 £m
Fixed assets			
Tangible fixed assets	6	21,410.2	14,498.1
Third party contributions since 1989-90		(6,576.6)	(193.2)
		14,833.6	14,304.9
Other operating assets and liabilities			
Working capital	8	60.9	64.0
Cash and deposits		211.0	63.0
Infrastructure renewals prepayment		6.6	1.8
		278.5	128.8
Non operating assets and liabilities			
Borrowings		(26.2)	(88.1)
Non trade debtors due within one year		0.7	0.2
Non trade creditors due within one year		(16.0)	(14.3)
Corporation tax payable		(8.7)	(20.6)
Dividends payable		(21.7)	-
		(71.9)	(122.8)
Amounts falling due after more than one year			
Borrowings		(1,810.9)	(1,514.4)
Other creditors		(1.0)	(1.0)
		(1,811.9)	(1,515.4)
Provisions for liabilities and charges			
Deferred tax provision		(115.1)	(92.7)
Post employment liabilities		(83.0)	(52.7)
Other provisions		(0.2)	-
Net assets employed		13,030.0	12,650.1
Capital and reserves			
Called up share capital		81.3	81.3
Profit and loss account		(1.0)	96.4
Current cost reserve	9	12,949.7	12,472.4
		13,030.0	12,650.1

CURRENT COST CASH FLOW STATEMENT

For the year to 31 March 2012

	NOTE	Appointed 2012 £m	Appointed 2011 £m
Net cash inflow from operating activities	5	300.9	292.1
Returns on investments and servicing of finance			
Interest received		0.7	0.5
Interest paid		(78.8)	(58.6)
Interest on finance lease rentals		(1.1)	(1.6)
		(79.2)	(59.7)
Taxation			
UK corporation tax paid		(31.5)	(33.9)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(110.9)	(75.7)
Receipts of grants and contributions		5.6	6.5
Infrastructure renewals expenditure		(45.1)	(33.8)
Sale of fixed assets		3.0	1.3
		(147.4)	(101.7)
Equity dividends paid		(129.4)	(106.2)
Net cash outflow before financing		(86.6)	(9.4)
Financing			
Capital element of finance lease rentals		(5.6)	(4.9)
Loans taken out		75.0	50.0
Loans repaid		(75.0)	-
Loans from subsidiary company		227.8	13.0
		222.2	58.1
Increase in cash		135.6	48.7

The analysis of net debt is shown in note 10 to the current cost statements.

NOTES TO THE CURRENT COST STATEMENTS

For the year to 31 March 2012

These accounts have been prepared for the Appointed Business of Wessex Water Services Ltd in accordance with guidance issued by the WSRA for modified real terms financial statements suitable for regulation in the water industry. They measure profitability on the basis of real financial capital maintenance in the context of assets which are valued at their current cost value to the business.

The accounting policies used are the same as those adopted in the regulatory historical cost accounts except as set out below:

1 TANGIBLE FIXED ASSETS

Modern equivalent asset values (MEA) arising from the 2009 periodic review have been incorporated into the regulatory statements.

Assets acquired and in operational use are valued at the replacement cost of their operating capability. To the extent that the regulatory regime does not allow such assets to earn a return high enough to justify that value, no adjustment is made in arriving at the replacement cost. Also, no provision is made for the possible funding of future replacements of assets by contributions from third parties and to the extent that some of those assets would on replacement be so funded, replacement cost again differs from value to the business. Redundant assets are valued at their recoverable amounts.

Non-specialised operational properties

Non-specialised operational properties are valued on the basis of open market value for existing use and have been expressed in real terms by indexing using the Retail Price Index (RPI).

Specialised operational assets

Specialised operational assets are valued at the lower of depreciated replacement cost and recoverable amount, restated annually between Asset Management Plan (AMP) reviews by adjusting for inflation as measured by changes in the RPI. The unamortised portion of third party contributions received is deducted in arriving at net operating assets (as described below).

Infrastructure assets

Mains, sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines, sea outfalls and infrastructure investigations and studies are valued at replacement cost determined by the MEA value at the latest periodic review.

A process of continuing refinement of assets records is expected to produce adjustments to existing values when periodic reviews of the AMP take place. In the intervening years, values are restated to take account of changes in the general level of inflation as measured by changes in the RPI over the year.

Private sewers adopted on 1 October 2011 have been valued in the current cost balance sheet at an MEA comprising the estimated length of the sewers, multiplied by the cost per meter of various diameters of sewer taken from the 2009 periodic review data.

Other tangible assets

All other fixed assets are valued periodically at depreciated replacement cost. Between periodic AMP reviews, values are restated for inflation as measured by changes in the RPI.

Surplus land

Surplus land is valued at recoverable amount taking into account that part of any proceeds to be passed onto customers under Condition B of the Licence.

2 GRANTS AND OTHER THIRD PARTY CONTRIBUTIONS

Grants, infrastructure charges and other third party contributions received since 31 March 1990 are carried forward to the extent that any balance has not been credited to revenue. The balance carried forward is restated for the change in the RPI for the year and treated as for deferred income.

3 REAL FINANCIAL CAPITAL MAINTENANCE ADJUSTMENTS

These adjustments are made to historical cost profit in order to arrive at profit after the maintenance of financial capital in real terms.

Working capital adjustment

This is calculated by applying the change in the RPI over the year to the working capital of the company at the beginning of the year.

Financing adjustment
This is calculated by applying the change in the RPI over the year to the opening balance of net finance which comprises all monetary assets and liabilities in the balance sheet apart from those included in working capital.

4 ANALYSIS OF TURNOVER AND OPERATING INCOME FOR THE APPOINTED BUSINESS

	2012 Water services £m	2012 Sewerage services £m	2012 Appointed business £m	2011 Water services £m	2011 Sewerage services £m	2011 Appointed business £m
Turnover						
Unmeasured – household	65.0	135.5	200.5	61.4	134.9	196.3
Unmeasured – non household	2.4	3.7	6.1	2.3	4.0	6.3
Total unmeasured	67.4	139.2	206.6	63.7	138.9	202.6
Measured – household	48.8	92.5	141.3	43.0	83.9	126.9
Measured – non household	39.0	46.1	85.1	35.8	44.6	80.4
Total measured	87.8	138.6	226.4	78.8	128.5	207.3
Trade effluent	-	4.3	4.3	-	4.5	4.5
Large users	8.9	11.8	20.7	8.4	12.3	20.7
Rechargeable works	2.5	0.3	2.8	3.2	0.4	3.6
Bulk supplies	0.3	-	0.3	0.3	-	0.3
Other appointed business	0.1	0.9	1.0	0.2	0.9	1.1
Other sources	0.3	-	0.3	0.2	-	0.2
Total turnover	167.3	295.1	462.4	154.8	285.5	440.3
Operating income						
Current cost loss on disposal of fixed assets	(0.4)	(0.4)	(0.8)	(0.8)	(2.3)	(3.1)
Total operating income	(0.4)	(0.4)	(0.8)	(0.8)	(2.3)	(3.1)
Working capital adjustment	(0.3)	(0.7)	(1.0)	(0.5)	(1.0)	(1.5)

5 RECONCILIATION OF CURRENT COST OPERATING PROFIT TO NET CASH FLOW FROM OPERATING ACTIVITIES FOR THE APPOINTED BUSINESS

	2012 £m	2011 £m
Current cost operating profit	182.8	184.6
Working capital adjustment	1.0	1.5
Movement in working capital	3.1	(2.5)
Other income	0.3	0.4
Current cost depreciation	104.2	93.0
Current cost loss on disposal of fixed assets	0.8	3.1
Infrastructure renewals charge	40.3	34.0
Provisions	(31.6)	(22.0)
Net cash inflow from operating activities	300.9	292.1

NOTES TO THE CURRENT COST STATEMENTS

continued

6 CURRENT COST ANALYSIS OF FIXED ASSETS BY ASSET TYPE

	Specialised operational assets £m	Non-specialised operational properties £m	Infrastructure assets £m	Other tangible assets £m	Total £m
WATER SERVICES					
Cost at 1 April 2011	1,048.1	104.4	2,861.9	37.8	4,052.2
Private sewer adjustment	-	-	-	-	-
RPI adjustment	35.3	3.4	102.3	1.3	142.3
Disposals	(1.7)	-	-	(0.9)	(2.6)
Additions	28.5	-	12.5	5.4	46.4
Cost at 31 March 2012	1,110.2	107.8	2,976.7	43.6	4,238.3
Depreciation at 1 April 2011	443.3	46.0	-	23.9	513.2
MEA adjustment	-	-	-	-	-
RPI adjustment	14.9	1.6	-	0.7	17.2
Disposals	(0.8)	-	-	(0.8)	(1.6)
Charge for year	27.1	1.6	-	4.5	33.2
Depreciation at 31 March 2012	484.5	49.2	-	28.3	562.0
Net book value at 31 March 2012	625.7	58.6	2,976.7	15.3	3,676.3
At 1 April 2011	604.8	58.4	2,861.9	13.9	3,539.0
SEWERAGE SERVICES					
Cost at 1 April 2011	2,244.3	175.7	9,712.0	82.9	12,214.9
Private sewer adjustment	-	-	6,373.4	-	6,373.4
RPI adjustment	79.0	6.4	346.0	3.1	434.5
Disposals	(10.8)	(0.5)	-	(2.9)	(14.2)
Additions	63.5	0.1	10.5	12.3	86.4
Cost at 31 March 2012	2,376.0	181.7	16,441.9	95.4	19,095.0
Depreciation at 1 April 2011	1,117.7	89.4	-	48.7	1,255.8
MEA adjustment	-	-	-	-	-
RPI adjustment	39.4	3.3	-	1.7	44.4
Disposals	(8.6)	(0.4)	-	(2.4)	(11.4)
Charge for year	58.7	3.0	-	10.6	72.3
Depreciation at 31 March 2012	1,207.2	95.3	-	58.6	1,361.1
Net book value at 31 March 2012	1,168.8	86.4	16,441.9	36.8	17,733.9
At 1 April 2011	1,126.6	86.3	9,712.0	34.2	10,959.1
TOTAL					
Cost at 1 April 2011	3,292.4	280.1	12,573.9	120.7	16,267.1
Private sewer adjustment	-	-	6,373.4	-	6,373.4
RPI adjustment	114.3	9.8	448.3	4.4	576.8
Disposals	(12.5)	(0.5)	-	(3.8)	(16.8)
Additions	92.0	0.1	23.0	17.7	132.8
Cost at 31 March 2012	3,486.2	289.5	19,418.6	139.0	23,333.3
Depreciation at 1 April 2011	1,561.0	135.4	-	72.6	1,769.0
MEA adjustment	-	-	-	-	-
RPI adjustment	54.3	4.9	-	2.4	61.6
Disposals	(9.4)	(0.4)	-	(3.2)	(13.0)
Charge for year	85.8	4.6	-	15.1	105.5
Depreciation at 31 March 2012	1,691.7	144.5	-	86.9	1,923.1
Net book value at 31 March 2012	1,794.5	145.0	19,418.6	52.1	21,410.2
At 1 April 2011	1,731.4	144.7	12,573.9	48.1	14,498.1

7a ACTIVITY COSTING ANALYSIS – 2012 for the year to 31 March

	SEWERAGE SERVICES				WATER SERVICES		
	Sewerage £m	Sewage treatment £m	Sludge treatment & disposal £m	Total £m	Water resources & treatment £m	Water distribution £m	Total £m
DIRECT COSTS							
Employment costs	3.0	3.7	1.9	8.6	2.4	3.1	5.5
Power	2.2	9.3	0.7	12.2	2.1	4.1	6.2
Hired & contracted services	2.7	1.6	4.1	8.4	1.0	3.3	4.3
Associated companies	-	-	-	-	-	-	-
Materials & consumables	1.2	5.8	2.5	9.5	1.1	0.7	1.8
Service charges EA	0.8	2.1	-	2.9	2.4	0.1	2.5
Bulk supply import	-	-	-	-	1.2	-	1.2
Other direct costs	0.2	0.1	-	0.3	0.2	-	0.2
Total direct costs	10.1	22.6	9.2	41.9	10.4	11.3	21.7
General & support expenditure	2.7	6.0	1.1	9.8	2.1	3.2	5.3
Functional expenditure	12.8	28.6	10.3	51.7	12.5	14.5	27.0
OPERATING EXPENDITURE							
Customer services				7.2			3.6
Scientific services				1.3			3.4
Other business activities				1.8			0.9
Total business activities				10.3			7.9
Local authority rates				9.1			11.0
Doubtful debts				7.1			3.0
Exceptional items				-			-
Total opex less third party services				78.2			48.9
Third party services				0.8			5.4
Total operating expenditure				79.0			54.3

NOTES TO THE CURRENT COST STATEMENTS

continued

	SEWERAGE SERVICES				WATER SERVICES		
	Sewerage £m	Sewage treatment £m	Sludge treatment & disposal £m	Total £m	Water resources & treatment £m	Water distribution £m	Total £m
CAPITAL MAINTENANCE							
Infrastructure renewals charge	18.5	0.9	0.1	19.5	0.7	20.1	20.8
Current cost depreciation	10.5	48.1	12.1	70.7	16.3	14.6	30.9
Amortisation of deferred credits				(1.0)			(0.3)
Business activities depreciation				1.6			2.3
Total capital maintenance				90.8			53.7
Total operating costs				169.8			108.0
CCA (MEA) VALUES							
Service activities	16,450.1	1,121.2	156.7	17,728.0	410.1	3,263.7	3,673.8
Business activities				5.9			2.5
				17,733.9			3,676.3
Services for third parties				-			-
Total				17,733.9			3,676.3

7b ACTIVITY COSTING ANALYSIS – 2011 for the year to 31 March

	SEWERAGE SERVICES				WATER SERVICES		
	Sewerage	Sewage treatment	Sludge treatment & disposal	Total	Water resources & treatment	Water distribution	Total
	£m	£m	£m	£m	£m	£m	£m
DIRECT COSTS							
Employment costs	2.6	2.3	2.2	7.1	1.8	2.3	4.1
Power	1.7	8.8	0.9	11.4	2.0	4.0	6.0
Hired & contracted services	1.5	3.1	3.1	7.7	0.7	1.2	1.9
Associated companies	-	-	-	-	-	-	-
Materials & consumables	0.8	3.4	3.3	7.5	1.5	0.1	1.6
Service charges EA	0.9	2.1	-	3.0	2.8	-	2.8
Bulk supply import	-	-	-	-	1.1	-	1.1
Other direct costs	0.1	0.1	-	0.2	-	0.1	0.1
Total direct costs	7.6	19.8	9.5	36.9	9.9	7.7	17.6
General & support expenditure	2.3	6.7	1.8	10.8	3.2	4.8	8.0
Functional expenditure	9.9	26.5	11.3	47.7	13.1	12.5	25.6
OPERATING EXPENDITURE							
Customer services				7.0			3.5
Scientific services				1.4			2.7
Other business activities				1.5			1.1
Total business activities				9.9			7.3
Local authority rates				8.2			9.2
Doubtful debts				6.6			2.8
Exceptional items				-			-
Total opex less third party services				72.4			44.9
Third party services				0.8			6.0
Total operating expenditure				73.2			50.9

NOTES TO THE CURRENT COST STATEMENTS
continued

	Sewerage	Sewage treatment	Sludge treatment & disposal	Total	Water resources & treatment	Water distribution	Total
	SEWERAGE SERVICES				WATER SERVICES		
	£m	£m	£m	£m	£m	£m	£m
CAPITAL MAINTENANCE							
Infrastructure renewals charge	12.4	0.6	0.1	13.1	0.7	20.2	20.9
Current cost depreciation	11.4	43.4	9.7	64.5	14.2	13.5	27.7
Amortisation of deferred credits				(1.0)			(0.3)
Business activities depreciation				1.3			0.8
Total capital maintenance				77.9			49.1
Total operating costs				151.1			100.0
CCA (MEA) VALUES							
Service activities	9,712.8	1,081.0	159.2	10,953.0	391.5	3,144.1	3,535.6
Business activities				6.1			3.4
				10,959.1			3,539.0
Services for third parties				-			-
Total				10,959.1			3,539.0

8 WORKING CAPITAL

	2012 £m	2011 £m
Stocks	6.3	5.2
Trade debtors – measured household	14.8	11.9
Trade debtors – unmeasured household	27.5	19.5
Trade debtors – measured non-household	4.5	3.6
Trade debtors – unmeasured non-household	0.5	0.3
Other trade debtors	0.8	1.3
Measured income accrual	51.1	49.0
Prepayments and other debtors	54.0	46.1
Trade creditors	(3.1)	(2.9)
Deferred income – customer advance receipts	(28.7)	(27.5)
Short term capital creditors	(41.5)	(19.7)
Accruals and other creditors	(25.3)	(22.8)
	60.9	64.0

9 MOVEMENT ON CURRENT COST RESERVE

	2012 £m	2011 £m
At 1 April	12,472.4	9,684.4
MEA adjustment	-	2,110.4
RPI adjustments:		
Fixed assets	515.2	735.4
Working capital	1.0	1.5
Financing	(33.0)	(49.7)
Grants and third party contributions	(5.9)	(9.6)
At 31 March	12,949.7	12,472.4

10 ANALYSIS OF NET DEBT

a. Cash flow movement

	1 April 2011 £m	Cash flow £m	Non cash items £m	31 March 2012 £m
Cash at bank and in hand	63.0	148.0	-	211.0
Bank overdraft	(6.2)	(12.4)	-	(18.6)
Short term borrowings	(1.3)	-	-	(1.3)
Loans repayable within one year	(75.0)	75.0	-	-
Loans repayable after one year	(290.0)	(75.0)	-	(365.0)
Finance leases repayable within one year	(5.6)	(0.7)	-	(6.3)
Finance leases repayable after one year	(65.0)	6.3	-	(58.7)
Bonds repayable after one year	(1,159.4)	(197.4)	(30.4)	(1,387.2)
Net debt	(1,539.5)	(56.2)	(30.4)	(1,626.1)

b. Interest rate risk profile

	Fixed Rate £m	Floating Rate £m	Index Linked £m	Total £m
Borrowings:				
Less than one year	-	(26.2)	-	(26.2)
Between one and two years	-	(57.1)	-	(57.1)
Between two and five years	-	(126.7)	-	(126.7)
Between five and twenty years	(395.8)	(239.9)	(65.9)	(701.6)
In more than twenty years	(346.1)	-	(579.4)	(925.5)
	(741.9)	(449.9)	(645.3)	(1,837.1)
Cash				211.0
Net debt				(1,626.1)

ADDITIONAL REGULATORY DISCLOSURES

A REGULATORY CAPITAL VALUE

	2012 £m
Closing RCV for 2010-11	2,396
Indexation	86
Opening RCV for 2011-12	2,482
Capital expenditure	191
Infrastructure renewals expenditure	44
Grants and contributions	(7)
Depreciation	(106)
Infrastructure renewals charge	(41)
Outperformance of regulatory assumptions (5 years in arrears)	(20)
Closing RCV for 2011-12	2,543
Average RCV	2,476

B FINANCIAL INDICATORS

Ofwat has produced a number of Key Performance Indicators to be published annually as part of a balanced scorecard approach to regulation. Within the balanced scorecard are four financial indicators shown below.

		2011-12
Post-tax return on capital (target = 5.15%)		6.6%
Credit rating – latest published (target = investment grade)	Moody's Standard & Poor's Fitch Ratings	A3 BBB+ A-
Gearing (net debt as a percentage of closing Regulatory Capital Value)		64%
Interest cover – times	Adjusted interest cover (i) FFO / interest (ii)	3.2 3.1

The target has been achieved in respect of the first two financial indicators. No target was set for gearing or interest cover.

(i) Calculation as per Moody's methodology for 2010-11
(ii) Calculation as per Standard & Poor's methodology for 2010-11

C REGULATORY COMMENTARY AND TRENDS

Regulatory commentary and trends are included in the narrative to the non-statutory accounts, and principal risks are described on pages 39 and 40.

DISCLOSURE OF TRANSACTIONS WITH ASSOCIATES For the year to 31 March 2012

Services provided by appointee to associated companies

Associate company	Service provided	Turnover of associate £m	Terms of supply	2011-12 Value £m
Wessex Water Ltd	Corporate charges	nil	No market	0.6
Bristol Wessex Billing Services Ltd	Information systems, transport, insurance, staff costs and personnel	12.8	No market	1.4
Wessex Water Enterprises Ltd	Sludge treatment, transport, accommodation, insurance, laboratory and central services	13.6	No market	4.5

Services provided to appointee by associated companies

Associate company	Service provided	Turnover of associate £m	Terms of supply	2011-12 Value £m
Bristol Wessex Billing Services Ltd	Billing services	12.8	Competitive letting	10.4
Wessex Water Enterprises Ltd	Supply of electricity	13.6	Other market testing	1.6

Financial transactions

Dividends declared by the appointee to Wessex Water Ltd are disclosed in note 7 to the accounts.

The appointee paid £74.5m of interest to its subsidiary company Wessex Water Services Finance Plc in relation to the proceeds of the bonds issued by that company, that were lent to the appointee under the same terms as the bonds. The bonds are shown in note 14 to the accounts.

The appointee acquired assets of £3.1m on behalf of Wessex Water Enterprises Ltd and transferred those assets to that company.

ENVIRONMENTAL ACCOUNTING

For the year to 31 March 2012

We began environmental cost accounting in 2001 in partnership with the sustainability charity Forum for the Future. These accounts were used to highlight 'externalised' environmental impacts, ie, those which have not been tackled comprehensively through investment or some other intervention. We calculated the hypothetical monetary cost – through investment, offsetting, markets or shadow prices – of reducing these impacts to a sustainable level and then subtracted that value from our profit and loss account.

In this year's report we outline the main monetary costs associated with our environmental impacts, taking into account actual investment, environmental taxation and hypothetical or forecast values. We also comment on any developments affecting us in the area of monetising environmental impacts.

The actual expenditure made in the last twelve months is shown in the table entitled investment towards sustainability. This includes two main components. Firstly, we set out mandatory expenditure driven by legislation, which is increasingly embracing sustainable development considerations. Secondly, the table shows the additional discretionary expenditure that we make that benefits our customers, the environment in our region and our employees, while helping our general movement towards being a sustainable business.

Actual monetary costs – regulated investment in the water environment

Every year we invest in new and existing water supply and waste water assets, to comply with the standards and environmental programme overseen by Defra, the Environment Agency and Natural England.

The agreed investment programme for 2010-15 includes a range of schemes to benefit society and the environment. Issues being addressed include low river flows that can occur during dry weather; nitrates and pesticides found in groundwater; phosphorus in rivers and streams; flooding from the sewerage system and bathing water quality.

Increasingly we are looking to address the source of some of these problems through methods such as catchment management and surface water management plans, as well as more conventional approaches involving development of physical assets.

The internal appraisal of each project in the investment programme now also includes an estimate of its wholelife carbon footprint. This includes the embodied carbon of materials used and construction activity, as well as an estimate of future carbon dioxide output during the operational lifespan of the asset, following the project's completion. This is helping us to determine more accurately Wessex Water's overall carbon footprint.

Our capital maintenance and quality enhancement investment totalled approximately £178m in 2011-12. This work is all directed towards the benefit of the environment, our customers and the communities we serve. The single largest scheme being carried out is the integrated supply grid, which will involve investment of approximately £200m over eight years.

We have also been putting together initial estimates of likely investment during 2015-20. This illustrates an important point; we do not anticipate an imminent end to investment that is required to bring about improvements. We are constantly faced with tighter standards and the scope of environmental regulation continues to broaden, with environment quality standards being developed for substances for which we have not historically been regulated.

As we noted last year, the far-reaching goals of the Water Framework Directive and the potential standards required by the Priority Substances Directive suggest that much more might be expected in time.

Actual monetary costs – licences and fiscal measures

As well as the investment outlined above, there are annual payments made for environmental purposes.

The longest standing examples include abstraction licences and discharge consents paid to the Environment Agency and the Climate Change Levy. Combined, we paid approximately £6.5m for these in 2011-12, with payments for abstraction licences forming the largest single part.

2012-13 will see the first payments made under the UK government's Carbon Reduction Commitment Energy Efficiency Scheme (CRC). This acts as a levy on energy use, where participating organisations pay £12 for every associated tonne of carbon dioxide emitted. We estimate that the 2012-13 cost to Wessex Water will be around £1.5m.

Hypothetical monetary costs – greenhouse gas emissions

While the CRC is an incentive for participants to reduce energy use, the money it raises goes into the public finances via the Treasury, rather than being spent on carbon abatement measures. Therefore a question remains about the cost of Wessex Water's carbon emissions to society and how much it would cost to neutralise it altogether.

In terms of the cost to society, economists use shadow prices or abatement costs as a form of valuation. The UK government provides guidance which shows the annually ascending values which distinguish between traded and non-traded emissions and also three scenarios that allow for the climate having high, medium or low sensitivity to greenhouse gas emissions. Under the current medium sensitivity value the traded and non-traded prices of carbon dioxide are £14 and £56 per tonne respectively.

In contrast, if Wessex Water were to purchase carbon offsets from a recognised provider in order to claim carbon neutrality, the cost would be between £7 and £12 per tonne of carbon dioxide through renewable energy projects and the like.

Overall the monetary cost of our greenhouse gas emissions ranges between £1m and £8m.

We continue to look closely at the investment that we could make ourselves to reduce our carbon footprint. There are various feasible renewable energy technologies which collectively show a range of payback periods.We are also looking at less tried and tested technologies such as pyrolysis which could be used to produce biochar (a charcoal like substance) which locks carbon into a virtually inert form. It is clear that significant investment will be needed to reach carbon neutrality.

Our carbon emissions for 2011-12 are shown below. These have been calculated in line with the most recent Decc / Defra reporting guidance and Ofwat's key performance indicators guidance.

Emissions are split into three 'scopes':

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

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

This year we have also been able to estimate the indirect emissions relating to our use of chemicals. These emissions are associated with chemical manufacturing and the extraction and transport of the raw materials used in the process. So far these emissions amount to around 7ktCO_2 equivalent However, at this stage they are not fully comprehensive and exclude emissions from the transport of the chemicals to our sites.

By generating and using our own electricity from sludge digestion we have avoided the need to use an additional 36GWh of grid electricity, with an associated avoidance of 18.8ktCO_2 equivalent. In 2011-12 we also exported 7.4GWh of self-generated electricity which is equivalent to a reduction of 3.9ktCO_2 equivalent.

Greenhouse gas emissions 2011-12 (ktCO_2 equivalent)

Appointed business	Scope 1 (Wessex Water direct fuel use)	Scope 2 (grid electricity)	Scope 3 (use by third parties)	Total
Gas, diesel and other fuels	4.5	-	1.9	6.4
Grid electricity	-	107.3	-	107.3
Transport	9.5	-	2.7	12.2
Methane	17.8	-	2.4	20.2
Nitrous oxide	9.3	-	7.3	16.6
Exported renewables (emissions reduction)	-	-3.9	-	-3.9
Total	41.1	103.4	14.3	158.8

Investment towards sustainability – unaudited 2011-2012

	2012 £m	2011 £m
CUSTOMERS AND COMMUNITIES		
Mandatory expenditure	**37**	23
Example – water supply quality enhancement work such as mains relining		
Discretionary expenditure (a)	**-**	-
Discretionary expenditure (b)	**1**	1
Example – replacement of customers' supply pipes; education service		
Discretionary expenditure (c)	**0.2**	0.1
Example – charitable donations to community projects		
ENVIRONMENT		
Mandatory expenditure	**24**	13
Example – capital investment to meet the Habitats Directive		
Discretionary expenditure (a)	**-**	-
Discretionary expenditure (b)	**0.6**	0.4
Example – trials on options for more sustainable water resources		
Discretionary expenditure (c)	**0.1**	0.1
Example – conservation grants to Wildlife Trusts		
EMPLOYEES		
Mandatory expenditure	**35**	34
Example – basic pay and conditions including pension		
Discretionary expenditure (a)	**4**	4
Example – enhanced overtime payments		
Discretionary expenditure (b)	**4**	4
Example – staff training		
Discretionary expenditure (c)	**-**	-
Example – enhanced maternity leave		
INVESTMENT – INFRASTRUCTURE		
Mandatory expenditure	**116**	79
Example – replacement / refurbishment of sewers		
TOTALS		
Customers and communities	**38**	24
Environment	**25**	14
Employees	**43**	42
Infrastructure	**116**	79
Total	**222**	159

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

FOR FURTHER INFORMATION

Wessex Water has a range of leaflets and reports which are available free to customers.

For further details, write to:

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www.wessexwater.co.uk

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