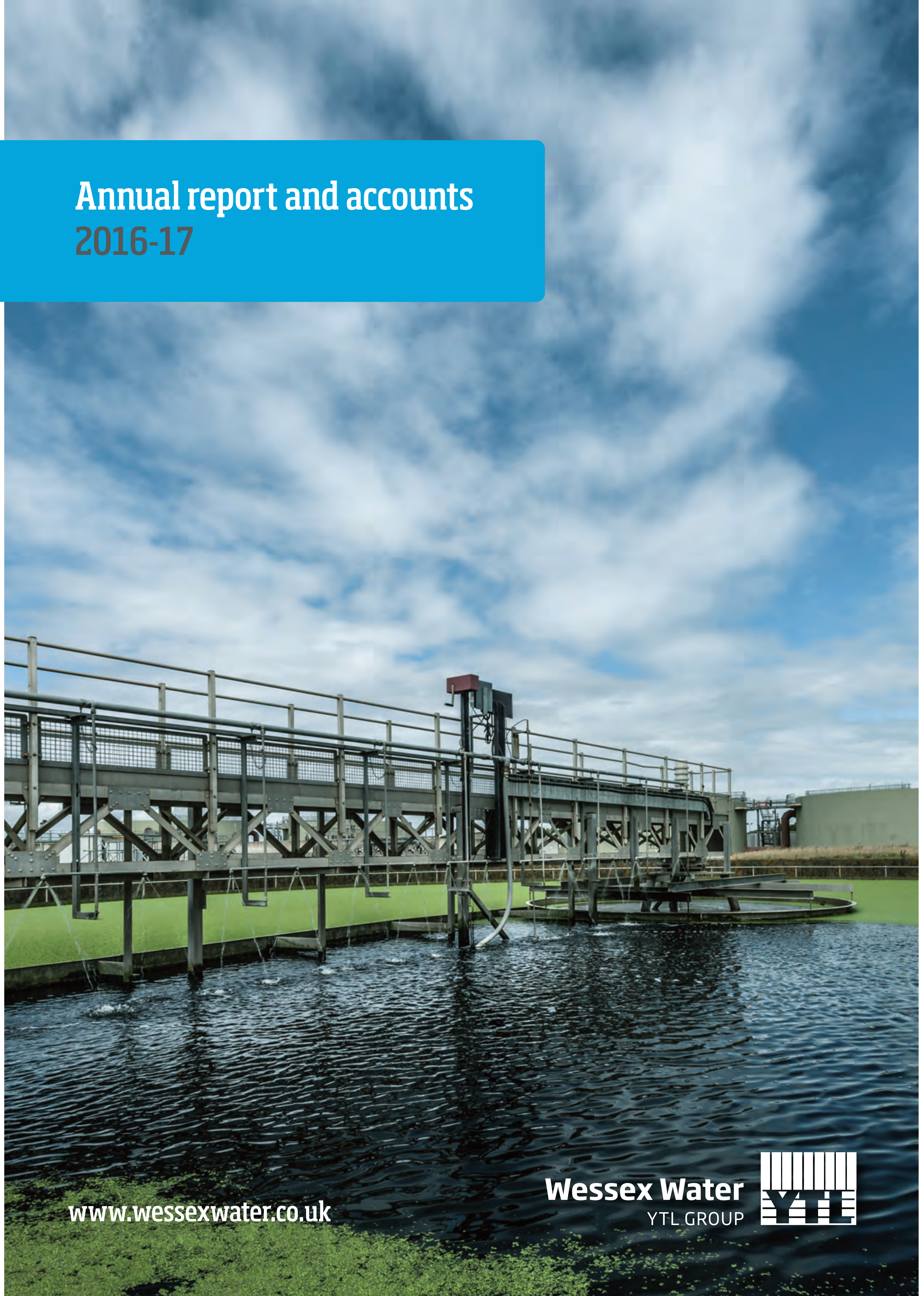
Annual report and accounts
2016-17



www.wessexwater.co.uk

Wessex Water
YTL GROUP

Contents

Risk and Compliance Statement for the regulatory year 2016-17

Introduction

The Water Services Regulation Authority (WSRA/Ofwat) 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 including the annual performance report contains information about progress with outputs and gives details of progress on performance commitments 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 Board confirms that:

- the Board has a full understanding of and is meeting, in all material respects, its statutory, licence and regulatory obligations
- the Company has met, 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. Principal risks and the appropriate management of them are set out in the Strategic Report section of the annual review summary
- the Company has sufficient financial and management resources for the 12 months from the date of this report
- 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 on page 26
- any failure to deliver outputs agreed at the Final Determination has been disclosed
- the Company is compliant with condition F6A.6 on credit ratings
- the Board considered and approved the proposed charges for 2017 and the associated assurance statement confirming that the Company had met Ofwat's charging expectations and all regulatory and statutory obligations
- greenhouse gas reporting complies with Defra reporting requirements.

Output Review

The Company has 880 individual regulatory outputs covering the AMP6 period of which 154 were due to be delivered by the end of 2016-17. In addition, the Company has 32 performance commitments covering the AMP6 period. These regulatory outputs and performance commitments agreed with regulators or promised to customers in the Final Determination were kept under constant review by the Company. Regular reports were prepared for Directors and senior managers detailing progress with the delivery of regulatory outputs and performance commitments highlighting instances where such delivery may have been at risk.

Where there was a risk of failing to deliver a regulatory output, potential mitigation strategies were assessed to see if the project could be brought back on schedule. If a major issue, such as land acquisition or planning permission, had meant that an output could not be met, senior managers engaged with the relevant regulator, the Environment Agency or the Drinking Water Inspectorate, to discuss the future course of action, including the potential advancement of other outputs.

Each Board meeting reviewed a report showing progress against scheduled regulatory outputs and performance commitments. For any performance commitments with difficulties, the Board reviewed and approved any proposed mitigations.

The Wessex Water Partnership, who replaced the AMP5 Customer Scrutiny Group, has an independent chair and representation from our key stakeholder groups, met four times in 2016-17. The Company's progress on the end of year performance commitments was reported to the Partnership after it had been externally audited by the Company's technical auditor. Some of the performance commitments included in the Final Determination were stretch targets with the potential that the target would not be met in the year or in subsequent years. Where there was the potential for the target not to be met either in year or in subsequent years, the issue was discussed with the Partnership to seek their views representing customers and stakeholders.

The Partnership reviewed the performance commitment information prepared for 2016-17 in their meeting in June 2017. They produced a final report to the Board recommending their support for the performance commitment information provided in the annual review and annual performance report. Our Company website has a copy of the Partnership's report.

To date in AMP6 the Company has delivered 221 AMP6 regulatory outputs exceeding the target by 67 outputs. This is principally by early delivery of CSO monitors and catchment management investigations. All outputs as set out in our business plan and funded through the Final Determination due by 31 March 2017 have been delivered

Customer Experience

The Company achieve continuous monitoring of the customer experience through a range of mechanisms:

- feedback cards are left with all customers visited upon departure
- our customer care team keeps the customers informed on the progress of our work at their property. They also contact customers within an hour or two of work being completed at their property to check that the problem is resolved, the site has been left clean and tidy and the customer is satisfied
- each month an independent telephone satisfaction survey replicating the SIM survey is undertaken of a random selection of customers whose billing or operational contacts have been resolved. There has been no formal SIM survey this year while Ofwat has been piloting its new survey process
- each year, an independent image tracker uses telephone interviewing to gain customers' views on our service now and in the future including satisfaction, value for money and customer effort scoring, along with other topical issues

- our online customer panel, Have Your Say, is used to gather customers' views on different aspects of our services. In 2016-2017, surveys have been conducted on our long term vision, experiences of drought, and views on our customer magazine.
- the Wessex Water Partnership has replaced the four customer liaison panels and customer scrutiny group used during AMP5. The Partnership will be used throughout AMP6 and in the preparation of the next price review in 2019 to represent the views of customers and key stakeholder groups.

Customer Information

The Company satisfies Licence conditions G, H and I, on providing customer information by regular review of a suite of individual codes of practice.

We believe that our communication process with customers is consistent with Ofwat's requirements for the provision of customer information as detailed in Information Notice 13/04, with all information provided being reviewed for its accuracy, transparency, clarity, accessibility and timeliness. This is supported by publication of the Company's Information Assurance Plan 2017, which provides details of how we are proposing to improve the information that we provide to customers and stakeholders.

We consult with CCWater to ensure that the information provided meets customer requirements. Both the nature of the information provided, and the way we provide it, are reviewed annually by CCWater when customer charges are revised, as well as at other times during the year as and when individual leaflets are updated.

Risk Review

The management of risk is of fundamental importance to the Company, to guard against both financial loss and customer dissatisfaction. Customers, regulators and the media have increasing expectations and are less willing than ever to accept failure. The Company's policy on risk identification and management is subject to annual review by the Board and the status of the principal risks is reviewed by the Board twice a year.

The risk environment changes through time as some risks become less likely or less damaging while new ones emerge. The Company's processes are designed to respond flexibly to these changes and to ensure that the necessary controls and mitigation measures are put in place. In considering the annual programme of internal audits, the Audit Committee includes internal audits which review the status of the principal risks and the mitigation measures in place.

Risk Process

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

Asset and operational risks are reviewed, assessed and recorded monthly by operational staff. Risks are scored using a best practice process which assesses probability and impact on a five by five matrix. Risk mitigation plans are recorded and implemented where appropriate and pre and post mitigation scores are recorded.

The risks identified act as a foundation for a separate corporate risk register which is maintained by a Risk Group comprising senior managers from throughout the business. The Risk Group reviews all business risks, including emerging and strategic risks. All risks are assessed by experts responsible for the relevant part of the business. Where a high scoring risk is identified the Risk Group considers additional measures to reduce its impact to an acceptable level.

Wherever possible, a risk is measured by its potential financial and environmental impact over the next five years, whether direct or indirect, including any possible impact on the next price review. The Risk Group meets through the year and submits the current corporate risk register and summary report to a Risk Management Advisory Group comprising the Executive Directors and key senior managers, twice a year. Any significant new risks are reported to the Advisory Group as they arise.

The Risk Management Advisory Group scrutinises and challenges the risks included within the register and requires additional work where necessary to better classify the risk or explore alternative mitigation methods.

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

Assurance and Board endorsement of the Compliance Statement

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 manual is annually reviewed, updated and reported to Audit Committee to reflect all changes to reporting requirements. The board confirms it is satisfied it has the appropriate assurance processes in place and based on these processes endorses this compliance statement and states that, to the best of its knowledge and belief, the information produced is accurate, reliable and complete in all material respects.

Francis Yeoh	Gillian Camm	Andy Pymer	Huw Davies
Chairman	Senior Independent Director	Managing Director	Chair of Audit Committee

7 July 2017

Governance Report

Chairman's Introduction

Wessex Water is committed to high standards of corporate governance. Under Condition F of its Instrument of Appointment as a water and sewerage undertaker (the "Licence") Wessex Water is required to conduct its water and sewerage business as if it were the Company's sole business as a public limited company. The Licence also requires Wessex Water to have particular regard to the UK Corporate Governance Code as approved for the purposes of the Listings Rules of the Financial Services Authority (the "Code"). The Code is not a rigid set of rules and provides general principles of best practice. The Code is made up of "Main Principles", "Supporting Principles" and "Code Provisions". The Code Provisions are subordinate to the Principles. Whilst the Code is generally regarded as embodying best practice in UK Corporate Governance, its main focus is the relationship between a listed company and its shareholders. Wessex Water has a single shareholder and, accordingly, it is able to address some issues more directly and completely than it could if it were a listed company.

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

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

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

Francis Yeoh
Chairman

Governance Structures

The Board

The affairs of the Company are ultimately the responsibility of the Board, which controls and directs the undertaking of the regulated water and sewerage business. During the reporting year the Board composition was as shown on page 8.

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

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

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

There are four Executive Directors. During the year there were four Independent Non-Executive Directors, exceeding by one the requirements of Condition P of the Licence. Four further Non-Executive Directors are appointed by the Company's sole shareholder, plus an alternate director. The shareholder also appoints the chair.

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

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

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

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

If Directors have concerns about the running of the Company or a proposed action which cannot be resolved, they are encouraged to ensure that their concerns are recorded in the Board minutes and the

Independent Non-Executive Directors are encouraged, on resignation, to provide a written statement to the Chairman highlighting any such concerns.

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

The Company complied with the Code's Main Principles and Supporting Principles as to the composition of the Board. Moreover, the Company exceeded the requirements of the Code (designed for listed rather than privately held companies) by having no fewer than four Non-Executive Directors, during the reporting year who are directors or employees of the Malaysian holding company, thus enabling effective dialogue with the shareholder.

While the Board has a majority of Non-Executive Directors, it does not have a majority of Independent Non-Executive Directors as envisaged by the relevant Code Provision. The Ofwat Board Leadership, Transparency and Governance Principles are based on the Code, which applies to UK listed companies. The principal purpose of the Code is to ensure that the interests of a company's members are protected and represented at board level. The preface to the Code states that: "the function should be to help boards discharge their duties in the best interests of their companies." The preamble to the Ofwat Principles states that: "any departures from the [Ofwat] principles should be by exception in the spirit of corporate governance for listed companies." In the context of a privately held company with a 100 percent shareholder, we consider it to be in accordance with good corporate governance practice for there to be a significant number, if not a majority, of shareholder representatives on the Board. In the Company's case, the shareholder appointed Non-Executive Directors (excluding the Chairman) are not a majority on the Board. Further, the Company has four highly capable and experienced Independent Non-Executive Directors.

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

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

The following were Directors during the year under review:

Executive Directors	Independent Non-Executive Directors	Shareholder Non-Executive Directors
Colin Skellett	Gillian Camm (Senior Non-Executive Director)	Francis Yeoh (Chair)
Mark Watts	Huw Davies	Hann Yeoh (Kathleen Chew as alternate)
Andy Pymer	Fiona Reynolds	Hong Yeoh
James Rider	Richard Keys	Mark Yeoh
		David Barclay

Chairman

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

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

Any Director or the Company Secretary may request an item be included on the agenda.

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

In his role as Managing Director, Andy Pymer has responsibility for the day to day business of the Company, making proposals for its strategic direction and communicating with customers and other stakeholders.

Senior Independent Director

The Board has appointed Gillian Camm as the Senior Independent Director. Gillian is a member of the Remuneration Committee and the Nominations Committee. As Senior Independent director, Gillian would chair Board meetings if the Chairman were unavailable. The Senior Independent Director's role is to act as a sounding board for the Chairman and to serve as an intermediary for the other Directors when necessary as well as an additional point of contact for the shareholder and other stakeholders.

As the Senior Independent Director appointed in accordance with the Licence, Gillian is well placed to provide an independent link to Ofwat, our regulator. Her responsibilities during the reporting year included leading an independent evaluation of the Board's performance including the Chairman's.

Independent Non-Executive Directors

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

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

Any term beyond six years for an Independent Non-Executive Director is subject to particularly rigorous review and takes into account the need for progressive refreshing of the Board balanced against the requirement for skills, experience, independence and knowledge. Continuity of appointment of some Independent Non-Executive Directors between Ofwat price reviews is desirable to facilitate scrutiny of Company performance against its business plan. Accordingly, David Barclay stepped down as a Senior Independent Director in May 2016 (remaining as a Non-Executive Director).

On the 1st May 2016 Richard Keys was appointed as an Independent Non-Executive Director. Richard is a chartered accountant with 37 years' experience at PricewaterhouseCoopers LLP and was a partner there for 26 years holding a number of senior management positions, most recently that of global chief accountant. In the last six years he has taken on a number of non-executive roles and is also a director at Merrill Lynch

International, NATS Holdings Ltd, the Department for International Development and formerly at Sainsburys Bank plc.

Independent Non-Executive Director	Appointed	Current term expires
Richard Keys	01/05/2016	01/05/2019
Gillian Camm	01/11/2011	01/11/2017
Huw Davies	01/09/2014	31/10/2017
Fiona Reynolds	01/08/2012	30/09/2018

All Independent Non-Executive Directors are appointed on written terms setting the time commitments and standards required of them. In accordance with Code Provision B.3.2, terms of engagement are regulated by letters of appointment (copies of which are available on the Company's website). Non-Executive Directors representing the Company's sole shareholder do not have formal terms of appointment and receive no payments from the Company with the exception of David Barclay, who receives an annual fee under a formal appointment, details of which are published on our website. In accordance with Code Provision B.4.1, all Directors are required to participate in an induction process to familiarise themselves with the Company's governance arrangements, business, regulatory framework and ethos. Introductory meetings are held with all Executive and Non-Executive Directors, the Company Secretary and senior managers across the Company's business.

Visits are made to the Company's principal offices and representative operational sites. The training and development needs of the Executive Directors and Independent Non-Executive Directors are reviewed annually by the Chairman.

Company Secretary

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

Leigh Fisher-Hoyle was appointed as Company Secretary in 2015. As Company Secretary her role is to provide legal and regulatory advice as required by the Board or any Director and is responsible for advising the Board through the Chairman on governance matters. The Board is kept informed of major changes to law and regulation affecting the Company's business. The Company Secretary also advises on Directors' duties and conflicts. All Directors are aware that any conflicts of interest must be reported to and registered with the Company Secretary.

Board Meetings

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

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

Board Attendance 2016-17			
Colin Skellett	6/6	Kathleen Chew (alternate)	0/6
David Barclay	6/6	Francis Yeoh	5/6
Gillian Camm	6/6	Hann Yeoh	6/6
Mark Watts	6/6	Hong Yeoh	6/6
Huw Davies	6/6	Mark Yeoh	6/6
Fiona Reynolds	5/6		
Richard Keys	6/6		

Board Committees and Advisory Panels

Four formal committees operated throughout the financial year under review:

- Audit Committee
- Remuneration Committee
- Nominations Committee
- Corporate Responsibility Committee.

These Committees operate under the authority of the Board and assist the Board in carrying out its duties. The Committees report back to the Board on decisions and actions taken together with any specific recommendations. Reports from the Chair of each of the Committees are set out on pages 15 to 39.

The Board also receives reports from two liaison panels and a customer partnership panel as part of the Company's commitment to wide stakeholder engagement.

The Futures Panel is chaired by Fiona Reynolds. It keeps under review emerging issues facing all companies today (including sustainability, health and the environment). By invitation a range of external scientific and technical expertise is brought to this panel.

The Wessex Water Partnership including our key organisational stakeholders, scrutinises and assesses the Company's delivery against customer related outcomes and performance commitment. The Partnership is independently chaired by Dan Rogerson who was previously Water Minister under the coalition Government.

The Catchment Panel helps to inform the Company's decision making about sustainable land and water resource use in the context of the Company's services, constructed and natural assets and entitlements. The panel includes representatives of the Environment Agency, Natural England, the Drinking Water Inspectorate, the National Farmers' Union and the Country Landowners Association. The panel is chaired by Dr Richard Cresswell.

Board, Committee and Director Performance

The Board has agreed to review its own performance, and the performance of its Committees, the Chairman, the Executive Directors and the Independent Non-Executive Directors, annually in accordance with the Code. Generally, the Board will engage the services of an external consultant at least one year in three. Between external evaluations, reviews are facilitated by the Company Secretary. Evaluation of the Board considers the Board's balance of skills, experience, independence and knowledge of the Company and how the Board works together as a unit, and other factors related to its effectiveness.

Several improvements were identified in the 2016 review. The Independent Non-Executive Directors now have a wider visibility of the Group's activities outside the regulated entity through the Independent Directors' performance committee that sits prior to each Company Board.

For the financial year under review, Indepen Ltd was instructed to carry out a comprehensive review not just of Board effectiveness but also of the governance arrangements. The intention was not simply to review past performance but to identify issues that could have implications for Wessex Water's governance in future and for the effectiveness of the Board. It was felt that the wide range of work carried out by Indepen for regulators would provide constructive feedback for the Board.

A questionnaire was sent to relevant parties within Wessex and a series of structured interviews set up with internal stakeholders and external ones including OFWAT, EA and DWI. The results will be presented to Directors for discussion and action.

Directors' Remuneration

Details of Directors' remuneration are set out in the Remuneration Committee Report on page 32.

Directors' Interests and Conflicts

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

Whistleblowing

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

Anti-corruption

The Company has adopted a formal policy on business ethics. Directors and employees are expected to commit to the highest standards of professional and ethical conduct in order to protect the Company's reputation and standing. Bribery and corruption is not tolerated. All Directors and employees are made aware of the Company's policy and that breaching it will result in disciplinary action. No instances of a breach of the policy were recorded in the year.

Procurement

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

Group Structure

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

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

A diagrammatic representation of the Group's structure appears below showing ownership of the regulated Company through to YTL Corporation Berhad and each company's country of incorporation and role in the structure. YTL Corporation Berhad at 31 March 2017 was 51.24% owned by third party shareholders and 48.76% owned by Yeoh Tiong Lay & Sons Holdings Sdn Bhd.

All companies 100% owned unless stated	Principal activities	Company details
YTL Corporation Berhad	Investment holding and management company	Incorporated in Malaysia and quoted on the Main Market of Bursa Malaysia Securities Berhad
↓ 53.54%		
YTL Power International Berhad	Investment holding and provision of administrative and technical support services	Incorporated in Malaysia and quoted on the Main Market of Bursa Malaysia Securities Berhad
YTL Utilities Limited	Investment holding company	Incorporated in Cayman Islands to look for global mergers & acquisitions in the utilities sector
YTL Utilities Holdings Limited	Investment holding company	Incorporated in Cayman Islands to look for global mergers & acquisitions in the utilities sector
YTL Utilities (UK) Limited	Investment holding company	Incorporated in United Kingdom, the acquisition vehicle for the purchase of the Wessex Water group of companies
Wessex Water Limited	Investment holding company	Incorporated in United Kingdom, also owns SC Technology AG, Wessex Water Enterprises Ltd and 50% of Bristol Wessex Billing Services Ltd
Wessex Water Services Limited	Water supply and waste water services	Incorporated in United Kingdom, granted a Licence as a water and sewerage undertaker under the Water Industry Act 1991

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

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

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

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

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

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

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

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

YTL Corporation Berhad has confirmed that it:

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

Audit Committee Report

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

Huw Davies (Chair)
Gillian Camm
Fiona Reynolds
Richard Keys

The Board is satisfied that all members of the Audit Committee are independent and that through Huw Davies and Richard Keys, the Committee has relevant financial experience.

Role and Report on Activities

In accordance with **Code** Provision C.3.2. and C3.3., our Governance Arrangements are available on the Company's website and provide full terms of reference for the Audit Committee.

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

The members of the Audit Committee receive updates on financial reporting, the regulatory framework and performance throughout each financial year. In addition to the Committee members the following routinely attend the Committee meetings by invitation: the Director of Finance, the Managing Director of Wessex Water Services Limited, The Director of Regulation and Reform, Financial Controller, Head of Internal Audit, and the audit partner from the external auditor KPMG. Other senior management and the Company's external technical auditor are also invited to attend as appropriate. The technical editor for the Wessex Water Partnership is also invited to the Audit Committee meeting which considers the Annual Review and Performance Report.

Following each meeting the chair of the Audit Committee reports to the subsequent meeting of the Board on the Audit Committee's work.

The Audit Committee met four times in the financial year under review, which it considered sufficient to enable it to discharge its duties effectively. Its work focused on:

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

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

- detailed review of the Company's preparedness for Open Water with the chair of the Committee signing the first of the three assurance letters required by the Open Water methodology
- detailed review of the Company's Information Assurance Statement and Information Assurance Plan in accordance with Ofwat's Company Monitoring framework – final position and recommending their approval to the Board
- Company performance on a number of internal processes to deliver regulatory outputs and performance commitment data

- detailed independent consideration of the half year results, the Annual Review documents incorporating the Annual Performance Report prior to their ultimate approval by the Board
- consideration of the material subjective assessments within financial reporting to ensure that the Company's treatment of these matters was properly addressed within the Company's financial statements
- the review and agreement of the annual internal audit programme, the monitoring of internal audit progress and the consideration of 17 internal audit reports in the year.

In reviewing the financial statements the Audit Committee considered the content, accuracy and tone of the financial statements, the principal risks to the business on pages 29 to 30 of the Annual Review Summary, the Risk and Compliance Statement on pages 2 to 5, and other financial disclosures prior to their release.

KPMG reported to the Audit Committee on their audit of the year-end financial statements.

Internal Controls

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

The Audit Committee receives reports on any whistleblowing allegations made to the Company from either internal or external sources, concerning fraud, bribery or other matters. Reports include the outcomes of resulting investigations and the management action taken. Where appropriate the Audit Committee is asked to approve the proposed management actions. Three anonymous whistleblowing allegations were received and investigated in the year. For the completed investigations no corroboration of the allegations has been found.

Further details of internal controls and risk management systems in relation to the financial reporting process can be found in the Risk and Compliance Statement on pages 2 to 5.

Financial Reporting

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

Bad Debt Provision

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

Pension Deficit

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

Classification of Capital Expenditure

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

Taxation

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

The Committee was satisfied that each of the above issues had been adequately explained and correctly recorded in the non-statutory accounts of the Company.

Misstatements

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

Oversight of Internal Audit and External Audit

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

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

Internal Audit

The annual programme of planned internal audits is agreed by the Audit Committee prior to the start of each financial year based on a balance of topics which represent major business risks, and internal business processes which affect either financial or regulatory compliance. A total of 16 individual audit reports were submitted to the Committee in the year.

At the request of either Executive Directors, senior managers or the Audit Committee, additional audits are undertaken throughout the financial year to address any issues that arise in the financial year.

The Head of Internal Audit reports back on reviews of performance and the effectiveness of the Company's internal controls and their adequacy in managing business risk and performance. This work is summarised and reported to the Audit Committee on a regular basis.

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

External Auditor

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

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

KPMG was paid £156k for audit fees and a total of £36k for advice on tax and other matters. The individual commissions for non-audit work were considered to have no impact on the auditor's objectivity and independence. As a matter of policy, fees paid to the external auditor for non-audit services will not exceed 50% of the annual audit fee unless approved in advance by the Chair of the Audit Committee.

KPMG reports to Ofwat in respect of the Company's Annual Performance Report.

As part of the assurance process for this Annual Review document the Audit Committee also receives a report from its technical auditor on non-financial regulatory performance information provided in the Annual Review including the performance commitment data. The technical auditor services were re-tendered in 2015-16 and a new technical auditor, Mott McDonald, was appointed for the first three years of AMP6.

Audit committee attendance	
Huw Davies	4/4
Gillian Camm	3/4
Fiona Reynolds	4/4
Richard Keys	4/4
David Barclay	1/1

Nominations Committee Report

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

Francis Yeoh (Chair)
David Barclay
Gillian Camm
Huw Davies
Fiona Reynolds
Richard Keys
Colin Skellett
Hong Yeoh

The Nominations Committee is chaired by a Non-Executive Director appointed by the shareholder, by way of exception to the relevant Code Provision. The relevant Code Provision envisages a majority of the members being Independent Non-Executive Directors and the Chairman or an Independent Non-Executive Director chairing the Committee. This is intended to ensure a formal, rigorous and transparent procedure for the appointment of new Directors to the Board in the case of a listed company with disparate shareholders. However, during the year the Company's Nominations Committee complied with the Principles and spirit of the Code and its composition reflects the requirements of a private company with a sole shareholder.

Role and Report on Activities

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

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

The purpose of the Nominations Committee is to ensure that appropriate procedures are in place for the nomination, selection, training and evaluation of Directors. It reviews Board structure, size and composition.

The role of the Nominations Committee is to evaluate the balance of skills, experience, independence and knowledge on the Board.

The Nominations Committee met once during the financial year under review under the chair of Francis Yeoh. Its role includes monitoring the independence of Independent Non-Executive Directors, advising the Board on any conflicts of interest and reviewing executive succession planning.

The Committee considered the recruitment and appointment process for the appointment of a Chief Financial Officer for Wessex Water Services Limited, which will take place in 2017 following the retirement of the current Group Finance Director, Mark Watts from 31 December 2017. Members of the Nominations Committee are actively involved in the recruitment of the CFO.

Nominations committee attendance	
Francis Yeoh	1/1
Hong Yeoh	1/1
David Barclay	1/1
Gillian Camm	0/1
Huw Davies	1/1
Fiona Reynolds	0/1
Richard Keys	1/1
Colin Skellett	1/1

Corporate Responsibility Committee

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

Gillian Camm (Chair)
Fiona Reynolds
Richard Keys

Chaired by an Independent Non-Executive Director, the principal purpose of this Committee established in 2013 is to make recommendations to the Board about the Company's corporate and social obligations to its employees and other stakeholders. The Committee invited one current and one former executive director to the Company, Andy Pymer and David Elliott to attend.

Role and Report on Activities

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

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

During the year the Committee commented on and reviewed progress on diversity including a revised recruitment protocol ensuring that, where operationally feasible, vacancies are advertised as available for flexible working and the use of LinkedIn and armed forces options to widen advertising reach. The committee reviewed efforts made by the company to promote volunteering by its employees in the community, promote and encourage flexible working and flexible retirement and the development of a carer's policy to provide flexible working options for employees who have significant caring responsibilities.

At each meeting, the diversity metrics have been reviewed and challenged by the Committee. It is recognised that progress is being made to attract, develop and retain a more diverse workforce but that it takes time for initiatives to show progress.

The committee reviewed the Company's apprentice strategy and the progress made during the year in developing the apprentice programme including the first Higher Level Apprenticeship cohort and 12% female apprentice intake in traditionally male dominated areas of water technicians, electrical, mechanical and construction. The success of apprenticeship open days was reported to the committee together with plans to maximise the drawdown on the apprenticeship levy introduced from April 2017.

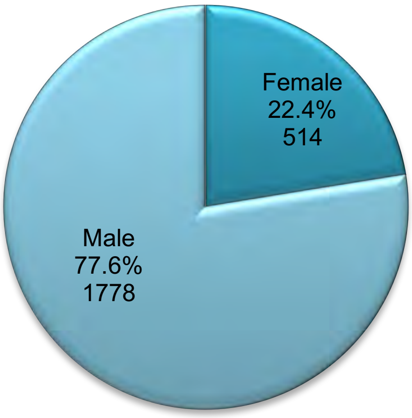
The Committee reviewed a number of reports throughout the year including the use of the Corporate Hospitality Register, charitable giving, health and safety and the Gender Pay Gap reporting. Health and safety has been a key theme throughout the year and progress against the current five-year health and safety strategy. The Committee has reviewed progress in relation to occupational health and employee assistance service provision.

The Committee has reviewed the Company's Sustainability Vision, environmental accounting approaches and catchment reporting, all of which are being amended to take account of our longer term plans beyond 2020. The suggestions made by the Committee have been considered and will be reflected within these publications when produced later in 2017.

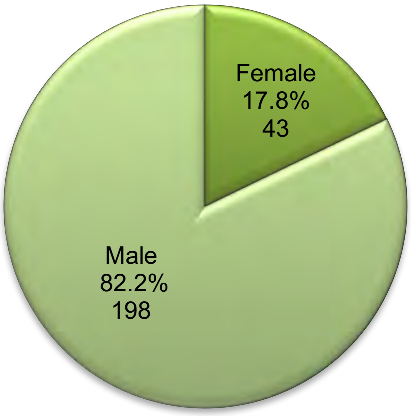
Corporate responsibility committee attendance	
Gillian Camm	2/2
Fiona Reynolds	2/2
Richard Keys	1/2

Gender Diversity as of March 2017

Whole Workforce

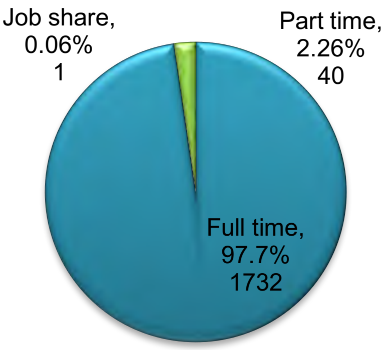


Leadership Grades (M)

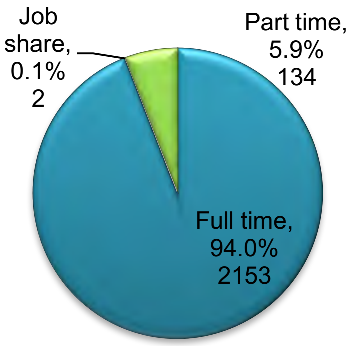


Part time / Full time Diversity

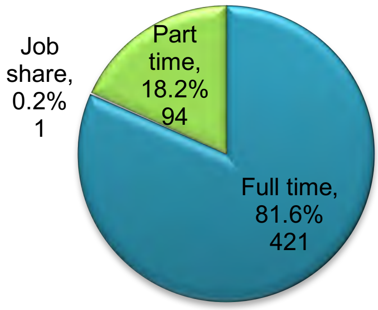
Male



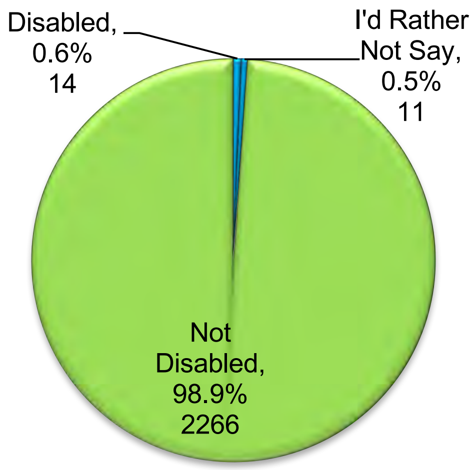
Whole Workforce



Female



Employees with a Disability



Remuneration Committee Report

Members:

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

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

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

Role and Report on Activities

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

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

This report sets out the remuneration policy for the Directors of Wessex Water and discloses the amounts paid to them in the financial year ended 31 March 2017. The policy also applies to the remuneration of the Company's senior managers.

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

The Remuneration Committee continued to monitor the Company's remuneration policy to take account of evolving best and market practice. The annual bonus plan is designed to promote the success of the

Company over the five-year regulatory period, and is based on a portfolio of KPIs linked to the Company's performance scorecard and Ofwat's measures of success.

Salary and bonus levels were benchmarked against the Hay Group Industrial and Service, National Utilities and South West Utilities market sectors with jobs sized in relation to scope, role responsibilities and impact to determine salary. The Remuneration Committee continued to take a proactive approach to responding to developments in legislation, best practice and the wider market, as well as the corporate strategy, in order to ensure that the Company's senior executive reward policy remained market competitive and fit for purpose.

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

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

Recruitment of Executive Directors

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

Individual Executive Directors participate in a senior manager bonus scheme, governed by the Remuneration Committee. Executive Directors have their target bonus set at 50% of base salary and their maximum bonus at 100% of which a proportion is withheld until 2020 under LTIP arrangements.

During the year, the Remuneration Committee took advice from their independent advisers, Hay Group. Hay Group provided detailed market analysis and advice to the Committee for the senior management group, including Executive Directors and Non-Executive Directors. Hay Group's fee for providing such advice was £17,000 for the year ended 31 March 2017. In line with best practice, the Committee assesses from time to time whether the appointment of its current independent remuneration advisers remains appropriate and whether the role should be put out to tender.

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

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

The moves to introduce greater competition into the water industry and the development of group companies made it necessary to evolve the UK Group organisation. Accordingly, two Executive Directors were appointed to Wessex Water Services on 1 August 2016. Andy Pymer was appointed Managing Director and James Rider was appointed Chief Operating Officer.

Remuneration Committee Attendance	
David Barclay	2/2
Gillian Camm	1/2
Huw Davies	2/2
Richard Keys	2/2
Hong Yeoh	2/2
Mark Yeoh	2/2

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

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

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

Policy for loss of office

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

Early termination payments made in the year

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

Relative importance of spend on pay

Note 4 to the accounts shows the total employment costs of the Company, and the movement between 2015-16 and 2016-17.

	2016-17 £m	**2015-16 £m**	**Movement £m**	**Movement %**
Wages and salaries	79.1	69.2	+9.9	+14.3
Social security costs	8.3	6.7	+1.6	+23.9
Other pension costs	11.1	12.2	(1.1)	(9.0)
Total employment costs	**98.5**	**88.1**	**+10.4**	**+11.8**
Charged to:				
Capital schemes	39.2	31.6	+7.6	+24.1
Manpower costs	59.3	56.5	+2.8	+5.0

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

Percentage of	**2016-17 %**	**2015-16 %**	**Source**
Turnover	18.8%	16.9%	Income statement
Profit before tax	64.6%	55.2%	Income statement
Profit after tax	67.4%	53.7%	Income statement
Dividends	104.8%	104.9%	Note 8
Capital expenditure	51.1%	49.7%	Cash flow statement

Remuneration Arrangements for Executive Directors 2016-17

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

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

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

Element of Pay	**Purpose and link to Company strategy**
Base Salary	To attract and retain the high calibre Executive Directors and Senior Managers needed to implement the Company's strategy and maintain its leading position in the industry. To provide a competitive salary relative to comparable companies in terms of size and complexity.
Taxable Benefits	To attract and retain high calibre Executive Directors and Senior Managers and to remain competitive in the market.
Pension	To attract and retain high calibre Executive Directors and Senior Managers and to remain competitive in the market.
Annual Bonus	To motivate and reward Executive Directors and Senior Managers for the achievement of demanding financial objectives and key strategic measures (including measures of customer satisfaction, service quality and environmental performance) over the financial year and five year regulatory period. The performance measures set are stretching in the context of the nature, risk and profile of the Company.
LTIP	To motivate and reward Executive Directors for the achievement of demanding financial objectives and key strategic measures (including measures of customer satisfaction, service quality and environmental performance) over the five year regulatory period to promote the long term success of the Company.
How operated in practice	
Base Salary	Reviewed annually and takes effect from 1 April. Review takes into consideration; • Individual responsibilities, experience and performance • Salary levels for similar sized roles in utilities and south west industrial and service markets • The level of pay increases awarded across the Company • Economic and market conditions • The performance of the Company Salaries are paid monthly.

Taxable Benefits	Benefits include: • Company car • Private medical insurance • Executive health screening • Private fuel allowance
Pension	All Executive Directors participate in the Company's defined benefit pension scheme. Executive Directors are also insured for a lump sum of up to four times their pensionable salary on death in service.
Annual Bonus and Long Term Incentive Plan	The Board of Directors sets annual performance targets for the Company prior to the commencement of each new financial year. Company and individual performance against those targets is measured at the end of the financial year and the level of bonus payable is calculated at that point. Bonuses are paid in April. From 1 April 2015 the remuneration Committee established a Long Term Incentive Plan for Executive Directors whereby 20% of any above target bonus element earned will be held back for payment at the end of AMP6 in 2020. The Company will match the value of the retained bonus payment, up to 100%. The long term incentive payment will be paid to Directors in April 2020. The Committee has the discretion to, and does consider the effect of corporate performance on environmental and governance risks when reviewing Executive Director and senior management bonuses to ensure variable remuneration incentivises and rewards appropriate behaviour. Part of the bonus may be forfeited for under performance in respect of customer service, environmental, regulation and employee related performance targets. Annual bonus is not pensionable.
Maximum opportunity	
Base Salary	There is no prescribed maximum increase. However, Executive Director salary increases are aligned to the increases provided to all Company employees. Such increases are negotiated by the joint staff council involving management and trade union representatives.
Taxable Benefits	N/A
Pension	18.2% of base salary
Annual Bonus	Maximum bonus opportunity is 100% of base salary.
Description of performance metrics	
Base Salary	N/A
Taxable Benefits	N/A
Pension	N/A
Annual Bonus	A combination of 29 key performance indicators relating to financial, customer, environment & assets and employee related measures and targets. An equal weighting is applied to each of the four categories. The committee has absolute discretion in making bonus payments.
Change to policy	
Base Salary	No change
Taxable Benefits	No change
Pension	No change
Annual Bonus	No change except that there were three less performance indicators this year.

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

Component 2016/17	Colin Skellett Group Chief Executive	Mark Watts FD	Andy Pymer MD	James Rider COO
Target bonus (% of salary)	50	50	50	50
Maximum bonus (% of salary)	100	100	100	100
Actual bonus paid (% of salary)	63	67	56	57
Actual bonus held as LTIP (% of salary)	3	4	2	2
Share options (maximum)	Approved 87,000 Unapproved 1,913,000	Approved 87,000 Unapproved 913,000	Approved 87,000 Unapproved 913,000	Approved 87,000 Unapproved 913,000
Pension arrangement	Defined benefit - Pension in payment	Defined benefit	Defined benefit - Pension deferred	Defined benefit
Benefits	See below	See below	See below	See below

Benefits were company car based on list price and CO_2 emissions, fuel £4,310, private medical insurance £1,775 (family).

Base Salaries and Benefits

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

Differences between Executive Directors' and Employees' Remuneration

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

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

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

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

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

The Remuneration Committee has reviewed 2016-17 salaries and has determined that salaries for Executive Directors will be increased from 1 April 2017 by 2.0% for Colin Skellett and Andy Pymer, 3.6% for Mark Watts and 3.3% for James Rider. For Colin Skellett and Andy Pymer the increase is in line with the agreed increase across the rest of the Company and for the other Directors the Remuneration Committee considered that a higher increase in salary was warranted as salaries were low compared to the South West Utilities upper quartile.

Executive Directors' Bonuses

2016-17 Scheme

The annual bonus of Executive Directors is performance-related and designed to promote the long-term success of the Company. It is dependent on the achievement of Company and individual targets.

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

The Company targets are 29 key performance indicators covering financial measures, customer service, environmental and asset measures and employee matters, as shown below.

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

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

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

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

The target bonus for the Executive Directors was calculated as follows (Andy Pymer and James Rider for 8 months only):

Target Bonus 2016-17	Colin Skellett CEO	Mark Watts FD	Andy Pymer MD	James Rider COO
Financial				
% of salary	10.0%	10.0%	10.0%	10.0%
Amount £	28,715	19,670	16,000	13,554
Customer				
% of salary	10.0%	10.0%	10.0%	10.0%
Amount £	28,715	19,670	16,000	13,554
Environment and Assets				
% of salary	10.0%	10.0%	10.0%	10.0%
Amount £	28,715	19,670	16,000	13,554
Employees				
% of salary	10.0%	10.0%	10.0%	10.0%
Amount £	28,715	19,670	16,000	13,555
Individual				
% of salary	10.0%	10.0%	10.0%	10.0%
Amount £	28,716	19,670	16,000	13,555
Total				
% of salary	**50%**	**50%**	**50%**	**50%**
Amount £	**143,576**	**98,350**	**80,000**	**67,772**

In the financial year under review, 28 of the 29 Company targets were achieved or bettered.

The only target not achieved was compliance with drinking water standards where mean zonal compliance was 99.95% against the target of 99.97%. There were 23 failures out of over 33,000 tests of which 18 were attributed to customers' domestic plumbing and 5 to Company assets. There is no financial penalty for this level of under-performance.

The actual bonus payments are shown in the Directors' Emoluments table (Andy Pymer and James Rider for 8 months only). The detail of how these bonus payments were calculated is shown below.

Actual Bonus 2016/17	Colin Skellett CEO	Mark Watts FD	Andy Pymer MD	James Rider COO
Financial				
% of salary	12.7%	13.5%	11.3%	11.4%
Amount £	36,424	26,414	18,133	15,511
Customer				
% of salary	12.7%	13.4%	11.3%	11.4%
Amount £	36,423	26,414	18,133	15,511
Environment and Assets				
% of salary	12.7%	13.4%	11.3%	11.4%
Amount £	36,423	26,414	18,133	15,511
Employees				
% of salary	12.7%	13.4%	11.4%	11.5%
Amount £	36,423	26,414	18,133	15,511
Individual				
% of salary	12.6%	13.4%	11.4%	11.5%
Amount £	36,423	26,414	18,134	15,511
Total				
% of salary	**63.4%**	**67.1%**	**56.7%**	**57.2%**
Amount £	**182,116**	**132,070**	**90,666**	**77,555**

Annual bonus payments to Executive Directors are not pensionable.

Pensions

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

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

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

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

Under the Trust Deed and Rules, pensions in payment in excess of any guaranteed minimum pension are guaranteed to increase in line with price inflation subject to a maximum of 5% each year. In the calculation of individual cash equivalent transfer values, allowance is made for such increases.
As a result of the changes in pension legislation for high earners, Wessex Water has introduced the following options for individuals under age 55 who are affected by the tax changes:

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

Executive Directors' Service Contracts

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

Executive Directors	**Date of current agreement**	**Date of appointment as Executive Director**	**Notice Period**
Colin Skellett	01/04/2014	01/09/1989	12 months
Mark Watts	01/04/2014	16/03/2010	12 months
Andy Pymer	21/07/2016	01/08/2016	12 months
James Rider	21/07/2016	01/08/2016	12 months

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

The Remuneration Committee will continue to review the contractual terms for Executive Directors to ensure they reflect best practice and are compliant with employment law. Two new Executive Directors were appointed during the financial year under review.

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

Non-Executive Directors

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

The breakdown of the Independent Non-Executive Directors' fees from 1 April 2016 is shown in the Directors' Emoluments table below. Independent Non-Executive Directors do not participate in share or bonus schemes or any other performance-related scheme, nor is any pension provision made.

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

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

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

Directors' Emoluments

The table below shows the emoluments for the current year.

The auditor is required to report on the information in the following tables for 2016-17.

2016-17	**Salary £000**	**Bonus £000**	**LTIP £000**	**Benefits £000**	**Pension contributions £000**	**Total £000**
David Barclay	85	-	-	-	-	85
Gillian Camm	80	-	-	-	-	80
Huw Davies	77	-	-	-	-	77
Richard Keys	59	-	-	-	-	59
Andy Pymer	180	90	3	12	33	318
Fiona Reynolds	67	-	-	-	-	67
James Rider	140	78	2	14	26	260
Colin Skellett	287	182	10	20	-	499
Mark Watts	197	132	8	18	36	391
Total £000	**1,172**	**482**	**23**	**64**	**95**	**1,836**

1. No emoluments earned by Francis Yeoh, Hann Yeoh, Hong Yeoh, Mark Yeoh or Kathleen Chew.
2. Andy Pymer and James Rider for 8 months from 1 August 2016.
3. Benefits comprise private medical insurance, company car and fuel benefits.
4. Three Directors received emoluments for services to other Group Companies, Colin Skellett £409k, Mark Watts £355k and David Barclay £3k. The Audit Committee was satisfied that services provided to other Group Companies do not reduce the effectiveness of the Directors' provision of services to the Company.

The table below shows the emoluments for the prior year.

2015-16	**Salary £000**	**Bonus £000**	**LTIP £000**	**Benefits £000**	**Pension contributions £000**	**Total £000**
David Barclay	85	-	-	-	-	85
Gillian Camm	65	-	-	-	-	65
Huw Davies	65	-	-	-	-	65
Fiona Reynolds	65	-	-	-	-	65
Colin Skellett	350	217	11	24	-	602
Mark Watts	211	136	8	17	35	407
Total £000	**841**	**353**	**19**	**41**	**35**	**1,289**

Chief Executive

No remuneration was paid to the Chairman (2016 – £nil). The total remuneration for the Chief Executive (Colin Skellett) was:

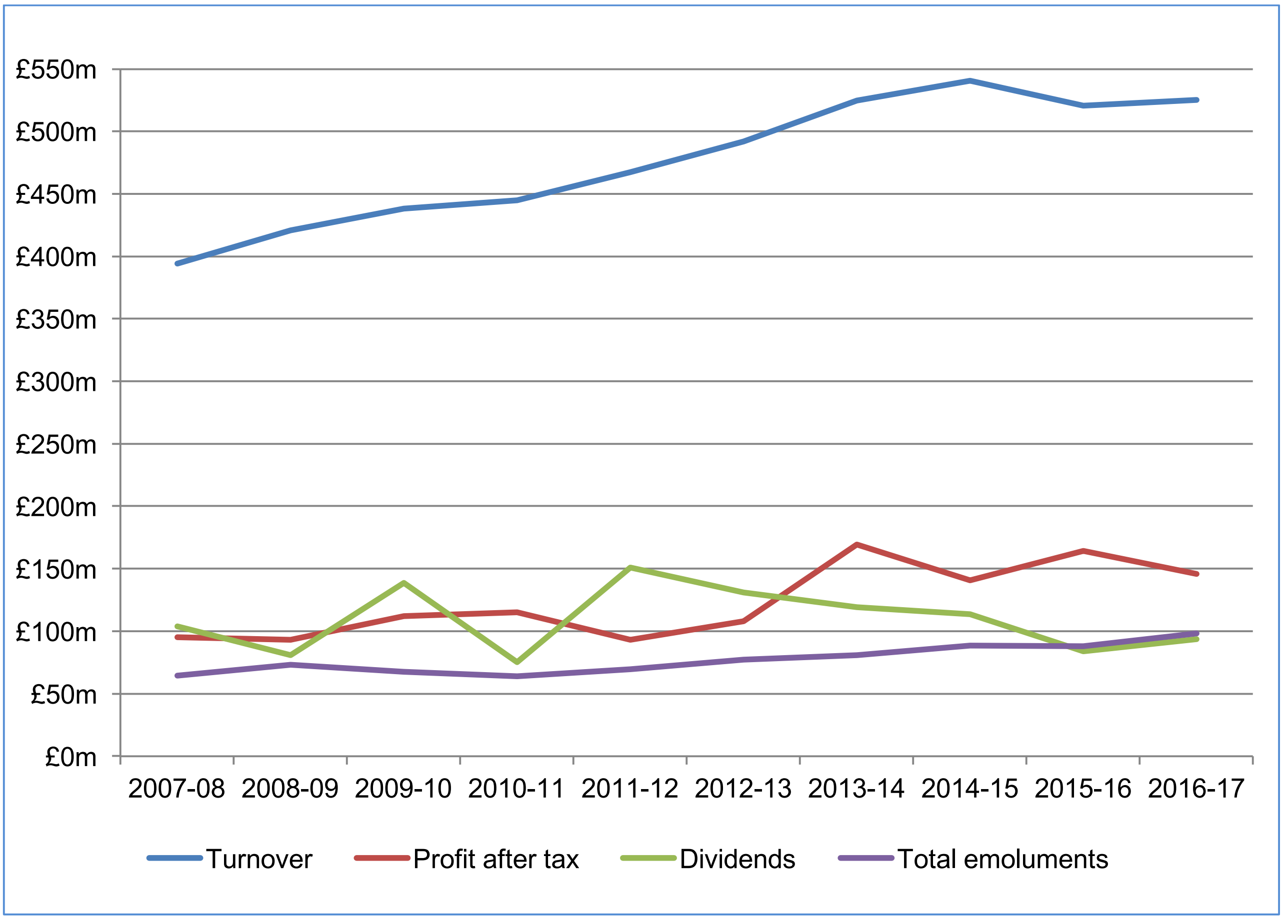
	Remuneration 2016-17 £000	**Remuneration 2015-16 £000**	**% change**
WWSL			
Salary	287	350	(18.0)%
Bonus	182	217	(16.1)%
LTIP	10	11	(0.9)%
Benefits	20	24	(16.7)%
Other group companies			
Salary	155	87	+78.2%
Bonus	238	195	+22.1%
LTIP	5	3	+166.7%
Benefits	11	6	+83.3%
Total	**908**	**893**	**+1.7%**
All employees WWSL			
Wages and salaries	79,100	69,200	+14.3%
Social security costs	8,300	6,700	+23.9%
Other pension costs	11,100	12,200	(9.0)%
Total	**98,500**	**88,100**	**+11.8%**

Comparison with remuneration increase for all employees:

The pay increase awarded to the employees of the Company on 1 April 2016, for the year 2016-17, was a 1.0% increase over the preceding year.

Remuneration Link to Performance

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



Dividends are as declared in the year.

Total emoluments include Directors' emoluments.

Executive Directors' Defined Benefit Pension Provision

	Pension service completed in years (1)	Normal retirement date at 65	Accrued pension at 31/3/2016 £pa	Increase in accrued pension during the year £pa	Accrued pension at 31/3/2017 £pa
Colin Skellett (2)	41	(2)	169,254	1,998	171,252
Mark Watts	28	19/9/2026	108,620	21,344	129,964
Andy Pymer	23	(3)	61,112	749	61,861
James Rider	32	7/4/2030	48,177	20,136	68,313

(1) Including transfers in and bonus years
(2) Pension in payment
(3) Deferred pension

Executive Directors’ Share Interests

Share Options

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

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

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

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

	Opening number 31/3/2016	**Exercise price RM**	**Date of grant**	**Exercise date**	**Expiry date**	**Closing number 31/3/2017**
Colin Skellett	87,000	1.65	1/6/2012	1/6/2015	31/3/2021	87,000
Colin Skellett	1,913,000	1.41	1/6/2012	1/6/2015	31/3/2021	1,913,000
Mark Watts	87,000	1.65	1/6/2012	1/6/2015	31/3/2021	87,000
Mark Watts	913,000	1.41	1/6/2012	1/6/2015	31/3/2021	913,000
Andy Pymer	87,000	1.65	1/6/2012	1/6/2015	31/3/2021	87,000
Andy Pymer	913,000	1.41	1/6/2012	1/6/2015	31/3/2021	913,000
James Rider	87,000	1.65	1/6/2012	1/6/2015	31/3/2021	87,000
James Rider	913,000	1.41	1/6/2012	1/6/2015	31/3/2021	913,000

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

The share price at 31 March 2017 was RM1.52 or £0.27.

Shares Held

There are no shares held by the Directors in the Company or the UK parent company.
The Executive Directors held the following ordinary shares of Malaysian Ringgit RM0.50 each in YTL Power International Berhad (a parent company), at the start and end of the accounting period.

	Opening number 31/3/2016	**Closing number 31/3/2017**
Mark Watts	388,030	388,030
Andy Pymer	53,815	53,815

The share price at 31 March 2017 was RM1.52 or £0.27.

Remuneration Arrangements for Executive Directors 2017-18

Component	Colin Skellett CEO	Mark Watts FD	Andy Pymer MD	James Rider COO
Target bonus (% of salary)	50	50	50	50
Maximum bonus (1) (% of salary)	100	100	100	100
Share options (maximum)	Approved 87,000 Unapproved 1,913,000	Approved 87,000 Unapproved 913,000	Approved 87,000 Unapproved 913,000	Approved 87,000 Unapproved 913,000
Pension arrangement	Defined benefit - Pension in payment	Defined benefit	Defined benefit - Pension deferred	Defined benefit
Taxable Benefits	Company car, fuel and private medical insurance			

(1) Of which a proportion is withheld until 2020 under LTIP arrangements

Bonus scheme 2017-18

For 2017-18 there are 29 performance indicators set to reflect the corporate targets in the current regulatory period, as shown below:

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

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

Environment and Assets – EA's Environmental Performance Assessment / bathing waters passing EU standards / Biodiversity Action Plan landholding assessed and managed / greenhouse gas emissions / proportion of electricity self-generated / all regulatory outputs met / compliance with abstraction licences / monitoring of CSO's presenting a risk to the environment / river water quality improved.

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

Target Bonus 2017-18	Colin Skellett CEO	Mark Watts FD	Andy Pymer MD	James Rider COO
Financial				
% of salary	10.0%	10.0%	10.0%	10.0%
Amount £	29,290	20,372	30,600	21,700
Customer				
% of salary	10.0%	10.0%	10.0%	10.0%
Amount £	29,290	20,372	30,600	21,700
Environment and Assets				
% of salary	10.0%	10.0%	10.0%	10.0%
Amount £	29,290	20,372	30,600	21,700
Employees				
% of salary	10.0%	10.0%	10.0%	10.0%
Amount £	29,289	20373	30,600	21,700
Individual				
% of salary	10.0%	10.0%	10.0%	10.0%
Amount £	29,289	20,373	30,600	21,700
Total				
% of salary	**50%**	**50%**	**50%**	**50%**
Amount £	**146,448**	**101,862**	**153,000**	**108,500**

Long term incentive scheme from 1 April 2015

In September 2014, the Financial Reporting Council published a revised code of practice of the UK corporate governance code, which introduced new provisions relating to executive remuneration, including a change meaning that remuneration policies must be designed to promote the long term success of the Company.

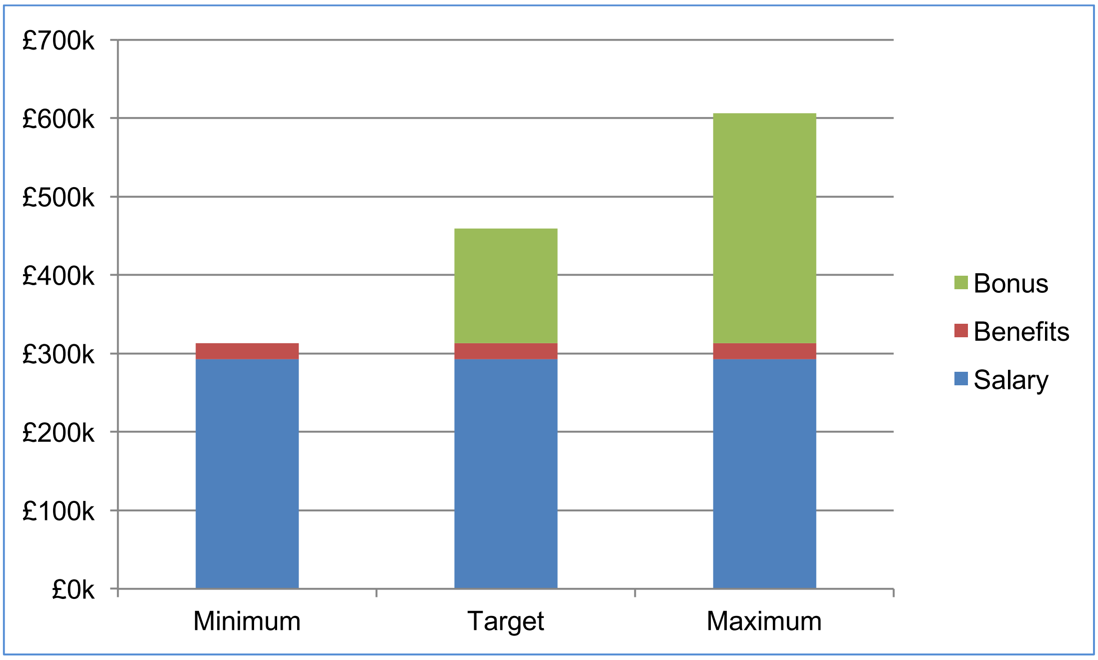
The Remuneration Committee approved the establishment of a long term incentive plan (LTIP) for Directors whereby 20% of any above target bonus element earned will be held back for payment at the end of AMP6 in 2020. The Company will match the value of the retained bonus payment, up to 100%. The LTIP will be paid to Directors in April 2020.

Amounts of bonus held back from Executive Directors under the LTIP scheme were as follows:

Bonus held back as LTIP	Colin Skellett CEO	Mark Watts FD	Andy Pymer MD	James Rider COO
2015/16	£10,608	£8,000	-	-
2016/17	£9,634	£8,430	£2,667	£2,445
Total	£20,242	£16,430	£2,667	£2,445

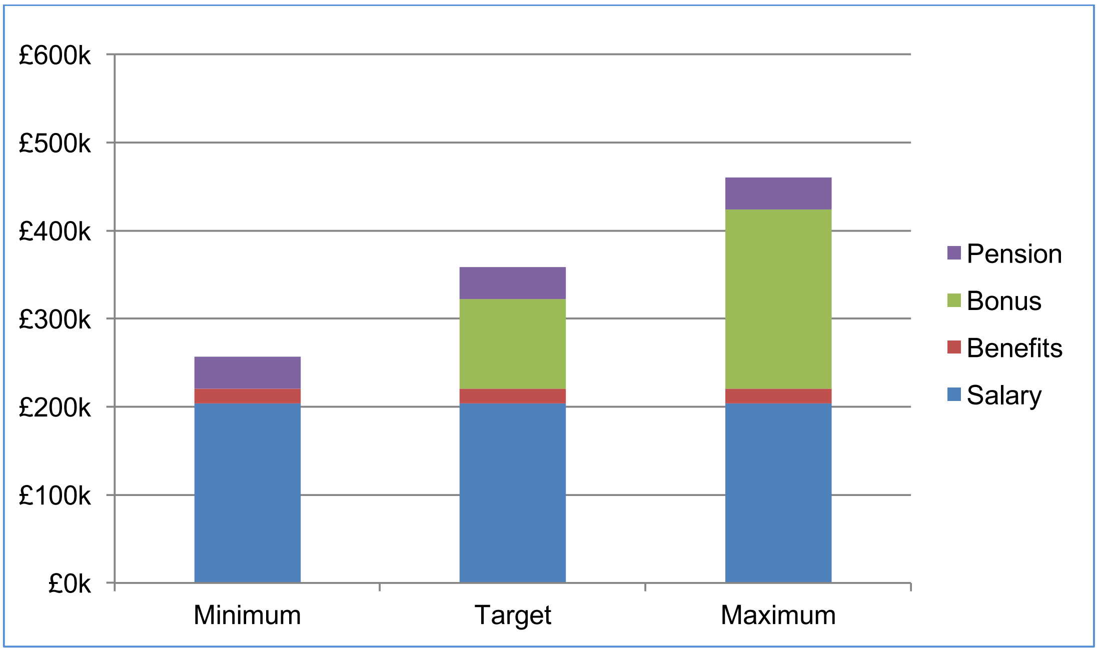
Illustrations of Remuneration Policy

A) Colin Skellett - CEO (using estimated 2017-18 data)



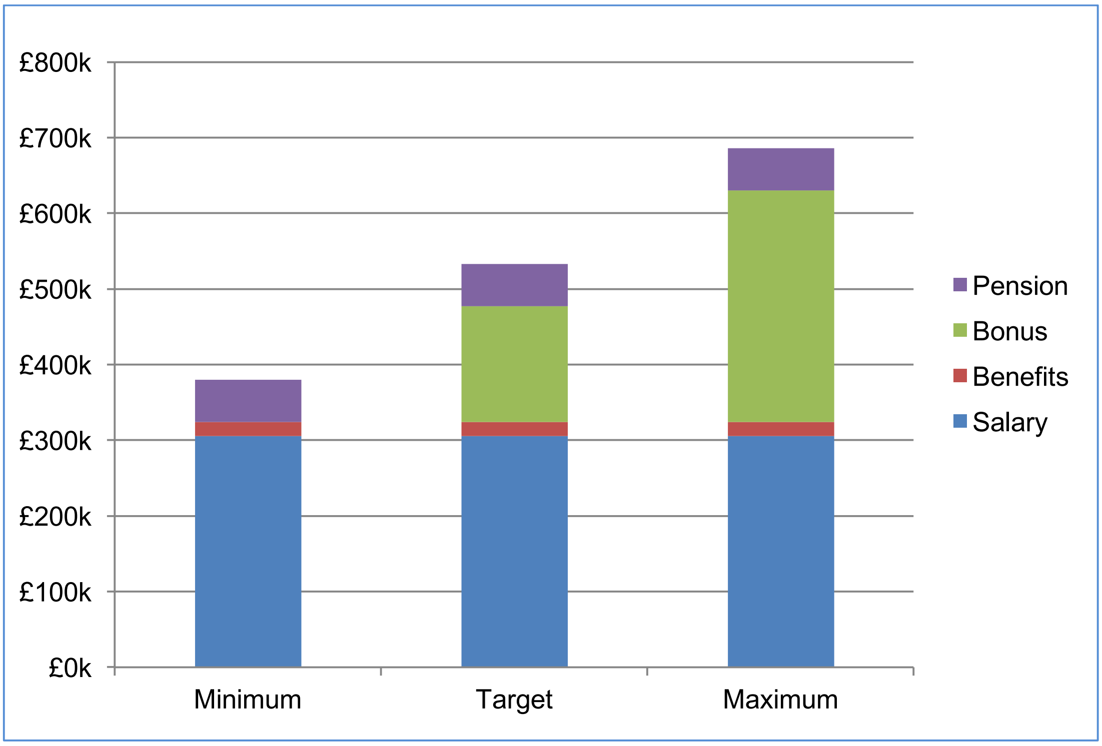
Minimum assumes no bonus earned, target assumes 50% bonus earned and maximum assumes 100% bonus earned. No employer pension contributions.

B) Mark Watts – FD (using estimated 2017-18 data)



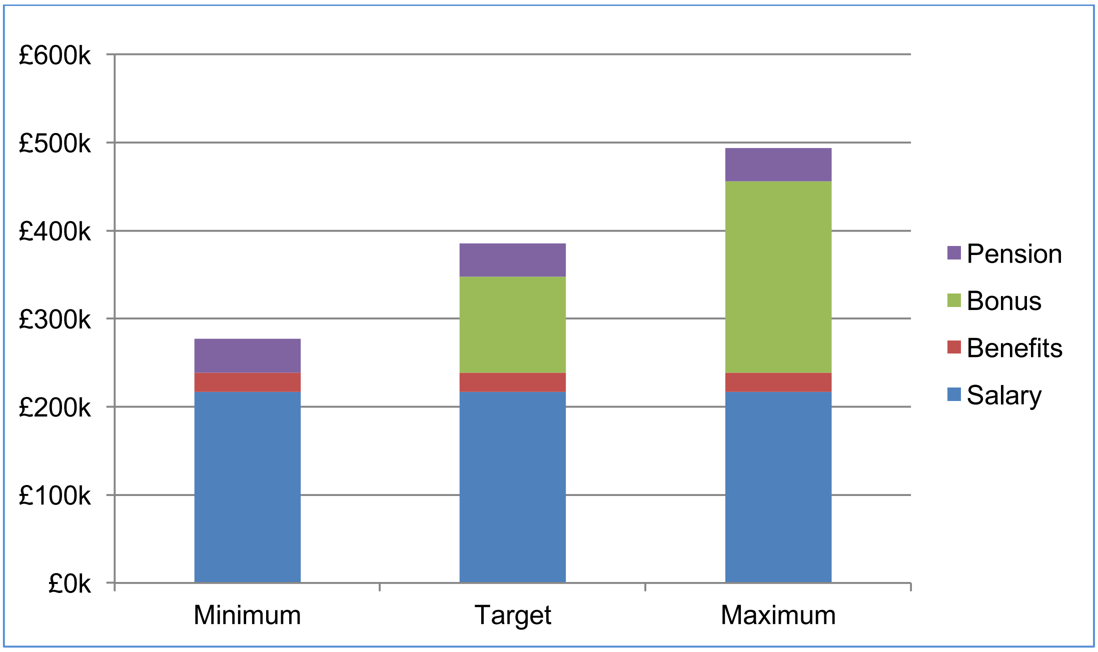
Minimum assumes no bonus earned, target assumes 50% bonus earned and maximum assumes 100% bonus earned.

C) Andy Pymer – MD (using estimated 2017-18 data)



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

D) James Rider – COO (using estimated 2017-18 data)



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

Viability Statement

In accordance with the provision C.2.2 of the UK Corporate Governance Code 2014 the Directors are required to assess the viability of the Company over a longer period than the 12 months required by a Going Concern statement.

The Directors have determined that a three-year period to 31 March 2020 is an appropriate period over which to provide its Viability Statement. The Directors recognise that the normal business cycle for the Company is five years, but that the Company is already two years into the current cycle. The end of this three-year period coincides with the end of the current five-year regulatory control period that began on 1 April 2015 and for which a detailed business plan was approved by the Directors and submitted to the Water Services Regulation Authority (WSRA/Ofwat).

The Directors have reviewed the principal risks shown on pages 29 to 30 of the Annual Review Summary. They have taken into account the current financial position of the Company, its cash deposits and available funds. The regulatory model allows some certainty over the turnover of the Company over the next three years subject to assumptions on inflation. The regulatory model also allows for turnover to be adjusted upwards in the event of a substantial adverse effect on the financial position of the Company, where this effect would not have been avoided by prudent management action. It also allows for turnover to be adjusted where a new legal obligation imposed on the Company as a water and sewerage undertaker has led to a material increase in the costs incurred.

There is a large capital expenditure programme over the next three years, of a similar nature to that delivered in previous regulatory control periods, allowing the Directors to be able to predict the cost of construction with some certainty. The borrowing facilities in place are long term and maturing after 31 March 2020 with the exception of one £140m loan. The mix of borrowings is spread between fixed, floating and index linked. Interest rates are a historically low and stable level and predictions of future increases are moderate.

All of the above has allowed the Directors to prepare a robust model of future trading performance and cash flows that can then be tested under various scenarios, to determine if the Viability Statement can be made. The key areas considered by the Directors were:

- the liquidity of the Company over the next three years, and the probability that the Company will be able to replace the £140m loan with another borrowing facility
- compliance with financial covenants in respect of gearing and interest cover
- the impact of increased interest rates
- the impact of decreased inflation
- the impact of a higher than expected accounting pension deficit
- mitigations in place in respect of the principal risks.

Following these assessments the Directors confirm that they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due up to 31 March 2020.

See also the long-term viability statement on page 10 of the Annual Performance Report.

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 2017. 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 a regulatory Annual Performance Report 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 Annual Performance Report 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.

The Directors consider the annual report and non-statutory accounts taken as a whole, to be fair, balanced and understandable and it provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Principal Activities

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

In December 2014 the industry regulator Ofwat announced the final price control determination for the five-year period to March 2020. The price control for this period has been extended from one price control to four price controls covering wholesale water, wholesale waste water, household retail and non-household retail. The Directors accepted the price review for the next five years.

On 1 April 2017 all non-household customers were able to choose their retailer for water services. From that date the Company continued to offer wholesale services to those customers, but retail services were offered through Water2Business Ltd a joint venture between Wessex Water Ltd and Bristol Water Holdings Ltd.

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.

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.

Employment

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

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

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

The Modern Slavery Act 2015

Wessex Water is committed to meeting the aims of the Modern Slavery Act 2015. We strongly oppose slavery and human trafficking in our supply chains and in any part of our business. To be trusted to do the right thing is one of our core values. We would never knowingly engage with suppliers or contractors involved in slavery or human trafficking. In accordance with the requirements of the Act we have published on our website a Slavery and human trafficking statement 2016.

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 environment policy is reviewed annually.

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 2017.

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 2017 trade creditors represented approximately 29 days trade purchases (2016 – 32 days).

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

Charitable Donations

During the year £398,750 was donated to UK charities (2016 – £438,500) of which £245,230 (2016 – £317,900) 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.

Disclosure of Information to Auditor

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

Auditor

KPMG LLP are engaged as auditor of the Company for the current financial year, after which the partner has to rotate off the audit. In accordance with best practice, the Company will take that opportunity to seek tenders for the audit service for the next financial year.

By order of the Board
Leigh Fisher-Hoyle – General Counsel
Claverton Down
Bath BA2 7WW
7 July 2017

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the non-statutory accounts in accordance with applicable regulations.

The Company's licence conditions, as set by the Water Services Regulation Authority, require the Directors to prepare Company accounts for each financial year to 31 March.

The Directors have elected to prepare the non-statutory accounts in accordance with IFRSs as adopted by the EU and as if the requirements of the Companies Act 2006 were to apply to them.

The Directors are required to prepare accounts that give a true and fair view of the revenues, costs, assets and liabilities of the Company.

In preparing the non-statutory accounts, the Directors have:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that are reasonable and prudent;
- stated whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepared the non-statutory accounts on the going concern basis.

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

The Directors have decided to prepare voluntarily a Directors' Remuneration Report in accordance with Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 made under the Companies Act 2006, as if those requirements were to apply to the Company. The Directors have also decided to prepare voluntarily a Corporate Governance Statement as if the Company were required to comply with the Listing Rules and the Disclosure Rules and Transparency Rules of the Financial Conduct Authority in relation to those matters.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

We consider the annual report and non-statutory accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

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

Opinions and conclusions arising from our audit

1 Our opinion on the non-statutory financial statements is unmodified

We have audited the non-statutory financial statements of Wessex Water Services Limited for the year ended 31 March 2017 set out on pages 49 to 82. In our opinion, the non-statutory financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2017 and of its profit for the year then ended; and
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union
- have been prepared in accordance with the requirements of the Companies Act 2006 as if those requirements were to apply.

Overview		
Materiality:	£7.1 m (2016: £10.9 m)	
non-statutory financial statements as a whole	5% (2016: 7%) of profit before tax	
Risks of material misstatement		**vs 2016**
Recurring risks	Classification of costs between operating and capital expenditure	◄►
	Provision for bad debt	◄►
	Accuracy of pension assumptions	◄►

2 Our assessment of risks of material misstatement

In arriving at our audit opinion above on the non-statutory financial statements the risks of material misstatement, in decreasing order of audit significance, that had the greatest effect on our audit were as follows (unchanged from 2016):

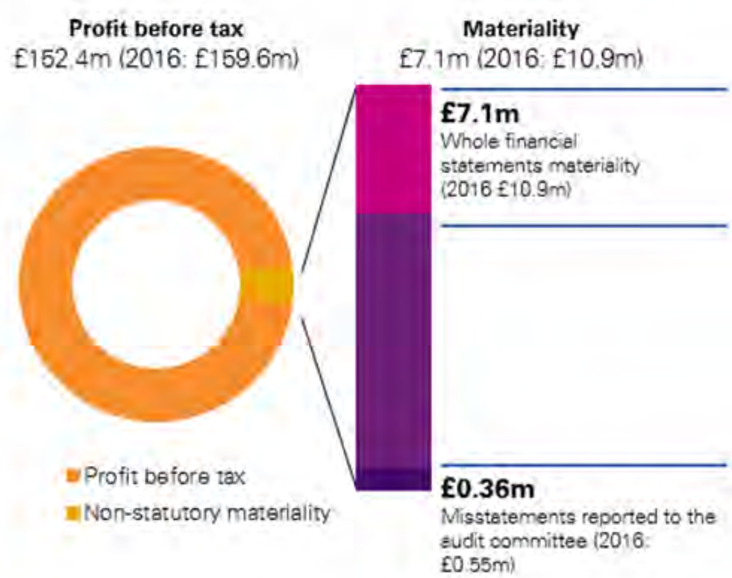
	The risk	Our response
Classification of costs between operating and capital expenditure (£191.5 million; 2016: £210.8 million) *Refer to page 15 (Audit Committee Report), page 55 (accounting policy) and page 65 (financial disclosures).*	**Accounting treatment** The Company incurs a high level of expenditure on Property, plant and equipment ("PPE"), including repair and maintenance and enhancement costs. There is a high degree of judgement involved in determining whether costs, both initial and subsequent expenditure, including employee and other internal expenditure, on both infrastructure and non-infrastructure assets, meet the relevant criteria for capitalisation or alternatively should be expensed immediately.	Our procedures included: — **Control observation:** For a sample of projects, assessing if the classification of expenditure is subject to review and authorisation by the appropriate level within the business hierarchy; — **Sector experience:** For a sample of projects, challenging the level of capitalisation based on our knowledge of the sector and the underlying nature of the projects; — **Expectation vs outcome:** Comparing the level of employee and other internal expenditure capitalised against prior year balances and current year budget information to identify material variances in the quantum of costs capitalised, with any significant differences corroborated and investigated; — **Assessing transparency:** Assessing the adequacy of the Company's disclosures in relation to the classification of expenditures.
Bad debt provision (£39.1 million; 2016: £45.9 million) *Refer to page 15 (Audit Committee Report), page 59 (accounting policy) and page 79 (financial disclosures).*	**Subjective estimate** The provision for doubtful debts is a significant risk area due in part to the statutory requirement to provide water to customers who will be unable to pay, and also as a result of its subjective nature, quantum, and the complex assumptions in relation to the percentage of debtors in each ageing and payment category that require provision. Those assumptions are based upon historical cash collection trends, economic trends and pricing level. An inappropriate choice of percentage could result in a material variance in the level of provision required. **Calculation error** Due to complexity of the bad debt provision calculation, there is also a risk of error in the calculation that could result in a material misstatement.	Our procedures included: — **Controls design:** With assistance from our own IT specialists, critically analysing and evaluating the service auditor report over the controls in place that ensure the appropriate billing and cash collection data are interfaced appropriately into the accounting systems. This data is the basis for developing provision percentages for each ageing and payment category used in calculating the provision; — **Historical comparisons:** Evaluating the provision percentages applied to the different ageing and payment categories by comparison to prior year and to historical write-offs; — **Sensitivity analysis:** Challenging the Directors' percentages applied to each ageing category through performing scenario analysis and altering the percentages applied; — **Benchmarking assumptions:** Comparing the Company's level of provisioning to that evidenced across the industry based on our own industry analysis;

	The risk	Our response
Bad debt provision *(continued)*		— **Independent reperformance:** Using the debtors data extracted from the billing system, we applied the Company's assumptions and recalculated the provision; — **Assessing transparency:** Assessing the adequacy of the Company's disclosures about the degree of estimation uncertainty involved in calculating the provision.
Defined benefit liability *Present value of obligation:* (£788.9 million; 2016: £660.9 million) *Net defined benefit liability:* (£194.7 million; 2016: £141.1 million) *Refer to page 15 (Audit Committee Report), page 57 (accounting policy) and page 69 (financial disclosures).*	**Subjective estimates** Significant assumptions are made in valuing the Company's defined benefit liability. There is a risk that inappropriate assumptions are made for key areas such as discount rates, retail price index, mortality rates and the expected return on equities, resulting in a material misstatement.	Our procedures included: — **Benchmarking assumptions:** With the assistance of our actuarial specialists, comparing the key assumptions against external market data and a range of similar schemes; — **Assessing transparency:** Assessing the adequacy of the Company's disclosures in respect of the defined benefit liability.

3. *Our application of materiality and an overview of the scope of our audit*

Materiality for the non-statutory financial statements as a whole was set at £7.1m, determined with reference to a benchmark of profit before tax, of which it represents 5% (2016: 7%).

We reported to the Audit Committee any corrected or uncorrected identified misstatements exceeding £357,000, in addition to other identified misstatements that warranted reporting on qualitative grounds.



4. Our opinion on other matters under the terms of our engagement is unmodified

In addition to our audit of the non-statutory financial statements, the Directors have engaged us to audit the information in the Directors' Remuneration Report that is described as having been audited, which the Directors have decided to prepare as if the Company were required to comply with the requirements of Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008 No. 410) made under the Companies Act 2006.

In our opinion:

- the part of the Directors' Remuneration Report which we were engaged to audit has been properly prepared in accordance with Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 made under the Companies Act 2006, as if those requirements were to apply to the Company.

Based solely on the work required to be undertaken in the course of the audit of the non-statutory financial statements and from reading the Strategic Report and the Directors' Report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006 as if those requirements were to apply.

5. We have nothing to report on the disclosures of principal risks

Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:

- the Directors' statement of viability on page 40, concerning the principal risks, their management, and, based on that, the Directors' assessment and expectations of the Company continuing in operation over the 3 years to 2020; or
- the disclosures in note 1 of the non-statutory financial statements concerning the use of the going concern basis of accounting.

6. We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the non-statutory financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- the Audit Committee Report does not appropriately address matters communicated by us to the Audit Committee; or
- we have identified material inconsistencies between the knowledge we acquired during our audit and the Directors' statement that they consider that the annual report and non-statutory financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

In addition to our audit of the non-statutory financial statements, the Directors have engaged us to review their Corporate Governance Statement as if the Company were required to comply with the Listing Rules of the Financial Conduct Authority in relation to those matters. Under the terms of our engagement we are required to review:

- the Directors' statements, set out on page 40, in relation to going concern and longer-term viability ; and
- the part of the Governance Report in the Annual Report and non-statutory accounts relating to the Company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

Respective responsibilities of Directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 43, the Directors are responsible for the preparation of non-statutory financial statements which give a true and fair view. Our responsibility is to audit, and express an opinion on, the non-statutory financial statements in accordance with the terms of our engagement letter dated 5 June 2014 and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of an audit of financial statements performed in accordance with ISAs (UK and Ireland)

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

This report is made subject to important explanations regarding our responsibilities, as published on our website at www.kpmg.com/uk/auditscopeother2014, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

The purpose of our audit work and to whom we owe our responsibilities

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.

Andrew Campbell-Orde
for and on behalf of KPMG LLP
Chartered Accountants
66 Queen Square
Bristol
BS1 4BE
7 July 2017

Income Statement

For the year ended 31 March 2017

	Note	**2017** **£m**	2016 £m
Revenue	*1,2*	**525.3**	520.8
Raw materials and consumables used		**(30.2)**	(31.4)
Staff costs		**(59.3)**	(56.5)
Depreciation and amortisation		**(103.7)**	(101.0)
Other expenses		**(105.8)**	(97.7)
Total expenses	*3*	**(299.0)**	(286.6)
Operating profit	*2*	**226.3**	234.2
Financial income	*6*	**1.0**	0.8
Financial expenses	*6*	**(74.9)**	(75.4)
Net financing expense		**(73.9)**	(74.6)
Profit before tax		**152.4**	159.6
Taxation	*7*	**(6.3)**	4.6
Profit for the year		**146.1**	164.2

Statement of Other Comprehensive Income

For the year ended 31 March 2017

	2017	2016
	£m	£m
Profit for the year	**146.1**	164.2
Other comprehensive income		
Items that will not be reclassified to profit or loss:		
Remeasurements of defined benefit liability	**(53.2)**	0.2
Income tax on items that will not be reclassified to profit or loss	**7.6**	0.1
Other comprehensive income for the year, net of income tax	**(45.6)**	0.3
Total comprehensive income for the year	**100.5**	164.5

Balance Sheet

At 31 March 2017

	Note	2017	2016
		£m	£m
Non-current assets			
Property, plant and equipment	9	**3,427.9**	3,344.1
Investments in subsidiaries	10	**-**	-
		3,427.9	3,344.1
Current assets			
Inventories	11	**7.2**	7.1
Trade and other receivables	12	**175.3**	170.5
Cash and cash equivalents	13	**103.5**	95.3
		286.0	272.9
Total assets		**3,713.9**	3,617.0
Current liabilities			
Bank overdraft	14	**-**	-
Other interest-bearing loans and borrowings	14	**(5.1)**	(4.5)
Trade and other payables	15	**(188.2)**	(188.4)
		(193.3)	(192.9)
Non-current liabilities			
Other interest-bearing loans and borrowings	14	**(2,002.0)**	(1,947.1)
Other payables	15	**(0.4)**	(0.3)
Employee benefits	16	**(194.7)**	(141.0)
Deferred income	17	**(249.7)**	(243.8)
Provisions	18	**(0.1)**	(0.2)
Deferred tax liabilities	19	**(319.2)**	(343.7)
		(2,766.1)	(2,676.1)
Total liabilities		**(2,959.4)**	(2,869.0)
Net assets	2	**754.5**	748.0
Equity			
Share capital	20	**-**	-
Retained earnings		**754.5**	748.0
Total equity		**754.5**	748.0

The notes on pages 54 to 82 form an integral part of these non-statutory financial statements.

These financial statements were approved by the Board of Directors on 7 July 2017 and were signed on its behalf by:

Colin Skellett – Chief Executive

Mark Watts – Director

Company registered number: 2366648

Statement of Changes in Equity

For the year ended 31 March 2017

	Note	**Share capital £m**	**Retained earnings £m**	**Total equity £m**
Balance at 1 April 2015		-	667.5	667.5
Total comprehensive income for the year				
Profit for the year		-	164.2	164.2
Other comprehensive income		-	0.3	0.3
Total comprehensive income for the year		-	164.5	164.5
Transactions with owners, recorded directly in equity				
Dividends	*8*	-	(84.0)	(84.0)
Total contributions by and distributions to owners		-	(84.0)	(84.0)
Balance at 31 March 2016		-	748.0	748.0
Balance at 1 April 2016		-	748.0	748.0
Total comprehensive income for the year				
Profit for the year		-	146.1	146.1
Other comprehensive income		-	(45.6)	(45.6)
Total comprehensive income for the year		-	100.5	100.5
Transactions with owners, recorded directly in equity				
Dividends	*8*	-	(94.0)	(94.0)
Total contributions by and distributions to owners		-	(94.0)	(94.0)
Balance at 31 March 2017		-	754.5	754.5

Included in retained earnings are £563.8m of un-distributable reserves (2016 - £562.4m) created on first time adoption of IFRS when restating infrastructure assets to fair value.

Cash Flow Statement

For the year ended 31 March 2017

	Note	**2017**	2016
		£m	£m
Cash flows from operating activities			
Profit for the year		**146.1**	164.2
Adjustments for:			
Depreciation, amortisation and impairment		**103.7**	101.0
Financial income		**(1.0)**	(0.8)
Financial expense		**74.9**	75.4
Taxation		**6.3**	(4.6)
		330.0	335.2
(Increase) / decrease in trade and other receivables		**(4.3)**	0.5
(Increase) in inventories		**(0.1)**	(0.5)
(Decrease) / increase in trade and other payables		**(0.6)**	1.9
(Decrease) in provisions and employee benefits		**(4.4)**	(7.2)
		(9.4)	(5.3)
Tax paid		**(24.4)**	(13.8)
Net cash from operating activities		**296.2**	316.1
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**1.5**	1.2
Interest received		**1.0**	0.8
Acquisition of property, plant and equipment		**(192.9)**	(177.4)
Proceeds from infrastructure charges and capital contributions		**8.9**	10.9
Net cash from investing activities		**(181.5)**	(164.5)
Cash flows from financing activities			
Proceeds from new loan		**50.0**	50.0
Interest paid		**(61.5)**	(61.0)
Repayment of borrowings		**-**	-
Payment of finance lease liabilities		**(4.5)**	(4.1)
Dividends paid		**(90.5)**	(88.2)
Net cash from financing activities		**(106.5)**	(103.3)
Increase in cash and cash equivalents		**8.2**	48.3
Cash and cash equivalents at 1 April		**95.3**	47.0
Cash and cash equivalents at 31 March	*13*	**103.5**	95.3

Notes to the Financial Statements

1. Accounting Policies

1.1 Basis of preparation

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

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

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

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

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

The non-statutory accounts do not constitute the Company's statutory accounts for the years ended 31 March 2017 or 2016. 31 March 2017 is not the accounting reference date for the Company. The latest statutory accounts of the Company were for the years ended 30 June 2016 and 30 June 2015. Both these statutory accounts have been delivered to the Registrar of Companies. The auditor has reported on both these statutory accounts; the 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 2017.

As explained on page 41, these non-statutory accounts have been prepared by the Directors for the same period as the regulatory Annual Performance Report which have to be prepared for the 12-month period ending 31 March each year in order to allow a user of the regulatory Annual Performance Report to reconcile them to historical cost accounts of the Company.

1.2 Measurement convention

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

1.3 Going concern

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

1.4 Foreign currency

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

1 Accounting policies (continued)

1.4 Foreign currency (continued)

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

1.5 Financial instruments

Investments

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

Cash and cash equivalents

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

Interest-bearing borrowings

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

1.6 Property, plant and equipment

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

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

Leases in which the Company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Where land and buildings are held under leases the accounting treatment of the land is considered separately from that of the buildings.

Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and less accumulated impairment losses.

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

1 Accounting policies (continued)

1.6 Property, plant and equipment (continued)

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

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

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

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

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

1.7 Research and development

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

1.8 Investment property

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

1.9 Inventories

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

1.10 Impairment excluding inventories and deferred tax assets

Financial assets (including receivables)

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

1 Accounting policies (continued)

1.10 Impairment (continued)

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

Non-financial assets

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

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

1.11 Employee benefits

Defined benefit plans

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

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

Defined contribution plans

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

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

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

1 Accounting policies (continued)

1.11 Employee benefits (continued)

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

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

Short-term benefits

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

Share-based payment transactions

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

1.12 Provisions

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

1.13 Revenue

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

1.14 Deferred income

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

Grants and contributions relating to infrastructure assets are amortised over 108 years (see 1.6).

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

1 Accounting policies (continued)

1.15 Bad Debt policy

Debt is written off for one of four reasons;

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

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

1.16 Expenses

Operating lease payments

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

Finance lease payments

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

Financing income and expenses

Financing expenses comprise interest payable, finance charges on shares classified as liabilities and finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the income statement (see foreign currency accounting policy).

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use, are capitalised as part of the cost of that asset. Financing income comprises interest receivable on funds invested, dividend income, and net foreign exchange gains.

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

1 Accounting policies (continued)

1.17 Taxation

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

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

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

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

1.18 Dividends

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

1.19 Adopted IFRS not yet applied

The following Adopted IFRS's have been issued but have not been applied in these financial statements:

- Disclosure initiative – Amendments to IAS7 (Mandatory for years commencing on or after 1 January 2017)
- Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS12 (Mandatory for years commencing on or after 1 January 2017)
- IFRS 9 Financial Instruments (Mandatory for years commencing on or after 1 January 2018)
- IFRS 15 Revenue from Contracts with Customers (Mandatory for years commencing on or after 1 January 2018)
- IFRS 16 Leases (Mandatory for years commencing on or after 1 January 2019)
- Classification and Measurement of Share-Based Payment Transactions – Amendments to IFRS 2
- Annual Improvements to IFRSs – 2014-2016 Cycle

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

2. Segmental Analysis

	2017	2016
	£m	£m
Turnover		
Regulated	**517.0**	513.0
Unregulated	**8.3**	7.8
	525.3	520.8
Operating profit		
Regulated	**226.3**	234.2
Unregulated	**-**	-
	226.3	234.2
Net assets		
Regulated	**754.5**	748.0
Unregulated	**-**	-
	754.5	748.0

3. Expenses and Auditor's Remuneration

Included in profit are the following:

Impairment loss on other trade receivables and prepayments	**11.9**	11.6
Research and development expensed as incurred	**0.1**	0.1

	2017	2016
	£000	£000
Auditor's remuneration:		
Fees payable to the Company's auditor for the audit of the Company's non-statutory accounts	**156**	156
Taxation compliance services	**36**	10
Other assurance services	**-**	15
	192	181

4. Staff Numbers and Costs

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

	Number of employees	
	2017	2016
Average number of employees	**2,110**	1,984

The aggregate payroll costs of these employees was:

	2017	2016
	£m	£m
Wages and salaries	**79.1**	69.2
Social security costs	**8.3**	6.7
Pension costs	**11.1**	12.2
	98.5	88.1

These costs were allocated as follows:

Capital schemes	**39.2**	31.6
Operating expenses	**59.3**	56.5
	98.5	88.1

5. Directors' Remuneration

	2017	2016
	£000	£000
Total Directors' remuneration including benefits in kind	**1,836**	1,289
Remuneration of highest paid Director	**499**	602

Details of Directors' remuneration can be found in the Remuneration Committee Report (see page 22). Directors' remuneration is in respect of four Executive Directors, five Non-Executive Directors and five YTL appointed Directors (2016 - two Executive Directors, four Non-Executive Directors and five YTL appointed Directors).

6. Finance Income and Expense

Recognised in the income statement	**2017**	2016
	£m	£m
Finance income		
Interest receivable on short-term bank deposits	**1.0**	0.8
Total finance income	**1.0**	0.8
Finance expense		
To fellow subsidiary undertakings	**(65.8)**	(65.4)
Net interest on net defined benefit pension plan liability	**(4.9)**	(4.7)
On bank loans and leases	**(4.2)**	(5.3)
	(74.9)	(75.4)
Net interest payable	**(73.9)**	(74.6)

In accordance with IAS 23 borrowing costs of £1.4m (2016 - £1.5m) associated with the funding of eligible capital projects have been capitalised at an interest rate of 3.75% (2016 – 3.9%).

7. Taxation

Recognised in the income statement	**2017**	2016
	£m	£m
Current tax expense		
Current year	**25.3**	28.0
Adjustments for prior years	**(2.1)**	(0.7)
Current tax expense	**23.2**	27.3
Deferred tax expense		
Origination and reversal of temporary differences	**5.0**	5.4
Reduction in tax rate	**(20.7)**	(38.2)
Adjustments for prior years	**(1.2)**	0.9
Deferred tax (credit)	**(16.9)**	(31.9)
Tax expense / (credit) in income statement	**6.3**	(4.6)

Income tax recognised in other comprehensive income

	2017	2016
	£m	£m
Re-measurements of defined benefit liability	**9.6**	0.1
Change in tax rate	**(2.0)**	-
Tax credit	**7.6**	0.1

7. Taxation (continued)

Reconciliation of effective tax rate

	2017	2016
	£m	£m
Profit for the year	**146.1**	164.2
Total tax expense / (credit)	**6.3**	(4.6)
Profit excluding taxation:	**152.4**	159.6
Tax using the UK corporation tax rate of 20% (2016 - 20%)	**30.5**	31.9
Reduction of tax rate on deferred tax balances	**(20.7)**	(38.2)
Non-deductible expenses	**1.1**	0.1
(Over) / under provided in prior years	**(3.3)**	0.1
Group relief for nil consideration	**(0.5)**	(1.2)
Other	**(0.8)**	2.7
Total tax expense / (credit)	**6.3**	(4.6)

Reductions in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) and 18% (effective from 1 April 2020) were substantively enacted in October 2015. A further reduction to the UK corporation tax rate to 17% (effective from 1 April 2020) was substantively enacted in September 2016. Consequently, the deferred tax balances at the balance sheet date have been remeasured at that date. This has resulted in a credit to the income statement of £20.7m and a charge in reserves of £2.0m.

8. Dividends

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

	2017	2016
	£m	£m
Final dividend for the previous year	**10.0**	-
Dividends for the current year	**84.0**	84.0
	94.0	84.0

In April 2017 a final dividend of £8.0m was declared in respect of the financial year just ended.

9. Property, Plant and Equipment

	Land & buildings £m	Infra-structure assets £m	Plant, equipment & vehicles £m	Office & IT equipment £m	Company total £m
Cost					
Balance at 1 April 2015	848.2	1,911.4	1,471.4	28.5	4,259.5
Additions	5.3	90.7	107.3	7.5	210.8
Disposals	(1.0)	(1.5)	(12.5)	-	(15.0)
Balance at 31 March 2016	852.5	2,000.6	1,566.2	36.0	4,455.3
Balance at 1 April 2016	852.5	2,000.6	1,566.2	36.0	4,455.3
Additions	16.2	48.7	126.0	0.6	191.5
Disposals	(0.4)	(1.5)	(9.0)	-	(10.9)
Balance at 31 March 2017	**868.3**	**2,047.8**	**1,683.2**	**36.6**	**4,635.9**
Depreciation and impairment					
Balance at 1 April 2015	(253.6)	(32.0)	(722.6)	(13.4)	(1,021.6)
Depreciation charge for the year	(13.9)	(17.2)	(67.9)	(2.6)	(101.6)
Disposals	0.5	-	11.5	-	12.0
Balance at 31 March 2016	(267.0)	(49.2)	(779.0)	(16.0)	(1,111.2)
Balance at 1 April 2016	(267.0)	(49.2)	(779.0)	(16.0)	(1,111.2)
Depreciation charge for the year	(15.4)	(17.9)	(68.6)	(2.7)	(104.6)
Disposals	0.1	-	7.7	-	7.8
Balance at 31 March 2017	**(282.3)**	**(67.1)**	**(839.9)**	**(18.7)**	**(1,208.0)**
Net Book Value					
At 1 April 2015	594.6	1,879.4	748.8	15.1	3,237.9
At 31 March 2016	585.5	1,951.4	787.2	20.0	3,344.1
At 31 March 2017	**586.0**	**1,980.7**	**843.3**	**17.9**	**3,427.9**

Assets under construction included in the values above were £217.0m (2016 - £177.0m).

9. Property, Plant and Equipment (continued)

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

Included in infrastructure assets at 1 April 2015 is £705.1m fair value adjustment on first time adoption of IFRS.

There is no impairment loss recognised in these financial statements (2016 - £nil).

At 31 March 2017 the net carrying amount of leased plant and machinery was £10.8m (2016 - £14.6m). The leased equipment secures lease obligations (see note 14).

Cumulative borrowing costs capitalised and included above were £6.0m (2016 - £4.6m).

Included in freehold land and buildings above is an amount of £13.2m (2016 - £12.3m) in respect of land which is not depreciated.

10. Investments in Subsidiaries

The Company has an investment of £13,000 (2016 – £13,000) in 100% of the ordinary share capital of a subsidiary company Wessex Water Services Finance Plc, whose registered address is Wessex Water Operations Centre, Claverton Down, Bath, BA2 7WW.

11. Inventories

	2017	2016
	£m	£m
Raw materials and consumables	**3.2**	3.3
Work in progress	**4.0**	3.8
	7.2	7.1

Raw materials, consumables and work in progress recognised as cost of sales in the year amounted to £4.6m (2016 - £5.2m). There was no write-down of inventories to net realisable value in either year.

12. Trade and Other Receivables

	2017	2016
	£m	£m
Trade receivables (note 21b)	**60.7**	55.8
Owed by fellow subsidiary company	**33.7**	37.0
Owed by other group companies	**0.1**	-
Prepayments and accrued income	**75.7**	71.8
Other debtors	**5.1**	5.9
	175.3	170.5

Trade receivables are expected to be recovered in no more than 12 months.

13. Cash and Cash Equivalents

	2017 £m	2016 £m
Short-term bank deposits	**-**	43.3
Cash at bank	**103.5**	52.0
	103.5	95.3

14. Other Interest-bearing Loans and Borrowings

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

	2017 £m	2016 £m
Non-current liabilities		
Bank loans	**415.0**	365.0
Finance lease liabilities	**6.9**	11.9
Inter-company loans	**1,580.1**	1,570.2
	2,002.0	1,947.1
Current liabilities		
Current portion of finance lease liabilities	**5.1**	4.5

Terms and debt repayment schedule

	Currency	**Nominal interest rate**	**Year of maturity**	**Face value 2017 £m**	**Carrying amount 2017 £m**	Face value 2016 £m	Carrying amount 2016 £m
Bank loans	Sterling		2018-2024	**415.0**	**415.0**	365.0	365.0
Inter-company loans							
Bond	Sterling	5.375%	2028	**198.8**	**198.4**	198.7	198.3
Bond	Sterling	5.75%	2033	**347.1**	**346.1**	346.9	345.9
Bond	Sterling	4.00%	2021	**198.8**	**198.8**	198.5	198.5
Bond	Sterling	4.00%	2021	**104.1**	**104.1**	105.1	105.1
Index Linked Bond	Sterling	3.52%	2023	**75.1**	**75.1**	74.2	74.2
Index Linked Bond	Sterling	2.186%	2039	**62.5**	**62.5**	60.8	60.8
Index Linked Bond	Sterling	1.75%	2046	**101.0**	**101.0**	99.7	99.7
Index Linked Bond	Sterling	1.75%	2051	**101.0**	**101.0**	99.8	99.8
Index Linked Bond	Sterling	1.369%	2057	**101.0**	**101.0**	99.7	99.7
Index Linked Bond	Sterling	1.374%	2057	**101.0**	**101.0**	99.8	99.8
Index Linked Bond	Sterling	1.489%	2058	**63.7**	**63.7**	62.8	62.8
Index Linked Bond	Sterling	1.495%	2058	**63.7**	**63.7**	62.8	62.8
Index Linked Bond	Sterling	1.499%	2058	**63.7**	**63.7**	62.8	62.8
				1,996.5	**1,995.1**	1,936.6	1,935.2

14 Other interest-bearing Loans and Borrowings (continued)

Finance lease liabilities

Finance lease liabilities are payable as follows:

	Minimum lease payments 2017 £m	**Interest 2017 £m**	**Principal 2017 £m**	Minimum lease payments 2016 £m	Interest 2016 £m	Principal 2016 £m
Less than one year	**5.5**	**(0.4)**	**5.1**	5.3	(0.8)	4.5
Between one and five years	**7.3**	**(0.4)**	**6.9**	12.8	(0.9)	11.9
More than five years	**-**	**-**	**-**	-	-	-
	12.8	**(0.8)**	**12.0**	18.1	(1.7)	16.4

15. Trade and Other Payables

	2017 £m	2016 £m
Current		
Amounts payable to subsidiary company	**19.1**	19.2
Amounts payable to other group companies	**6.9**	0.6
Amounts owed to associate companies	**1.0**	1.1
Trade payables	**17.3**	27.8
Dividend	**21.0**	17.5
Other creditors	**3.0**	2.1
Corporation tax	**15.1**	16.3
Taxation and social security	**2.3**	2.0
Accruals and deferred income	**102.5**	101.8
	188.2	188.4
Non-current		
Other payables	**0.4**	0.3
	188.6	188.7

16. Employee Benefits

Pension plans

	2017 **£m**	2016 £m
Fair value of scheme assets	**595.4**	521.1
Present value of defined benefit obligations	**(788.9)**	(660.9)
Net (liability) for defined benefit obligations	**(193.5)**	(139.8)
Unfunded and compensatory added years pension	**(1.2)**	(1.2)
Total employee benefits	**(194.7)**	(141.0)

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

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

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

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

16. Employee Benefits (continued)

b. Profile of the Scheme

The defined benefit obligation includes benefits for current employees, former employees and current pensioners. Broadly, about 34% of the liabilities are attributable to current employees, 17% to former employees and 49% to current pensioners.

The scheme duration is an indicator of the weighted-average time until benefit payments are made. For the scheme as a whole, the duration is around 20 years reflecting the approximate split of the defined benefit obligation between current employees (duration of 25 years), deferred members (duration of 25 years) and current pensioners (duration of 15 years).

c. Funding requirements

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

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

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

The next funding valuation was due on 30 September 2016 at which progress towards full funding is being reviewed.

The Company also pays contributions of 18.2% of pensionable salaries in respect of current accrual and non-investment related expenses, with active members paying a further 7.3% of pensionable salaries on average. A contribution of £7.6m is expected to be paid by the Company during the year ending on 31 March 2018.

d. Risks associated with the scheme

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

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

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

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

16. *Employee Benefits (continued)*

The Trustees insure certain benefits payable on death before retirement.

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

e. Reporting at 31 March 2017

The provisional results of the latest funding valuation at 30 September 2016 have been adjusted to the balance sheet date taking account of experience over the period since 30 September 2016, changes in market conditions, and differences in the financial and demographic assumptions. The present value of the defined benefit obligation, and the related current service cost, were measured using the Projected Unit Cost Method.

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

	31.03.17	31.03.16
Rate of increase in salaries – year 1	**2.0%**	1.0%
Rate of increase in salaries – year 2	**n/a**	2.8%
Rate of increase in salaries – years 2 and 3	**3.2%**	n/a
Rate of increase in salaries – years 3 and 4	**n/a**	3.0%
Rate of increase in salaries – long term	**3.7%**	3.5%
Rate of increase in pensions in payment	**2.2% or 3.1%**	2.0% or 2.9%
Rate of increase in pensions in payment - reduced level members	**2.2%**	2.1%
Discount rate	**2.6%**	3.4%
Inflation assumption – RPI	**3.2%**	3.0%
Inflation assumption – CPI	**2.2%**	2.0%

Mortality assumptions:
The mortality assumptions are based upon the recent actual mortality experience of scheme members, and allow for expected future improvements in mortality rates. The assumptions are that a member currently aged 60 will live, on average, for a further 27.0 years (2016 – 27.0 years) if they are male, and for a further 29.1 years (2016 – 29.3 years) if they are female. For a member who retires in 2037 at age 60 the assumptions are that they will live, on average, for a further 28.2 years (2016 – 28.4 years) after retirement if they are male, and a further 30.4 years (2016 – 30.9 years) after retirement if they are female.

The mortality table adopted is based upon 95% of standard tables S2P(M/F)A adjusted to allow for individual years of birth. Future improvements are assumed to be in line with the CMI 2016 projection, with a long term improvement rate of 1.0% p.a. for all members.

Members are assumed to take four times their pre-commutation pension as cash at retirement.

Sensitivity analysis:
The key assumptions used for IAS 19 are: discount rate, inflation and mortality. If different assumptions were used, this could have a material effect on the results disclosed. The sensitivity of the results to these assumptions are set out below. For the purposes of these sensitivities, it has been assumed that the change in discount rate and inflation has no impact on the value of scheme assets.

16. *Employee Benefits (continued)*

A reduction in the discount rate of 0.1% from 2.6% to 2.5% would increase the scheme liabilities by £15.0m from £788.9m to £803.9m, increasing the scheme deficit to £208.5m.
An increase in the inflation assumption of 0.1% (from 2.2% to 2.3% for CPI and 3.2% to 3.3% for RPI) would increase the scheme liabilities by £14.4m from £788.9m to £803.3m, increasing the scheme deficit to £207.9m.
An increase in life expectancy of 1 year would increase the scheme liabilities by £32.5m from £788.9m to £821.4m, increasing the scheme deficit to £226.0m.

The sensitivity information shown above has been prepared using the same method as adopted when adjusting the results of the latest funding valuation to the balance sheet date. This is the same approach as has been adopted in previous periods.

f. The value of the assets as follows:

	2017	2016
	£m	£m
Equities	**257.3**	251.5
Property	**38.6**	28.4
Government Bonds	**151.2**	133.0
Corporate Bonds	**123.2**	107.9
Other	**25.1**	0.3
	595.4	521.1

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

	2017	2016
	£m	£m
Operating cost – service cost		
Current service cost	**11.1**	11.5
Administration expenses	**0.6**	0.4
Past service cost	**-**	0.7
Financing cost		
Interest on net benefit liability	**4.9**	4.7
Pension expense recognised in profit and loss	**16.6**	17.3
Re-measurements in OCI		
Return on plan assets (in excess of) / below that recognised in net interest	**(60.8)**	21.0
Actuarial losses / (gains) due to changes in financial assumptions	**139.3**	(7.5)
Actuarial (gains) due to changes in demographic assumptions	**(6.5)**	(7.3)
Actuarial (gains) due to liability experience	**(18.8)**	(6.4)
Amount recognised in OCI	**53.2**	(0.2)
Total amount recognised in profit and loss and OCI	**69.8**	17.1

16. Employee Benefits (continued)

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

	2017	2016
	£m	£m
Opening defined benefit obligation	**660.9**	668.5
Current service cost	**11.1**	11.5
Interest expense on defined benefit obligation	**22.6**	22.2
Contributions by scheme participants	**0.2**	0.2
Actuarial (gains) due to changes in demographic assumptions	**(6.5)**	(7.3)
Actuarial losses / (gains) due to changes in financial assumptions	**139.3**	(7.5)
Actuarial (gains) due to liability experience	**(18.8)**	(6.4)
Net benefits paid out	**(19.9)**	(21.0)
Past service cost	**-**	0.7
Closing defined benefit obligation	**788.9**	660.9

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

	2017	2016
	£m	£m
Opening fair value of scheme assets	**521.1**	528.3
Interest income on scheme assets	**17.7**	17.5
Re-measurement gains / (losses) on scheme assets	**60.8**	(21.0)
Contributions by employer	**16.1**	17.5
Contributions by scheme participants	**0.2**	0.2
Net benefits paid out	**(19.9)**	(21.0)
Administration costs incurred	**(0.6)**	(0.4)
Closing fair value of scheme assets	**595.4**	521.1

Additional analysis:	**2017**	2016
	£m	£m
Actual return on scheme assets		
Interest income on scheme assets	**17.7**	17.5
Re-measurement gains / (losses) on scheme assets	**60.8**	(21.0)
Actual return on scheme assets	**78.5**	(3.5)
Analysis of amounts recognised in Other Comprehensive Income		
Total re-measurement (losses) / gains	**(53.2)**	0.2
Total (loss) / gain	**(53.2)**	0.2

16. Employee Benefits (continued)

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

	31.03.17	31.03.16	31.03.15	31.03.14	31.03.13
	£m	£m	£m	£m	£m
Fair value of scheme assets	**595.4**	521.1	528.3	459.1	433.0
Defined benefit obligation	**(788.9)**	(660.9)	(668.5)	(549.7)	(552.3)
(Deficit) in the scheme	**(193.5)**	(139.8)	(140.2)	(90.6)	(119.3)
Experience gains / (losses) on scheme assets	**60.8**	(21.0)			
Experience gains on scheme liabilities	**18.8**	6.4			

Defined contribution plans

The Group also operates a defined contribution pension plan.
The total expense relating to this plan in the current year was £2.9m (2016 - £1.8m).

Share-based payments

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

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

<u>2011 UK Plan</u>

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

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

Under FRS 20 equity settled share-based payments are measured at the fair value at the date of the grant, and the fair value is expensed on a straight line basis over the vesting period. There was no charge recognised in the profit and loss account for FRS 20 as the share options have passed their vesting date.

The key assumptions and options outstanding were as follows:

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

16. Employee Benefits (continued)

Granted – Ordinary shares of RM0.50 each	Outstanding at 31/3/2016	Granted	Forfeited	Exercised	Outstanding at 31/3/2017
01/06/2012 Unapproved	7,895,000	-	(39,000)	-	7,856,000
01/06/2012 Approved	38,256,000	-	(687,000)	-	37,569,000
TOTAL	46,151,000	-	(726,000)	-	45,425,000

The share price at 31 March 2017 was RM1.52 or £0.27.

17. Deferred Income

	Above ground grants £m	**Below ground grants £m**	**Sewer adoptions £m**	**Total £m**
Balance at 1 April 2015	7.9	151.2	50.0	209.1
Received during the year	2.6	8.7	25.8	37.1
Amortisation	(0.3)	(1.5)	(0.6)	(2.4)
Balance at 31 March 2016	10.2	158.4	75.2	243.8
Balance at 1 April 2016	10.2	158.4	75.2	243.8
Received during the year	0.1	8.7	(0.4)	8.4
Amortisation	(0.4)	(1.5)	(0.6)	(2.5)
Balance at 31 March 2017	**9.9**	**165.6**	**74.2**	**249.7**

Sewer adoptions received in the year include a reduction for the revision of previous estimates.

18. Provisions

	Restructuring costs £m	**Total £m**
Balance at 1 April 2016	0.2	0.2
Provisions made during the year	-	-
Provisions used during the year	(0.1)	(0.1)
Balance at 31 March 2017	**0.1**	**0.1**
Non-current	-	-
Current	0.1	0.1
	0.1	**0.1**

The restructuring provision is in respect of a reorganisation announced before the prior year-end, delivering efficiencies in the first year of the AMP 6 price review period and beyond. The majority of the reorganisation was completed in the year.

19. Deferred Tax Assets and Liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Liabilities		Assets		Net	
	2017	2016	**2017**	2016	**2017**	2016
	£m	£m	**£m**	£m	**£m**	£m
Property, plant and equipment	**528.0**	537.8	**(175.6)**	(168.6)	**352.4**	369.2
Employee benefits	**-**	-	**(33.1)**	(25.4)	**(33.1)**	(25.4)
Provisions	**(0.1)**	(0.1)	**-**	-	**(0.1)**	(0.1)
Tax (assets) / liabilities	**527.9**	537.7	**(208.7)**	(194.0)	**319.2**	343.7
Net of tax (assets) / liabilities	**-**	-	**-**	-	**-**	-
Net tax (assets) / liabilities	**527.9**	537.7	**(208.7)**	(194.0)	**319.2**	343.7

Movement in deferred tax during the year

	1 April 2016	Recognised in income	Recognised in equity	31 March 2017
	£m	£m	£m	£m
Property, plant and equipment	369.2	(16.8)	-	**352.4**
Employee benefits	(25.4)	(0.1)	(7.6)	**(33.1)**
Provisions	(0.1)	-	-	**(0.1)**
Other	-	-	-	**-**
	343.7	(16.9)	(7.6)	**319.2**

Movement in deferred tax during the prior year

	1 April 2015	Recognised in income	Recognised in equity	31 March 2016
	£m	£m	£m	£m
Property, plant and equipment	407.3	(38.1)	-	369.2
Employee benefits	(31.0)	5.7	(0.1)	(25.4)
Provisions	(0.5)	0.4	-	(0.1)
Other	-	-	-	-
	375.8	(32.0)	(0.1)	343.7

20. Capital and Reserves

	2017	2016
	£	£
Issued at 1 April	**1**	1
Issued at 31 March	**1**	1
Allotted, called up and fully paid		
Ordinary shares of £1each	**1**	1
	1	1
Shares classified as liabilities	**-**	-
Shares classified in shareholders' funds	**1**	1
	1	1

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

21. Financial Instruments

(a) Fair values of financial instruments

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

The fair value of long term fixed rate borrowings are classified as level 1 in the IFRS 13 fair value hierarchy and have a carrying value of £1,580.1m and a fair value of £2,265.4m. Short term and floating rate borrowings have a carrying value and fair value of £427.0m.

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

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

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

	Carrying amount	**Fair Value**	**Level 1**	Carrying amount	Fair Value	Level 1
	2017	**2017**	**2017**	2016	2016	2016
	£m	**£m**	**£m**	£m	£m	£m
Loans and receivables						
Cash and cash equivalents (note 13)	**(103.5)**	(103.5)	(103.5)	(95.3)	(95.3)	(95.3)
Total financial assets	**(103.5)**	(103.5)	(103.5)	(95.3)	(95.3)	(95.3)
Other interest-bearing loans and borrowings (note 14)	**2,007.1**	2,692.4	2,692.4	1,951.6	2,253.8	2,253.8
Total financial liabilities	**2,007.1**	2,692.4	2,692.4	1,951.6	2,253.8	2,253.8
Total financial instruments	**1,903.6**	2,588.9	2,588.9	1,856.3	2,158.5	2,158.5

21. Financial Instruments (continued)

(b) Credit risk

Financial risk management;

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

Short term deposits with counterparties have a credit rating of A1+/P1 or A1/P1, and hence there would be no exposure to credit risk for these values.

	2017	2016
	£m	£m
Cash and cash equivalents	**103.5**	95.3
	103.5	95.3

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

South West England	**60.7**	55.8
	60.7	55.8

Trade receivables are from domestic and business customers. No individual customer or industrial sector has a material balance outstanding at either year end. The aging of trade receivables at the balance sheet date was:

	Gross	**Impairment**	Gross	Impairment
	2017	**2017**	2016	2016
	£m	**£m**	£m	£m
Less than 1 year	**34.9**	**(4.1)**	30.3	(6.5)
1 to 2 years	**20.9**	**(8.6)**	21.9	(8.3)
2 to 3 years	**16.5**	**(9.3)**	16.8	(8.7)
3 to 4 years	**14.0**	**(9.6)**	13.2	(8.4)
More than 4 years	**13.5**	**(7.5)**	19.5	(14.0)
	99.8	**(39.1)**	101.7	(45.9)

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

	2017	2016
	£m	£m
Balance at 1 April	**(45.9)**	(41.3)
Written off	**18.7**	7.0
Charge to profit and loss	**(11.9)**	(11.6)
Balance at 31 March	**(39.1)**	(45.9)

The bad debt policy is shown in the accounting policies (note 1.15).

21. Financial Instruments (continued)

(c) Cash flow hedges

The Company does not have any cash flow hedges (2016 – none).

(d) Liquidity risk

Financial risk management;

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

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

	Carrying amount	**Contractual cash flows**	**Year 1**	**Years 2 to 5**	**Over 5 years**
	2017	**2017**	**2017**	**2017**	**2017**
	£m	**£m**	**£m**	**£m**	**£m**
Non derivative financial instruments					
Finance lease liabilities	**12.0**	**12.8**	**5.5**	**7.3**	**-**
Secured bank loans	**415.0**	**443.0**	**5.0**	**230.9**	**207.1**
Inter-company loans	**1,580.1**	**3,388.7**	**56.5**	**528.8**	**2,803.4**
Total financial instruments	**2,007.1**	**3,844.5**	**67.0**	**767.0**	**3,010.5**

	Carrying amount	Contractual cash flows	Year 1	Years 2 to 5	Over 5 years
	2016	2016	2016	2016	2016
	£m	£m	£m	£m	£m
Non derivative financial instruments					
Finance lease liabilities	16.4	18.1	5.3	12.8	-
Secured bank loans	365.0	394.5	4.8	156.4	233.3
Inter-company loans	1,570.2	2,923.3	56.1	225.7	2,641.5
Total financial instruments	1,951.6	3,335.9	66.2	394.9	2,874.8

21. Financial Instruments (continued)

(e) Market risk

There is no exposure to equity or foreign currency risk.

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

	2017	2016
	£m	£m
Fixed rate instruments	**947.4**	947.8
Floating rate instruments	**327.0**	281.4
Index linked instruments	**732.7**	722.4
	2,007.1	1,951.6

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

Sensitivity;
The floating rate instruments are sensitive to interest rate movements. If there was a 1% increase in interest rates on those floating rate instruments at the balance sheet date, there would be an additional interest charge to the income statement of £3.2m.

22. Operating Leases

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

During the year £2.2m was recognised as an expense in the income statement in respect of operating leases (2016 - £1.7m).

During the year £1.0m (2016 - £0.9m) was recognised as rental income by the Company.

23. Commitments

Capital expenditure contracted but not provided at 31 March 2017 was £126.2m (2016 - £112.9m).

The Company has guaranteed Bonds of £1,580.1m (2016 - £1,570.2m) issued by its wholly owned subsidiary company Wessex Water Services Finance Plc.

24. Contingencies

There are no material contingent liabilities at 31 March 2017 for which provision has not been made in these accounts.

25. Related Parties

There were no transactions with key management personnel.

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

Transactions with fellow UK subsidiary companies are disclosed in the Annual Performance Report published alongside the Non-Statutory Accounts.

26. Ultimate Parent Company and Parent Company of Larger Group

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

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

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

27. Subsequent Events

There are no subsequent events requiring disclosure in these financial statements, apart from the dividend declared in April 2017 (note 8).

28. Accounting Estimates and Judgements

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

a) Defined benefit pension scheme deficit

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

b) Bad debt provision

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

c) Classification of capital expenditure

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