WESSEX WATER LTD

CONSOLIDATED ACCOUNTS

For the year to
30 June 2012

Registered in England and Wales No 2366633

CONTENTS

DIRECTORS' REPORT

The directors present their directors' report and the audited accounts for the year to 30 June 2012

PRINCIPAL ACTIVITIES

The principal subsidiary of Wessex Water Ltd (the company) is Wessex Water Services Ltd (WWSL) a regulated company licenced for the supply of clean water and treatment and disposal of waste water WWSL operates in a region of 10,000 square kilometres in the south west of England

Wessex Water Enterprises Ltd, a wholly owned subsidiary company, undertakes unregulated water and waste water activities in the Wessex Water region SC Technology GmbH, a wholly owned subsidiary company which is registered in Switzerland, installs and operates sludge drying equipment with the principal contracts being in the Netherlands

FINANCIAL AND OPERATIONAL REVIEW

OVERVIEW

The past year once more presented Wessex Water with a set of challenging conditions to which the company and its staff have again responded magnificently We have delivered a strong set of results, with the best levels of customer service, the highest levels of customer satisfaction, meeting all regulatory outputs and beating efficiency targets

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

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

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

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

Over the year to march 2012 we responded to the drought by beating our leakage target and fixing 12,000 leaks in the process Despite the population of our region growing by 15% in the last 20 years, we continued to reduce the amount of water we needed to extract from the environment for public water supplies to 334Ml/day – the lowest ever level

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

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

Our compliance with drinking water standards continues to exceed 99 9% and compliance with sewage discharge consents continued at 100% Our compliance with the EU's mandatory bathing water standards is 100% while compliance with the stricter guideline standard is 89 4%

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

FINANCIAL PERFORMANCE

Profit after tax reduced by £37 7m from £126 7m to £89 0m, due to the factors shown below

Turnover increased by £22 5m or 4 8% to £489 9m, mainly driven by the increase in the regulated turnover of WWSL

Operational costs excluding depreciation increased by £14 1m from £136 1m to £150 2m However, these figures are distorted by a prior year accounting credit in respect of a change in the definition of pensionable salary for pension accounting Without this adjustment operating costs rose by £8 0m There were increases in business rates (which accounted for £3 0m of this increase), carbon tax, the cost of new obligations and the costs associated with private sewers from October 2011

Depreciation charges (including the infrastructure maintenance charge and the disposal of assets) have increased by £10 8m from £107 2m to £118 0m The increase is a result of a £7 7m increase in the infrastructure maintenance charge, while depreciation increased by £3 1m of which £0 8m was an increased cost of disposal of assets and £2 3m an increase in base depreciation from the continuing capital investment programme

Interest charges, including other finance charges, increased by £14 3m from £68 3m to £82 6m, a result of inflation on index linked bonds, and an increase in net debt of £136 6m from £1,439 3m to £1,575 9m

The cash outflow of £136 6m comprised

- cash flow from operating activities of £313 2m, less
- interest payments of £78 3m
- tax payments of £23 4m
- net capital investment of £175 2m
- dividend payments of £172 9m

There was a tax charge in the year of £50 1m, an increase of £21 0m over £29 1m charged last year, comprising

- a corporation tax reduction of £12 6m because of a one-off credit of £8 8m following agreement with HMRC over the tax treatment of certain infrastructure income There was also a fall in the corporation tax rate from 27 5% to 25 5%

- deferred tax moving from a £4 3m credit last year to a £29 3m charge this year The charge of £29 3m arose because of a £39 0m reduction in deferred tax discounting, plus a £2 1m FRS17 pension charge, offset by a £11 8m reduction in gross deferred tax Deferred tax discounting fell because the year end discount rate had fallen significantly compared to the previous year end

Dividends declared in the year amounted to £153 7m compared to £145 1m last year The final dividend for the prior year of £23 1m was declared and paid after the year end and has been recognised in this financial year

Under FRS 17 'Retirement Benefits' the pension scheme deficit of £71 8m at the start of the year has increased to £135 8m at 30 June 2012, the increase in the liabilities of £85 0m being more than the £21 0m increase in asset values

The key performance indicators for WWSL are measured for the regulatory year to 31 March and are included in the Regulatory Accounts of WWSL that are available from Wessex Water Operations Centre, Claverton Down, Bath BA2 7WW

Group operating profit as a percentage of turnover was 45 3% (2011 – 47 9%) as cost increases were proportionately more than the increase in turnover, and interest cover (excluding pensions finance charge) decreased to 2 7 times (2011 – 3 4 times) as net interest costs increased substantially

WESSEX WATER SERVICES LTD (some indicators are measured for the regulatory year to 31 March 2012)

HIGHLIGHTS

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

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

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

DIRECTORS' REPORT (continued)

CUSTOMERS AND COMMUNITY

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

In brief

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

Customer service

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

If things go wrong we work hard to resolve complaints at first stage and offer no quibble compensation where we fail Both billing and operational complaints have fallen again this year, with total complaints falling by 40%

We retained our government Customer Service Excellence award for our approach to customer services and continue to have the best overall package of customer guarantees in the industry

Customer engagement

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

Affordability, tariffs and debt recovery

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

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

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

Drinking water quality

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

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

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

Education and water efficiency

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

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

We provide educational information to customers through our website and publications, encourage use of our online water and energy calculator, attend events and offer our free home water audits

We promote water efficient products to customers through our online shop as well as distributing free WaterSave packs which include a save a flush bag, a shower timer, a shower regulator and a self-audit form

We provided a free water audit service to businesses and schools to encourage water efficiency and identify any areas where they can reduce their usage We launched our Bag it and Bin it app, which is free to download, communicating to people what should and should not be put down the toilet

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

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

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

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

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

Our website details tips and actions such as installing a save a flush and turning the tap off when you brush your teeth, along with their associated savings, allowing customers to decide what they could do, and how they could achieve their saving

Many of the pledged actions are reductions to hot water use, such as reducing showering time, also helping customers achieve energy savings

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

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

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

Customer liaison panels
Two panels are linked directly to customers – one for domestic customers and communities and one for business customers

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

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

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

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

DIRECTORS' REPORT (continued)

OUR FINANCE

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

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

In brief

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

Capital investment

In 2011-12 we delivered gross capital expenditure of £191 0m, which is a considerable increase on £129 8m net last year After the first two years of the current price review period (AMP5) our capital expenditure represented 80% of the Final Determination During the year we have delivered more regulatory outputs than required in our determination, while successfully taking on the responsibility for private sewers halfway through the year which doubled the size of our sewerage network

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

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

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

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

Challenges

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

Case Study - Leakage

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

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

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

We monitor the supply network by analysing information from specialist data loggers that measure water pressure at strategic points Together with maintenance this has enabled us to make considerable leakage savings and allowed us to respond as early as possible to potential bursts and to detect leaks These innovations have helped us to continue to drive leakage lower than the target agreed with Ofwat

OUR ENVIRONMENT

The environment customer liaison panel

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

DIRECTORS' REPORT (continued)

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

In brief

- 99 98% compliance with drinking water standards
- 100% compliance with sewage discharge consents
- 100% compliance with mandatory bathing water standard for 7th year in a row and 89 4% compliance with stricter guideline standard
- 98% of our SSSI landholdings are now in favourable or recovering status
- Leading water company in the Carbon Reduction Commitment (CRC) league table
- Won a bid to Defra to receive funding for a collaborative catchment initiative on the rivers Frome and Piddle in Dorset
- Won a Green Apple Gold award for catchment management work and a silver award in the International Green awards
- Won a Green Apple award for waste reduction and recycling work which will help us to meet our goal of zero waste to landfill by 2020
- Launch of our wildlife calendar on the Wessex Water website, promoting wildlife and conservation in our region

In addition we have continued

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

Quality and environmental programme

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

Catchment management

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

Storm overflows and Coastwatch

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

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

Bathing Water Directive

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

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

Environmental investigations

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

Many are now drawing to a close including

- investigating the impact of discharges from Wessex Water assets on bathing water quality in Somerset
- trialling reed beds as a more sustainable process for phosphorus removal
- assessing the impact of discharges from Wessex Water assets and other sources on the nutrient levels in Poole Harbour, River Frome, and Bere Stream, all of which are Sites of Special Scientific Interest (SSSI) in Dorset
- investigating the presence and fate of certain priority hazardous substances through different types of treatment processes

Biodiversity

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

DIRECTORS' REPORT (continued)

During phase 4 of our Biodiversity Action Plan, we continue to support our conservation partners in the region through the Partners Programme Each of the seven projects we are helping to fund has been progressing well, despite issues surrounding the challenging funding environment

They are successfully contributing to the overall aim of conserving and enhancing species and habitats in our region by

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

Bugs, bats, birds and bees

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

Frome and Piddle catchment initiative

We are hosting the Frome and Piddle catchment initiative, a collaborative approach working with several organisations including the EA, Natural England, Dorset Wildlife Trust, fisheries, organisations, councils and catchment sensitive farming The aim is to deliver environmental improvements to help meet national targets in the area The first stage, currently underway, is drawing up a catchment plan

Carbon management

To attain our aim of being a truly sustainable company we have set ourselves the target of becoming carbon neutral We have made significant steps to date but will need to make more investment in the future We are currently talking to our customers about the pace of that investment

In Operations we saved 13GWh over the year, installing more automatic meter reading (AMR) meters has further improved our ability to obtain accurate information about energy use and enabled us to quickly identify increased energy usage at sites and solve issues highlighted by this use that may have gone undetected for long periods Combined with associated increases in the accuracy of supplier billing, these activities have saved us around 1 8GWh over the past year

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

The Carbon Reduction Commitment

The Carbon Reduction Commitment Energy Efficiency Scheme (CRC EES) is aimed at 2,000 participants– mainly large businesses and public sector organisations – who report energy use and associated carbon dioxide emissions In October 2011 the first league table was published and we were top of the water sector (being placed 30th overall)

Our first purchase of CRC EEC allowances was for £1,473k on 26 July 2012 The savings in power consumption this year will have reduced the cost of CRC allowances by approximately £80k

Challenges

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

Case study - Ecological effects of drought on river ecosystems

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

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

DIRECTORS' REPORT (continued)

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

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

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

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

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

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

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

OUR EMPLOYEES

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

In brief

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

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

Training

We are committed to providing a comprehensive training programme of continued development and upskilling for our staff and legal, regulatory and technical training continue to be our main priorities During the year more than 1,600 people took part in a range of development programmes including regulatory and craft, IT, practical tool box talks and vocational professional development

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

Our leadership capability programme, delivered in partnership with ACUA – Coventry University's business arm – was a success and 16 of our managers achieved their certificate in professional development In addition, the business has launched a series of management and leadership programmes, ranging from induction for new managers to senior management development programmes, and HR masterclasses

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

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

Health and safety
Health and safety remains a vitally important indicator of our performance and we continue to work hard to maintain high levels of welfare Health and safety advisers work throughout the business to ensure the safety of employees and others who could be affected by our activities There were 12 reportable incidents in calendar year 2011, below the five-year average of 18 and 14 reportable incidents in 2010

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

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

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

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

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

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

Case study - employees and drought

Drought poses a serious challenge requiring a co-ordinated response from many of our teams – effective collaboration ensures expertise and experience is shared to achieve a good outcome Our employees continuously assess the water resource available to us, monitoring storage levels and using computer models to predict our water resource position, taking into account predicted weather patterns and rainfall

The water resource management plan (WRMP) is reviewed every five years and helps with business planning, and every three and a half years the drought plan is reviewed irrespective of the weather or water resource position Using guidelines from the Environment Agency, members of the water resources, supply planning and economic regulation teams all contribute to both the WRMP and drought plan

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

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

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

The water resources team regularly reports to the group management team (GMT) on the resource situation and in 2011 the prolonged dry weather led GMT to call for a dry weather action plan The water resources and supply planning teams drew up a list of potential work that could ease the situation if it were to continue for an extended period From this action plan solutions were selected for implementation, upgrades and refurbishments at Monkton Combe and Poole were designed and implemented by staff in WECS (Wessex Engineering and Construction Services) and are due to be completed in summer 2012

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

DIRECTORS' REPORT (continued)

OUR INFRASTRUCTURE

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

In brief
- £191 0m invested in maintaining and improving services to our customers and the environment
- Met all our regulatory outputs
- Successful transfer of private sewer ownership while maintaining excellent levels of customerservice despite increased workload
- Our 35th consecutive year without imposing water use restrictions for customers despite continued dry weather in our region
- Good progress on water supply grid to ensure increased security of supply
- Additional water source brought on stream to ensure supplies continue during dry periods
- £400,000 upgrade of Weymouth sewage treatment works to change the way air is used at the site reducing energyconsumption costs by around £150,000
- Reduction in the number of properties at risk of flooding due to inadequate capacity
- Continued asset improvement to ensure first-class performance

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

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

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

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

The engineering auditor, Halcrow, says this approach is an example of asset management best practice Using Ofwat's serviceability toolkit we assessed our serviceability as stable for the fifth consecutive year

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

The average supply interruption over the year was 0 6 hours Around 80% of our interruptions are planned work to improve the quality of our network and customers are warned in advance

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

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

During the dry weather we took a number of measures to support river flows, an issue of particular concern to our customers The measures included
- where possible reducing our abstraction from boreholes that affect sensitive rivers
- pumping up to 91 Ml/d of water into critical sections of rivers to support flows
- bringing on stream a new water resource at the lower end of the Bristol Avon to provide an additional 7 Ml/d of new water
- moving to next day repair of leaks
- mounting an extensive advertising campaign to encourage customers to play their part in water conservation

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

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

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

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

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

Private sewers transfer
On 1 October 2011 an estimated 17,000km of private sewers and laterals were brought into Wessex Water ownership following changes made by the government

Prior to October a comprehensive transition plan was developed to ensure the transfer went smoothly with more than 1 2 million legal notices and other information distributed to sewerage customers about the changes, followed by a build-up of resources to ensure call centre, scheduling and operational workload could be managed A procurement exercise, initiated in 2010, engaged a framework of seven drainage contractors to supplement in-house unblocking and repair services

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

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

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

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

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

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

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

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

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

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

Our region is environmentally rich, containing protected species and a variety of designated sites including Sites of Special Scientific Interest (SSSIs), County Wildlife Sites and World Heritage Sites For example, Areas of Outstanding Natural Beauty (AONB) cover more than 50% of the area To preserve these natural habitats and resources we undertake important environmental and engineering surveys to help us understand and address environmental considerations during design and construction

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

We are carrying out external consultation with key interest groups and members of the public to ensure the viewsof all stakeholders are incorporated into new site designs and pipeline routes The project, which began in 2010, will be completed in 2018, with some elements due to be completed in 2013

INNOVATING FOR A SUSTAINABLE FUTURE

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

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

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

During the year the government outlined its response to the challenges ahead in the water white paper and Ofwat has published its framework for setting price limits after 2015 We have worked constructively with both government and regulators to ensure those who make and implement policy are focusing on the key challenges We will continue to do so as government and regulators flesh out their proposals

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

Challenges

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

Innovating for customers and service delivery

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

Resilience

We are currently preparing to build a water supply grid so that if we have a problem in one part of our system, we can continue to supply water from others This is an integrated, holistic way of delivering a number of outcomes, the grid will not only improve the resilience of our assets in the face of climate change, but also allow blending of water sources to overcome deteriorating raw water quality, reduce abstractions from environmentally sensitive rivers and allow transfers of water across our region

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

This approach needs to extend across all water company boundaries and companies should be encouraged to share water
We need Ofwat to reform incentives to encourage this to happen, eg, it could exclude the costs of buying water from its comparative efficiency assessments and companies could keep the return they make from selling water to neighbours for longer

Affordability of charges

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

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

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

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

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

We separated the majority of our retail function in 2001 creating a legally distinct joint-venture company with Bristol Water which has focused management on delivering outcomes and given greater visibility of costs, thus driving efficiency Today we have the most efficient billing operation in the sector and our business customers are also served by a dedicated corporate solutions team

Effective customer engagement with all customers should be very much 'business as usual' for companies and we have established four customer liaison panels – customers and community, services and planning, environment and business, for this purpose Our new customer scrutiny group, which includes representatives from the panels, provides a further structured forum for the discussion of important topics, including options for the next business plan, ensuring customers' views will be reflected in matters such as price setting and the services they receive

Incentives for sustainable improvements to the quality of rivers and beaches
The water industry has made real improvements to water and effluent quality but frequently these have been asset and energy intensive, significantly increasing our carbon footprint

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

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

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

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

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

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

The work we have done together with our customers on water saving, alongside our innovative schemes and our efforts to bring leakage down to 15%, amongst the lowest in Europe, contributed significantly to our successful negotiation of the dry weather period It proves that working together makes us stronger and demonstrates that in addition to our use of innovation and sustainable solutions we must always work with our customers to ensure we remain resilient to future challenges

WESSEX WATER ENTERPRISES LTD

The company generated turnover of £13 9m (£13 7m last year) from a number of unregulated activities in the Wessex Water Services Ltd region The principal unregulated activities were the treatment of organic waste, power generation, solicitors' searches and sale of industrial cooling water

SC TECHNOLOGY GmbH

Trading under the name Swiss Combi the turnover of the company for the year was £8 4m (£8 7m last year) The principal subsidiary in Holland operates two sludge drying plants and has long term contracts with two major customers

DIRECTORS' REPORT (continued)

DIVIDENDS

The Wessex Water Services Ltd dividend policy is to declare dividends consistent with the company's performance and prudent management of the economic risk of the business The board wishes to ensure that gearing stays at or below 70% in order to secure the current credit ratings and ongoing access to the capital markets

DISCLOSURE OF INFORMATION TO THE 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 Group'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 Group's auditor is aware of that information

DIRECTORS

The directors of the company during the year and subsequently were

C F Skellett
M T Watts
Peng Koon Chin – alternate to Mark Seok Kah Yeoh
Choong Min Tan – alternate to Seok Hong Yeoh
Francis Sock Ping Yeoh *
Seok Hong Yeoh *
Seok Kian Yeoh *
Mark Seok Kah Yeoh *
Sock Siong Yeoh *
Tiong Lay Yeoh *

* Shares held in YTL Power International Berhad and YTL Corporation Berhad are disclosed in the accounts of those companies

The following directors have been granted ordinary share options of Malaysian Ringgit RM0 50 each in YTL Power International Berhad (see note 29)

YTL Power ESOS

	Opening number 1/7/2011	Exercise price RM	Date of grant	Exercise date	Expiry date	Exercise	Closing number 29/11/2011
MT Watts	240,000	1 32	13/12/2002	13/12/2005	29/11/2011	(240,000)	-

The market price of share options exercised in the year was RM1 837 and the gain on exercise was RM124,039

2011 UK Plan

	Opening number 1/6/2012	Exercise price RM	Date of grant	Exercise date	Expiry date	Closing number 30/6/2012
CF Skellett	87,000	1 65	01/06/2012	01/06/2015	31/03/2021	87,000
CF Skellett	1,913,000	1 49	01/06/2012	01/06/2015	31/03/2021	1,913,000
MT Watts	87,000	1 65	01/06/2012	01/06/2015	31/03/2021	87,000
MT Watts	913,000	1 49	01/06/2012	01/06/2015	31/03/2021	913,000

There were no other interests in shares of group companies that are disclosable in these accounts During the year no director was materially interested in any contract with the company or with any of its subsidiaries

SUSTAINABILITY

The group has a sustainability vision that guides its progress towards being a sustainable water group The sustainability vision is reviewed bi-annually The sustainability panel monitors progress and discusses major issues of current and future concern

DIRECTORS' REPORT (continued)

EMPLOYMENT

The group is an equal opportunities employer No person or group of persons applying for a job with the company is treated less favourably than any other person or groups of persons because of their gender, race, class, colour, nationality, ethnic origin, marital status, sexual orientation, age, trade union membership or activity, religious belief or physical or mental disability Selection procedures and criteria ensure that individuals are selected and promoted on the basis of their relevant merits and abilities These procedures are monitored and regularly reviewed Where necessary, the company provides staff with special training facilities to enable them to compete or qualify for positions, or to progress, within the company

ENVIRONMENT POLICY

The group 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

ETHICAL POLICY

We are determined to maintain our reputation as a group that observes the highest standards of personal and corporate integrity by adhering to a strict code of business ethics We aim to be the best and value everyone's contribution in our pursuit of excellence We are honest in the way we conduct our business We treat one another, our customers and the environment with respect

RESEARCH AND DEVELOPMENT

The group 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 group exceeds the book value of these assets at 30 June 2012

CHARITABLE DONATIONS

During the year £349,000 was donated to UK charities (2011 – £356,000)

SUPPLIER PAYMENT POLICY

The policy in respect of its suppliers is to agree the payment terms for transactions in advance and to make payments in accordance with those terms At 30 June 2012 trade creditors represented approximately 37 days trade purchases (2011 – 31 days) The group does not follow any specific external code or standard on payment policy

CORPORATE GOVERNANCE

WWSL is required, under Condition F of its Instrument of Appointment as a water and sewerage undertaker, to take account of the principles of good governance in the UK Corporate Governance Code as approved for the purposes of the Listings Rules of the Financial Services Authority Details of compliance are shown in the annual accounts of WWSL whose registered address is Wessex Water Operations Centre, Claverton Down, Bath, BA2 7WW

RE-APPOINTMENT OF AUDITOR

Pursuant to section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG Audit Plc will therefore continue in office

By order of the board
A J Phillips
Company secretary
25 September 2012

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

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

Company law requires the directors to prepare financial statements for each financial year Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

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

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WESSEX WATER LTD

We have audited the financial statements of Wessex Water Ltd for the year ended 30 June 2012 set out on pages 20 to 41 The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice)

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

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 18, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the group's and of the parent company's affairs as at 30 June 2012 and of the group's profit for the year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

A C Campbell-Orde (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc,
Statutory Auditor
Chartered Accountants
100 Temple Street
Bristol, BS1 6AG
25 September 2012

CONSOLIDATED PROFIT AND LOSS ACCOUNT
For the year to 30 June 2012

	NOTE	Year to 30 06.12 £m	Year to 30 06 11 £m
Turnover	2	**489 9**	467 4
Operatıng costs	3	**(268.2)**	(243 3)
Operatıng profit	2	**221.7**	224 1
Interest payable and sımılar charges	5	**(84.8)**	(67 6)
Interest receıvable	5	**3.4**	2 2
Other finance charges	5	**(1.2)**	(2 9)
Profit on ordınary actıvıtıes before taxatıon		**139 1**	155 8
Taxatıon on profit on ordınary actıvıtıes	6	**(50.1)**	(29 1)
Profit for the financıal year		**89.0**	126 7

The group's turnover and operatıng profit were generated from contınuıng actıvıtıes

The accompanyıng notes on pages 24 to 41 are an ıntegral part of thıs profit and loss account

BALANCE SHEETS
30 June 2012

	NOTE	Group 30 06 12 £m	Group 30 06 11 £m	Company 30 06 12 £m	Company 30 06 11 £m
Fixed assets					
Tangible assets	8	**2,097.1**	2,027 3	-	-
Investments	9	-	-	**82 5**	82 5
		2,097 1	2,027 3	**82 5**	82 5
Current assets					
Stock	10	**7 6**	6 8	-	-
Debtors	11	**235 6**	214 8	**129.7**	149 9
Cash at bank and in hand	12	**173 0**	1 2	**1 9**	-
		416.2	222 8	**131 6**	149 9
Creditors – amounts falling due within one year	13	**(247 3)**	(212 8)	**(48.3)**	(66 7)
Net current assets		**168.9**	10 0	**83 3**	83 2
Total assets less current liabilities		**2,266.0**	2,037 3	**165 8**	165 7
Creditors – amounts falling due after more than one year	14	**(1,762 7)**	(1,489 8)	-	-
Provisions for liabilities and charges	15	**(124 1)**	(96 8)	-	-
Retirement benefit obligations	16	**(104 5)**	(54 3)	-	-
Deferred income	17	**(17 7)**	(18 5)	-	-
Net assets	2	**257.0**	377 9	**165 8**	165 7
Capital and reserves					
Called up equity share capital	18	**131 8**	131 8	**131 8**	131 8
Share premium account	19	**28 8**	28 8	**28.8**	28 8
Profit and loss account	20	**96.4**	217 3	**5.2**	5 1
Shareholders' funds		**257.0**	377 9	**165 8**	165 7

The notes on pages 24 to 41 are an integral part of this balance sheet
Registered in England and Wales No 2366633
The financial statements on pages 20 to 41 were approved by the board of directors on 25 September 2012 and signed on its behalf by

M T Watts
Director

CONSOLIDATED CASH FLOW STATEMENT
For the year to 30 June 2012

	NOTE	Year to 30.06 12 £m	Year to 30 06 11 £m
Net cash inflow from operating activities	21	**313 2**	321 0
Returns on investments and servicing of finance	22	**(78 3)**	(65 3)
Taxation		**(23 4)**	(34 6)
Capital expenditure and financial investment	23	**(175 2)**	(112 9)
Dividends paid		**(172 9)**	(101 6)
Cash flow before financing		**(136 6)**	6 6
Financing	24	**293 3**	(61 6)
Increase / (decrease) in cash in the year		**156 7**	(55 0)

Reconciliation of cash movement to the movement in net debt

Increase / (decrease) in cash in the year - above		**156.7**	(55 0)
Movement in loans and leases		**(262.6)**	80 6
Non cash items	25	**(30 7)**	(19 0)
Movement in net debt	25	**(136 6)**	6 6
Net debt at the start of the year	25	**(1,439 3)**	(1,445 9)
Net debt at the end of the year	25	**(1,575 9)**	(1,439 3)

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
For the year to 30 June 2012

	Group	**Company**	Group	Company
	Year to 30 06 12	**Year to 30.06 12**	Year to 30 06 11	Year to 30 06 11
	£m	**£m**	£m	£m
Profit for the financial year	**89.0**	**153.8**	126 7	145 1
Foreign currency adjustment	**(0 1)**	**-**	(0 6)	-
Actuarial (loss) / gain in the pension scheme	**(72.2)**	**-**	16 7	-
Deferred tax arising on actuarial (loss) / gain in the pension scheme	**16 1**	**-**	(6 1)	-
Total recognised gains and losses relating to the financial year	**32 8**	**153 8**	136 7	145 1

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS
For the year to 30 June 2012

	Group	**Company**	Group	Company
	Year to 30 06 12	**Year to 30 06 12**	Year to 30 06 11	Year to 30 06 11
	£m	**£m**	£m	£m
Opening shareholders' funds	**377 9**	**165.7**	386 3	165 7
Profit for the financial year	**89 0**	**153 8**	126 7	145 1
Dividends (note 7)	**(153 7)**	**(153 7)**	(145 1)	(145 1)
Foreign currency adjustment	**(0 1)**	**-**	(0 6)	-
Actuarial (loss) / gain in the pension scheme	**(72 2)**	**-**	16 7	-
Deferred tax arising on actuarial (loss) / gain in the pension scheme	**16.1**	**-**	(6 1)	-
Closing shareholders' funds	**257 0**	**165 8**	377 9	165 7

The note on pages 24 to 41 are an integral part of these financial statements

NOTES TO THE ACCOUNTS
For the year to 30 June 2012

1 **Accounting policies**

a **Basis of preparation**

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

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

The directors have considered the financial position of the group and 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

b **Basis of consolidation**

The consolidated financial statements include the financial statements of the company and its subsidiary undertakings made up to 30 June 2012 The acquisition method of accounting has been adopted Under this method, the results of subsidiary undertakings acquired or disposed of in the period are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal Under section 408 of the Companies Act 2006 the company is exempt from the requirement to present its own profit and loss account

An associate is an undertaking in which the group has a long term interest, usually from 20% to 50% of the equity voting rights, and over which it exercises significant influence A joint venture is an undertaking in which the group has a long term interest and over which it exercises joint control The group's share of the profits less losses of associates and of joint ventures is included in the consolidated profit and loss account and its interest in their net assets is included in investments in the consolidated balance sheet

Where a group company is party to a joint arrangement, the company accounts directly for its part of income and expenditure, assets, liabilities and cash flows Such arrangements are reported in the consolidated financial statements on the same basis

c **Turnover**

Turnover for the group represents income receivable in the ordinary course of business, excluding VAT, for services provided to third party customers Turnover is recognised to the extent that it is probable that economic benefits will flow to the company In the period to 31 March 2011 and previous years, WWSL had chosen not to recognise as turnover bills raised for customers who have a record of at least two years' non-payment This policy was allowed under FRS5 Application Note G – Revenue Recognition For the regulatory year to 31 March 2012 and subsequently all bills raised are recognised as turnover to bring the accounting policy in line with the regulatory guidance issued by Ofwat In the year to June 2012 turnover has been increased by £0 8m and the bad debt charge within operating costs increased by the same value The prior year has not been restated as the impact on the financial statements is not material

d **Tangible fixed assets and depreciation**

Tangible fixed assets comprise infrastructure assets and other assets

i Infrastructure assets comprise a network of systems of mains and sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines, sea outfalls and infrastructure investigations and studies Expenditure on infrastructure assets relating to enhancements of the network is treated as additions which are included at cost after deducting connection charges and grants

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

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

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

e **Investments**

Investments held as fixed assets are stated at cost less any provisions for impairment

1 **Accounting policies (continued)**

f **Grants and contributions**

Grants and contributions in respect of specific expenditure on non infrastructure fixed assets are treated as deferred income and recognised in the profit and loss account over the expected useful economic lives of the related assets (see note 17)

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

g **Leased assets**

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease

h **Stock**

Stock and work in progress are stated at cost less any diminution in value In respect of work in progress, costs include labour, materials and attributable overheads Long term contract turnover and profit are recognised according to the value of work done Where amounts received are different from the turnover recognised, they are included in debtors or creditors according to the circumstances of each individual contract

i **Foreign currency**

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

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

j **Interest rate instruments**

Debt is initially stated at the amount of the net proceeds after the deduction of issue costs The carrying amount is increased by the finance costs in respect of the accounting year and reduced by payments made in that year

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

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

k **Taxation**

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

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

l **Research and development**

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

m **Pensions**

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

1 **Accounting policies (continued)**

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

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

n **Finance costs**

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

o **Debt**

Debt is initially stated at the amount of the net proceeds after the deduction of issue costs The carrying amount is increased by the finance costs in respect of the accounting year and reduced by payments made in the year

p **Cash and liquid resources**

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand

q **Share based payments**

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

r **Dividends on shares presented within shareholders' funds**

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

		Year to 30.06 12 £m	Year to 30 06 11 £m
2	**Segmental analysis**		

Substantially all of the turnover, operating profit and net assets arise in the United Kingdom Regulated activities represent the entire trade of Wessex Water Services Ltd Unregulated activities comprise the trade of SC Technology GmbH and Wessex Water Enterprises Ltd as well as the holding company activities of Wessex Water Ltd

a.	Turnover		
	Regulated	**469 1**	446 7
	Unregulated	**20 8**	20 7
		489.9	467 4
b	Operating profit		
	Regulated	**217 3**	219 9
	Unregulated	**4 4**	4 2
		221 7	224 1
c	Net assets		
	Regulated	**179.8**	300 2
	Unregulated	**77.2**	77 7
		257 0	377 9

3 **Operating costs**

Manpower costs (note 4b)	**50 6**	42 1
Materials and consumables	**29 5**	27 8
Other operational costs	**70.1**	66 2
Depreciation of fixed assets	**118.1**	108 2
Amortisation of grants and contributions	**(0 8)**	(0 9)
Loss / (profit) on disposals of fixed assets	**0.7**	(0 1)
	268 2	243 3
Operating costs include		
Operating leases for plant and machinery	**1.3**	1 4
Research and development	**0 1**	0 1
Directors' remuneration (note 4d)	**0.9**	0 8

	Year to 30.06.12 £000	Year to 30 06 11 £000
Auditor's remuneration		
Audit of these financial statements	**86**	85
Audit of financial statements of subsidiaries pursuant to legislation	**178**	136
Other services relating to taxation	**98**	-
All other services	**27**	10
	389	231

4	**Employment costs**	**Year to 30 06 12 £m**	Year to 30 06 11 £m
a	Total employment costs of the group		
	Wages and salaries	**59 8**	56 1
	Social security costs	**5 4**	5 1
	Other pension costs	**9 5**	5 1
		74.7	66 3
b	Total employment costs are charged as follows		
	Capital schemes	**18.2**	17 2
	Infrastructure renewals expenditure	**5.9**	7 0
	Manpower costs (note 3)	**50.6**	42 1
		74.7	66 3

		30 06 12 number	30 06 11 number
c	Monthly average number of employees during the year		
	Wessex Water Services Ltd	**1,720**	1,643
	Billing joint venture – Bristol Wessex Billing Services Ltd	**353**	344
	Wessex Water Enterprises Ltd	**9**	9
	SC Technology AG	**19**	18
	Wessex Water Ltd	**5**	4
		2,106	2,018

		Year to 30 06 12 £000	Year to 30 06 11 £000
d	Total directors' remuneration		
	Salary and fees	**584**	551
	Bonuses	**295**	235
	Benefits in kind	**44**	40
		923	826

The above remuneration is in respect of two executive directors (2011 – two) Executive directors have one year rolling contracts of employment In addition executive directors received £100k (2011 - £100k) remuneration from other group companies One director has benefits accruing under a defined benefit pension scheme (2011 – one) The aggregate amount of contributions to pension schemes in respect of directors was £33k (2011 - £34k)

e	Remuneration of highest paid director		
	Salary	**400**	390
	Bonus	**185**	150
	Benefits in kind	**27**	24
		612	564

The highest paid director had an accrued annual pension entitlement of £157,457 at 30 June 2012 (2011 - £150,337)

		Year to 30 06.12 £m	Year to 30 06 11 £m
5	**Net interest payable**		
	On bank loans	**83.8**	66 4
	On finance leases	**1 0**	1 2
	Total interest payable	**84 8**	67 6
	Inter company interest receivable	**(1 6)**	(1 4)
	Interest receivable on short-term deposits	**(1.8)**	(0 8)
	Total interest receivable	**(3.4)**	(2 2)
	Other finance charges	**1 2**	2 9
	Net interest payable	**82 6**	68 3
6	**Taxation**		
a	Analysis of charge in the year		
	Current year corporation tax		
	UK corporation tax at 25 5% (2011 – 27 5%)	**31 6**	36 0
	Adjustments in respect of previous years	**(10 8)**	(2 6)
	Total corporation tax charge	**20 8**	33 4
	Deferred tax – current year		
	Origination and reversal of timing differences	**(18 1)**	(15 0)
	Decrease in discount	**40 4**	9 6
		22.3	(5 4)
	Deferred tax – prior year		
	Origination and reversal of timing differences	**8 5**	2 0
	(Increase) in discount	**(1.5)**	(0 9)
		7 0	1 1
	Total deferred tax charge / (credit)	**29 3**	(4 3)
	Taxation charge on profit on ordinary activities	**50 1**	29 1

6 **Taxation (continued)**

b Current tax reconciliation

	Year to 30.06.12 £m	Year to 30 06 11 £m
Profit on ordinary activities before tax	**139.1**	155 8
Current tax at 25 5% (2011 – 27 5%)	**35.5**	42 8
Group relief for nil consideration	**(3.0)**	(3 1)
Adjustments in respect of previous years	**(10 8)**	(2 6)
Capital allowances for the year less than depreciation	**3.1**	2 0
Payment of lease creditor capital	**(1 7)**	(1 8)
Subsidiary company profits	**(0 2)**	(0 1)
Other timing differences	**(2 1)**	(3 8)
Total corporation tax charge (note 6a)	**20 8**	33 4

c On 21 March 2012 the Chancellor announced the reduction in the corporation tax rate from 26% to 24% with effect from 1 April 2012 This change reduced the corporation tax rate to 25 5% for the year to June 2012 and reduced the deferred tax liability (note 15) and the deferred tax asset (note 16)

The Chancellor also announced a reduction in the corporation tax rate by 1% per annum to 22% by 1 April 2014, but these changes were not substantially enacted by 30 June 2012, and the impact has not been included above Had this change been enacted at the balance sheet date the deferred tax provision (note 15) would have decreased by £11 6m to £112 3m, and the deferred tax asset (note 16) would have decreased by £2 7m to £29 9m

7 **Dividends**

Ordinary shares

Final dividend in respect of a prior year but not recognised as a liability in that year	**23.1**	34 5
Interim dividends	**106.3**	110 6
Final dividend	**24 3**	-
	153 7	145 1

8 Tangible fixed assets

	Freehold land and buildings	Infra-structure assets	Plant machinery and vehicles	Other assets	Payments on account & assets in course of const-ruction	Group Total
	£m	£m	£m	£m	£m	£m
Cost						
At 1 July 2011	678 3	1,210 4	1,154 9	98 8	59 6	3,202 0
Additions	1 5	57 7	39 5	8 0	89 3	196 0
Exchange differences	(0 2)	-	(1 7)	-	-	(1 9)
Transfers on commissioning	2 3	6 4	31 2	2 1	(42 0)	-
Disposals	(0 8)	-	(10 6)	-	-	(11 4)
Grants and contributions	-	(5 5)	-	-	-	(5 5)
At 30 June 2012	**681 1**	**1,269.0**	**1,213 3**	**108.9**	**106 9**	**3,379 2**
Depreciation						
At 1 July 2011	202 4	403 6	539 0	29 7	-	1,174 7
Charge for the year	13 8	42 0	56 0	6 3	-	118 1
Exchange differences	-	-	(1 1)	-	-	(1 1)
Disposals	(0 2)	-	(9 4)	-	-	(9 6)
At 30 June 2012	**216.0**	**445 6**	**584.5**	**36.0**	-	**1,282.1**
Net Book Value						
At 30 June 2012	**465.1**	**823 4**	**628 8**	**72 9**	**106 9**	**2,097.1**
At 1 July 2011	475 9	806 8	615 9	69 1	59 6	2,027 3

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

Other assets include furniture and fittings, laboratory and other equipment

The net book value of assets held under finance leases is £45 0m (2011 - £51 5m)

The depreciation charge for the year on assets held under finance leases is £6 5m (2011 - £6 5m)

The net book value of infrastructure assets at 30 June 2012 is stated after the deduction of grants and contributions amounting to £127 5m (2011 - £122 0m) in order to give a true and fair view (see note 1f)

Included in the cost of infrastructure assets is £454 2m (2011 - £406 7m) of expenditure on maintaining the network, and £445 7m (2011 - £403 7m) of depreciation included in the profit and loss account

Included in freehold land and buildings above is an amount of £10 9m (2011 - £10 5m) in respect of land which is not depreciated

9 Investments

Company	Subsidiary companies £m
Cost	
At 1 July 2011	104 1
Additions	-
At 30 June 2012	**104.1**
Amounts written off	
At 1 July 2011	21 6
Written off in the year	-
At 30 June 2012	**21 6**
Carrying value at 30 June 2012	**82 5**
Carrying value at 1 July 2011	82 5

The investments comprise shares in the subsidiary and associated undertakings The principal subsidiary companies and associated undertakings are listed in note 30

10 Stock

	Group	
	30.06 12	30 06 11
	£m	£m
Raw materials and consumables	**3 1**	3 0
Work in progress	**4 5**	3 8
	7 6	6 8

11 Debtors

	Group		Company	
	30 06 12	30 06 11	**30 06 12**	30 06 11
	£m	£m	**£m**	£m
Trade debtors	**61.3**	48 8	**-**	-
Amounts owed by subsidiary companies	**-**	-	**29 7**	50 7
Amounts owed by immediate parent company	**0.1**	0 1	**0.1**	0 1
Loan to immediate parent company	**89.4**	89 4	**89 4**	89 4
Other debtors	**6 6**	3 0	**0 3**	-
Prepayments and accrued income	**78.2**	73 5	**10 2**	9 7
	235 6	214 8	**129 7**	149 9

A loan of £89 4m (2011 - £89 4m) was made to YTL Utilities (UK) Ltd and is repayable in October 2014

12 Cash at bank and in hand

Short-term cash investments	**173 0**	-	**-**	-
Cash at bank	**-**	1 2	**1.9**	-
	173 0	1 2	**1.9**	-

£36 0m of short-term bank deposits mature within 1 month, £30 0m within 4 months, £90 0m within 7 months, £5 0m within 10 months and £12 0m within 11 months

13 Creditors - amounts falling due within one year

	Group		Company	
	30.06.12	30 06 11	30 06 12	30 06 11
	£m	£m	£m	£m
Bank overdraft repayable on demand	15 1	-	-	-
Loans repayable	54 5	5 5	4 5	5 1
Obligations under finance leases	7 0	35 6	-	-
Trade creditors	10 0	12 7	-	-
Amounts owed to subsidiary company	-	-	19 4	18 0
Amounts owed to parent company	0 6	0 6	-	-
Amounts owed to associate companies	0 2	0 4	-	-
Dividend	24 3	43 5	24 3	43 5
Other creditors	2 1	3 1	-	-
Corporation tax	16 3	18 5	-	-
Other taxation and social security	2.0	2 0	-	-
Accruals and deferred income	115 2	90 9	0.1	0 1
	247 3	212 8	48.3	66 7

14 Creditors - amounts falling due after more than oneyear

		Group	
Loans repayable	- in more than 1 year, but not more than 2 years	-	50 4
	- in more than 2 years, but not more than 5 years	100 0	102 0
	- in more than 5 years	215 0	140 0
		315 0	292 4
Finance lease repayable			
	- in more than 1 year, but not more than 2 years	7.8	3 6
	- in more than 2 years, but not more than 5 years	29 1	13 3
	- in more than 5 years	14 7	12 5
		51 6	29 4
Bonds	- in more than 5 years	1,395 1	1,167 0
Other creditors		1 0	1 0
		1,762 7	1,489 8

The bonds were issued by a subsidiary company Wessex Water Services Finance Plc as follows

Bond at 5 375% repayable in March 2028	198 3	198 2
Bond at 5 75% repayable in October 2033	346.2	346 0
Bond at 4 0% repayable in September 2021	197 5	-
Index linked bond at 3 52% plus inflation repayable in July 2023	66 7	63 6
Index linked bond at 2 186% plus inflation repayable in June 2039	56 2	54 3
Index linked bond at 1 75% plus inflation repayable in July 2046	89 7	85 5
Index linked bond at 1 75% plus inflation repayable in July 2051	89 8	85 6
Index linked bond at 1 369% plus inflation repayable in July 2057	89.8	85 6
Index linked bond at 1 374% plus inflation repayable in July 2057	89.8	85 6
Index linked bond at 1 489% plus inflation repayable in November 2058	57.0	54 2
Index linked bond at 1 495% plus inflation repayable in November 2058	57.0	54 2
Index linked bond at 1 499% plus inflation repayable in November 2058	57.1	54 2
	1,395.1	1,167 0

15 Provisions for liabilities and charges

	Deferred tax £m	Restructuring costs £m	Group Total £m
At 1 July 2011	96 7	0 1	96 8
Provided in year	-	0 1	0 1
Origination and reversal of timing differences	(11 8)	-	(11 8)
Decrease in discount	39 0	-	39 0
At 30 June 2012	**123 9**	**0 2**	**124 1**

Restructuring costs relate to the severance costs of a redundancy programme in WWSL

Deferred tax is provided as follows	Group 30.06.12 £m	Group 30 06 11 £m
Accelerated capital allowances	**262 3**	274 1
Other timing differences	**(0 6)**	(0 6)
Undiscounted provision for deferred tax	**261 7**	273 5
Discount	**(137.8)**	(176 8)
Provision for deferred tax	**123 9**	96 7

16 Pensions

FRS 17 pension liability (see note 16e)	**135.8**	71 8
FRS 17 deferred tax asset	**(32 6)**	(18 7)
Unfunded and compensatory added years pension	**1 3**	1 2
	104.5	54 3

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

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

b The total pension cost for the year under FRS 17, including amounts set aside for early retirees and other finance income, was £10 7m (2011 - £8 0m) Actuarial gains and losses have been recognised in the period in which they occur through the Statement of Total Recognised Gains and Losses

c The latest actuarial valuation for WWPS was undertaken at 31 December 2010 The assumptions which have the most significant effect on the results of a valuation are those relating to the discount rate for scheme liabilities and the rate of increase in salaries and pensions It was assumed that the pre retirement discount rate would be 6 3% and the post retirement discount rate 5 3%, that salary increases would be 3 5% per annum in year 1, 3 0% in years 2 and 3 and 4 3% thereafter and that present and future pensions would increase between 2 2% and 3 3% per annum The market value of the WWPS assets as at 31 December 2010 was £345 3m which represented 81 2% of the actuarial value of the accrued benefits of £425 2m, a deficit of £79 9m The next actuarial valuation will be at 31 December 2013

In response to this valuation the group agreed to pay additional contributions of £8 6m per annum at 31 March 2012, and at 31 March for a further 9 years

16 **Pensions (continued)**

d The actuarial valuation described above has been updated at 30 June 2012 by a qualified actuary using revised assumptions that are consistent with the requirements of FRS 17 Investments have been valued, for this purpose, at fair value The major assumptions used by the actuary were

	30.06 12	30 06 11
Rate of increase in salaries – short term	**2 5%**	3 1% to 3 5%
Rate of increase in salaries – long term	**3 8%**	4 4%
Rate of increase in pensions in payment	**2 3% or 2 9%**	2 7% or 3 3%
Rate of increase in pensions in payment – reduced level members	**2.1%**	2 2%
Discount rate	**4 4%**	5 6%
Inflation assumption - RPI	**3.0%**	3 6%
Inflation assumption - CPI	**2.3%**	2 7%

The mortality assumptions are based upon the recent actual mortality experience of members within the scheme, and the assumptions also allow for future mortality improvements The assumptions are that a member currently aged 60 will live, on average, for a further 27 0 years if they are male, and for a further 28 8 years if they are female For a member who retires in 2032 at age 60 the assumptions are that they will live, on average, for a further 28 6 years after retirement if they are male, and a further 30 4 years after retirement if they are female

e The value of the assets and liabilities at 30 June 2012 and the previous year was as follows

	30 06 12	30 06 11
	£m	£m
Equities	**172.2**	170 6
Property	**26 6**	23 7
Government Bonds	**98 2**	146 7
Corporate Bonds	**82.8**	18 4
Other	**1.0**	0 4
Total fair value of the assets	**380 8**	359 8
Present value of defined benefit obligations	**(516 6)**	(431 6)
Deficit in the scheme	**(135 8)**	(71 8)

The expected rates of return were as follows

	%	%
Equities	**7.7**	8 3
Property	**6.7**	8 0
Government Bonds	**2.7**	4 3
Corporate Bonds	**3.6**	5 0
Other	**1.6**	1 5
	5.4	6 5

Narrative description of the basis used to determine expected value

The group employs a building block approach in determining the long-term rate of return on pension plan assets Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles The assumed long-term rate of return of each asset class is set out within this note The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation of the scheme as at 30 June 2012

16 Pensions (continued)

f Additional analysis

	30.06 12 £m	30 06 11 £m
Analysis of profit and loss charge		
Current service cost	9 2	9 9
Past service cost	0 3	(4 8)
Interest cost	24 0	22 0
Expected return on scheme assets	(22 8)	(19 1)
Expense recognised in profit and loss account	10 7	8 0
Changes to the present value of defined benefit obligations during the year		
Opening present value of defined benefit obligations	431 6	411 4
Current service cost	9 2	9 9
Interest cost	24 0	22 0
Contributions by scheme participants	0 3	0 6
Actuarial losses on scheme liabilities	67 3	8 0
Net benefits paid out	(16 1)	(15 5)
Past service cost	0 3	(4 8)
Closing present value of defined benefit obligations	516 6	431 6
Changes to the fair value of scheme assets during the year		
Opening fair value of scheme assets	359 8	311 6
Expected return on scheme assets	22 8	19 1
Actuarial (losses) / gains on scheme assets	(4 9)	24 7
Contributions by the employer	18 9	19 3
Contributions by scheme participants	0 3	0 6
Net benefits paid out	(16 1)	(15 5)
Closing fair value of scheme assets	380 8	359 8
Actual return on scheme assets		
Expected return on scheme assets	22.8	19 1
Actuarial (losses) / gains on scheme assets	(4.9)	24 7
Actual return on scheme assets	17.9	43 8
Analysis of amounts recognised in Statement of Total Recognised Gains and Losses		
Total actuarial (losses) / gains	(72 2)	16 7
Cumulative amount of losses recognised	(164 9)	(92 7)

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

	30.06.12 £m	30 06 11 £m	30 06 10 £m	30 06 09 £m	30 06 08 £m
Fair value of scheme assets	380 8	359 8	311 6	277 7	295 1
Present value of scheme liabilities	(516.6)	(431 6)	(411 4)	(323 6)	(358 6)
Deficit in the scheme	(135 8)	(71 8)	(99 8)	(45 9)	(63 5)
Experience (losses) / gains on scheme assets	(4.9)	24 7	10 8	(45 7)	(19 6)
Experience (losses) / gains on scheme liabilities	(3 1)	0 8	2 8	10 5	(5 2)

	30 06 12 £m	30 06 11 £m
17 Deferred income		
Grants and contributions		
At 1 July	**18.5**	19 3
Received in the year	**-**	0 1
Less amortisation	**(0.8)**	(0 9)
At 30 June	**17.7**	18 5

	Group and Company £m	Group and Company £m
18 Called up equity share capital		
Authorised		
346,666,670 ordinary shares of 60p each	**208 0**	208 0
Allotted and fully paid		
219,585,986 ordinary shares of 60p each	**131 8**	131 8

	Group and Company	Group and Company
19 Share premium account		
Share premium	**28 8**	28 8

20 Profit and loss account		
Group		
At 1 July	**217.3**	225 7
Profit attributable to shareholders	**89 0**	126 7
Dividends (note 7)	**(153 7)**	(145 1)
Foreign currency adjustment	**(0 1)**	(0 6)
Actuarial (losses) / gains net of taxation	**(56 1)**	10 6
At 30 June	96 4	217 3
Company		
At 1 July	**5 1**	5 1
Profit attributable to shareholders	**153 8**	145 1
Dividends (note 7)	**(153.7)**	(145 1)
At 30 June	5.2	5 1

As permitted by Section 408 of the Companies Act 2006, a profit and loss account of the parent company is not presented The profit attributable to the company in the year is 153 8m (2011 - £145 1m) after dividends from subsidiary companies of £153 4m (2011 - £145 1m)

21 Reconciliation of operating profit to net cash inflow from operating activities

	Year to 30 06.12 £m	Year to 30 06 11 £m
Operating profit	**221 7**	224 1
Depreciation	**118 1**	108 2
Amortisation of grants and contributions	**(0.8)**	(0 9)
Provisions	**(9.3)**	(14 5)
Loss / (profit) on disposal of fixed assets	**0.7**	(0 1)
(Increase) in stocks	**(0.8)**	(1 2)
(Increase) / decrease in debtors	**(18.0)**	6 6
Increase / (decrease) in creditors	**1.6**	(1 2)
	313.2	321 0

22 Returns on investments and servicing of finance

Interest received	**2 1**	2 1
Interest paid	**(78 9)**	(66 2)
Interest element of finance lease rentals	**(1 5)**	(1 2)
	(78 3)	(65 3)

23 ' Capital expenditure and financial investment

Purchase of tangible fixed assets	**(181 9)**	(122 2)
Sale of tangible fixed assets	**1 1**	2 9
Connection charges, grants and deferred income	**5 6**	6 4
	(175.2)	(112 9)

24 Financing

Loans and finance leases received	**303 1**	19 2
Loans and finance leases repaid	**(9.8)**	(80 8)
	293 3	(61 6)

25 Movement in net debt

	1 July 2011 £m	Cash Flow £m	Non cash items £m	30 June 2012 £m
Short term cash investments	-	173 0	-	**173 0**
Cash at bank	1 2	(1 2)	-	**-**
Bank overdraft	-	(15 1)		**(15.1)**
Short term loans	(5 5)	(49 0)	-	**(54.5)**
Loans repayable after one year	(292 4)	(22 6)	-	**(315 0)**
Amounts owed by parent company	89 4	-	-	**89.4**
Finance leases repayable within one year	(35 6)	28 6	-	**(7 0)**
Finance leases repayable after one year	(29 4)	(22 2)	-	**(51.6)**
Bonds repayable after one year	(1,167 0)	(197 4)	(30 7)	**(1,395.1)**
	(1,439 3)	(105 9)	(30 7)	**(1,575.9)**

26 Financial instruments

Short term debtors and creditors have been excluded from the financial instrument disclosure other than £76 6m (2011 - £41 1m) of short term borrowings, £173 0m of short term cash (2011 - £1 2m), and £89 4m (2011 - £89 4m) of amounts owed by immediate parent company

The group has financed its activities through a combination of short term borrowings, long term loans and leases and bonds issued by a subsidiary company Wessex Water Services Finance Plc At 30 June 2012 there were £25 0m (2011 - £100 0m) of undrawn facilities There are no securities attributed to any of the borrowings

a Interest rate and currency exposure

	Fixed rate borrowings 2012 £m	**Floating rate borrowings 2012 £m**	**Total borrowings 2012 £m**	Fixed rate borrowings 2011 £m	Floating rate borrowings 2011 £m	Total borrowings 2011 £m
Sterling	**1,395.1**	**180 8**	**1,575 9**	1,167 0	272 3	1,439 3

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

	Interest rate % 2012	**Period years 2012**	Interest rate % 2011	Period years 2011
Sterling	**3 8**	**26 9**	3 8	30 6

Floating rate borrowings with interest rates moving in line with LIBOR comprise £76 6m (2011 - £41 1m) of short term borrowings, £366 6m (2011 - £321 8m) of long term borrowings, £89 4m (2011 - £89 4m) owed by immediate parent company and £173 0m of cash at bank and in hand (2011 – £1 2m)

b Fair values

	Book value £m 2012	**Fair value £m 2012**	Book value £m 2011	Fair value £m 2011
Borrowings less than 1 year	**(96 4)**	**(96.4)**	39 9	39 9
Amounts owed by immediate parent company	**(89 4)**	**(89.4)**	(89 4)	(89 4)
Floating rate borrowings over 1 year	**366 6**	**366.6**	321 8	321 8
Fixed rate borrowings over 1 year	**1,395 1**	**1,701 3**	1,167 0	1,284 8
	1,575 9	**1,882 1**	1,439 3	1,557 1

Fair value is the amount at which a financial instrument could be exchanged in an arms length transaction between 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

27 Commitments

a There were £0 1m of operating lease payments under leases on land and buildings due within the next year, which expire after 5 years (2011 – £0 1m) There are no commitments under other operating leases

b Capital expenditure contracted but not provided at 30 June 2012 was £84 8m (2011 - £65 2m)

28 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 group The previous scheme "YTL Power ESOS" expired on 29 November 2011 and a new scheme "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

28 Share based payments (continued)

YTL Power ESOS

The vesting date and exercise price of the share options are shown below

Granted – Ordinary shares of RM0 50 each	Vesting date	Exercise price RM
13/12/2002 Unapproved	13/12/2005	1 32
26/12/2002 Approved	26/12/2005	1 39
12/12/2003 Unapproved	12/12/2006	1 53
12/12/2003 Approved	12/12/2006	1 70
16/05/2005 Unapproved	16/05/2008	1 82
16/05/2005 Approved	16/05/2008	2 02
07/08/2006 Unapproved	07/08/2009	1 74
07/08/2006 Approved	07/08/2009	1 93
20/08/2007 Unapproved	20/08/2010	2 04
20/08/2007 Approved	20/08/2010	2 27
26/06/2008 Unapproved	20/08/2010	1 80
28/11/2008 Unapproved	28/11/2011	1 61
28/11/2008 Approved	28/11/2011	1 78

Under FRS 20 equity settled share-based payments are measured at the fair value at the date of the grant, and the fair value is expensed on a straight line basis over the vesting period A charge of £0 1m was recognised in the profit and loss account for FRS 20 The options movements in the period were as follows

Granted – Ordinary shares of RM0 50 each	Outstanding at 30 June 2011	Forfeited	Exercised	Expired	At 29 November 2011
13/12/2002 Unapproved	7,683,750	-	(2,266,250)	(5,417,500)	-
26/12/2002 Approved	2,828,000	(34,000)	(406,000)	(2,388,000)	-
12/12/2003 Unapproved	634,000	-	(434,000)	(200,000)	-
12/12/2003 Approved	980,000	-	(136,000)	(844,000)	-
16/05/2005 Unapproved	3,259,900	-	(452,000)	(2,807,900)	-
16/05/2005 Approved	3,508,000	-	(38,000)	(3,470,000)	-
07/08/2006 Unapproved	500,000	-	-	(500,000)	-
07/08/2006 Approved	4,095,650	(102,000)	(34,000)	(3,959,650)	-
20/08/2007 Unapproved	800,000	-	-	(800,000)	-
20/08/2007 Approved	2,869,000	(34,000)	-	(2,835,000)	-
26/06/2008 Unapproved	80,000	-	(10,000)	(70,000)	-
28/11/2008 Unapproved	5,720,000	-	(2,195,000)	(3,525,000)	-
28/11/2008 Approved	9,060,000	(68,000)	(68,600)	(8,923,400)	-
TOTAL	42,018,300	(238,000)	(6,039,850)	(35,740,450)	-

2011 UK Plan

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

Granted – Ordinary shares of RM0 50 each	Vesting date	Expiry date	Exercise price RM	Fair value RM
01/06/2012 Unapproved	01/06/2015	31/03/2021	1 49	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 The fair value was calculated using a trinomial model with the following key assumptions

Scheme	Weighted ave share price at grant RM	Expected volatility %	Expected option life years	Risk free rate %	Dividend yield %
01/06/2012 Unapproved	1 63	21 2	3	3 14	5 6
01/06/2012 Approved	1 63	21 2	3	3 14	5 6

28 **Share based payments (continued)**

The following options were outstanding at 1 June 2012 and 30 June 2012

Granted – Ordinary shares of RM0 50 each	Granted 1 June 2012	Forfeited	Outstanding at 30 June 2012
01/06/2012 Unapproved	9,997,000	-	9,997,000
01/06/2012 Approved	41,919,000	-	41,919,000
TOTAL	51,916,000	-	51,916,000

29 **Contingent liabilities and guarantees**

Wessex Water Ltd has provided performance guarantees on behalf of SC Technology GmbH on the tendering for contracts, the maximum liability in respect of which, at 30 June 2012 was £0 3m (2011 - £0 3m)

30 **Principal subsidiary companies and associated undertakings**

a Subsidiary companies

Wessex Water Ltd owns 100% of the issued ordinary share capital of each subsidiary company

Company	Country of incorporation and operation	Principal activities
Wessex Water Services Ltd	United Kingdom	Water supply and waste water services
SC Technology GmbH	Switzerland	Waste treatment processes
Wessex Water Services Finance Plc *	United Kingdom	Issue of bonds
Wessex Engineering & Construction Services Ltd	United Kingdom	Engineering services
Wessex Promotions Ltd	United Kingdom	Concert promotion
Wessex Water Enterprises Ltd	United Kingdom	Unregulated water and waste water services
GENECO Ltd **	United Kingdom	Waste water services

* 100% owned by Wessex Water Services Ltd ** 100% owned by Wessex Water Enterprises Ltd
Other subsidiary companies are dormant or not material to the group

b Joint arrangements

Company	Class of shares	Proportion held	Principal activities
Bristol Wessex Billing Services Ltd	£1 ordinary	50%	Billing services
Searchlight Collections Ltd	£1 ordinary	50%	Billing services

On 28 June 2001, Wessex Water Services Ltd and Wessex Water Ltd entered into a joint arrangement with Bristol Water Holdings Plc, under which the billing and customer services of both groups were transferred into a new company Bristol Wessex Billing Services Ltd

Searchlight Collections Ltd is a 100% subsidiary of Bristol Wessex Billing Services Ltd

31 **Related party transactions**

There are no related party transactions requiring disclosure in these financial statements

32 **Wessex Water Services Ltd - dividend policy**

The policy adopted by the board of Wessex Water Services Ltd from 1 April 2006 was to declare dividends consistent with the company's performance and prudent management of the economic risk of the business

33 **Ultimate parent company**

The company is 100% owned by YTL Utilities (UK) Limited, a company incorporated in the United Kingdom whose registered address is 2 Lambs Passage, London EC1Y 8BB The ultimate parent company is YTL Corporation Berhad, which is incorporated in Malaysia under the Companies Act 1965, whose registered address is Yeoh Tiong Lay Plaza, 55 Jalan Bukit Bintang, 55100 Kuala Lumpur, Malaysia Consolidated financial statements of YTL Corporation Berhad are available on request from this address