

# WESSEX WATER LTD

## CONSOLIDATED ACCOUNTS

For the year to  
30 June 2013

Registered in England and Wales No 2366633

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## DIRECTORS' REPORT

The directors present their directors' report and the financial statements for the year to 30 June 2013

## 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

## BUSINESS REVIEW

### WESSEX WATER SERVICES LTD (some indicators are measured for the regulatory year to 31 March 2013)

The changing climate continues to provide new challenges for WWSL. We maintained our record of unrestricted water supplies to all our customers – it is now 36 years since we had to impose any form of restriction on water use within our region. The intense summer rainfall caused a number of flooding problems but our major investment in sewerage infrastructure over recent years helped to minimise the impact on customers.

In 2011 the government transferred responsibility for private sewers to water companies, so WWSL took on around 11,000 miles of largely sub-standard sewers. This, together with the growing impact of climate change, will require major investment in future.

The very wet summer also affected bathing water compliance, which slipped from the 100% level of previous years to 94% compliance with mandatory standards. One of the bathing waters that failed was Uphill at Weston-super-Mare. While bathing waters are affected by factors outside our control, we will ensure that our sewerage and sewage treatment systems do not have an adverse impact. At Weston-super-Mare we have completed work on a £26m scheme to provide improved treatment and disinfection.

We maintain 100% compliance with sewage treatment discharge consents and our compliance with drinking water standards continues to exceed 99.9%. We generated one of our highest recorded amounts of renewable energy and continued our progress to becoming a truly sustainable water and sewerage company. Many staff also worked long hours to help ensure the Olympic sailing at Weymouth was a great success.

We have continued to become more efficient and have delivered savings against both our capital investment programme and our operating costs, while at the same time delivering all of the required regulatory outputs. We are sharing our efficiency savings with customers through additional customer focused schemes, £50m in this price review period and £100m in the last decade.

We are halfway through a £1bn, five-year investment programme. This programme includes the largest project we have ever undertaken – the construction of a water supply grid across the region that will enable us to reduce abstraction at environmentally sensitive sites and ensure much greater flexibility and greater resilience in the supply of water to customers. Our capital investment not only improved services, but helped to create local jobs within the region.

Regulatory league tables continue to identify WWSL as the best performing water and sewerage company in England and Wales, with the highest levels of service and efficiency. The Consumer Council for Water announced that we received fewer complaints than any water company, and during the year complaints to us fell by 9%.

Our water and sewerage bills represent only 1.5% of average household expenditure. This is marginally higher than the 1.4% at privatisation in 1989. We recognise that the economic climate means some customers find it difficult to pay their bills, so we have launched 'tap', our tailored assistance programme, to help these customers. This programme works closely with debt agencies and special advisers to offer a range of tariffs and assistance.

There has been a good deal of public interest in tax paid by companies. We do not have complicated tax schemes, we pay the appropriate level of tax and WWSL is classified by HMRC as a low risk taxpayer.

We are committed to high standards of corporate governance, it is at the heart of our business and underpins the relationships we have with our customers, shareholder and other stakeholders.

Prices and investment programmes for water companies follow a five-year cycle and work is well under way for the next price review, which will come into force in 2015. We are consulting directly with more than 10,000 customers, engaging with a wide range of stakeholders and putting our proposals to an independent scrutiny group chaired by Charles Howeson, the regional chair of the Consumer Council for Water. Our proposals will recognise the range of new obligations we have to meet but must also take account of the ability of customers to pay in today's difficult economic climate.

## DIRECTORS' REPORT (continued)

We recognise the importance of innovation to our business and have signed a joint venture deal with the University of Bath worth more than £3m to create around 20 new research posts, and trials to test novel ideas that fit with our work

WWSL continues to have very high levels of customer satisfaction not least because of our prompt personal telephone answering, our knowledgeable and dedicated staff and our commitment to keeping customers informed of what we are doing at all times. These attributes, together with our investment in the infrastructure of the region, will put us in a strong position to meet the next round of challenges

### Financial performance

Profit after tax increased by £45.9m from £89.0m to £134.9m, due to the factors shown below

Turnover increased by £26.8m or 5.5% to £516.7m, mainly driven by the increase in the regulated turnover of WWSL

Operational costs excluding depreciation increased by £13.0m from £150.2m to £163.2m. There were increases in business rates, bad debt charge, the cost of new obligations, the costs associated with private sewers for which we were given responsibility halfway through last year and the price of power and chemicals

Depreciation charges (including the infrastructure maintenance charge and the disposal of assets) have increased by £5.1m from £118.0m to £123.1m. The increase is a result of a £2.6m increase in the infrastructure maintenance charge, while depreciation increased by £2.5m of which £1.1m was a reduced cost of disposal of assets and £3.6m an increase in base depreciation from the continuing capital investment programme

Interest charges, including other finance charges, increased by £0.7m from £82.6m to £83.3m, as a result of inflation on index linked bonds, and an increase in net debt of £106.4m from £1,575.9m to £1,682.3m

The cash outflow of £106.4m comprised

- cash flow from operating activities of £344.8m, less
- interest payments of £75.1m
- tax payments of £28.0m
- net capital investment of £225.0m
- dividend payments of £123.1m

There was a tax charge in the year of £12.2m, a decrease of £37.9m from £50.1m charged last year, comprising

- a corporation tax increase of £9.0m because of a one-off credit in the prior year 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 25.5% to 23.75%
- deferred tax moving from a £29.3m charge last year to a £17.6m credit this year. The credit of £17.6m arose because of a £10.8m increase in deferred tax discounting and a £6.8m increase in gross deferred tax. Last year there was a fall in deferred tax discounting

Dividends declared in the year amounted to £123.6m compared to £153.7m last year. The final dividend of £23.1m from 2010-11 was declared and paid after the year end, and therefore inflated the prior year dividends

Under FRS 17 'Retirement Benefits' the pension scheme deficit of £135.8m at the start of the year has decreased to £113.9m at 30 June 2013, the increase in the liabilities of £19.4m being less than the £41.3m 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 44.6% (2012 – 45.3%) as cost increases were proportionately more than the increase in turnover, and interest cover (excluding pensions finance charge) increased slightly to 2.8 times (2012 – 2.7 times) as net interest costs remained stable

## DIRECTORS' REPORT (continued)

### Highlights

- The Consumer Council for Water announced that we received the fewest number of complaints per 1,000 customers of any water and sewerage company. Complaints have fallen again this year.
- Launched 'tap' – our tailored assistance programme now helping 12,000 households who are struggling financially.
- Expanded Assist – our social tariff scheme – in partnership with Citizens Advice Bureaux. We expect this to reduce the bills of a further 10,000 vulnerable households.
- No hosepipe bans imposed for the 36th consecutive year.
- Installed 15,466 household meters and replaced or repaired 3,822 customers' leaky pipes free of charge.
- Beat Ofwat's leakage target again and committed ourselves to a target of stopping any leak reported by a customer within 24 hours.
- Continued to become more efficient – meaning lower bills for customers in the long run.
- Industry leaders according to the latest Environment Agency assessment on environmental performance.
- Unparalleled performance in the industry with no major or serious pollution incidents or prosecutions in the year. Our second lowest number of minor pollution incidents despite the unprecedented rainfall.
- Became the first water company to retain a Queen's Award for Enterprise – recognising the way we have embedded sustainability across our business.
- Won a number of other awards for promoting water efficiency, safety in the workplace and for the way we engage with our customers.
- Made excellent progress on our water supply grid construction project.

### Our customers and community

Our aim is to provide the highest levels of customer satisfaction, make it as easy as possible for customers to interact with us using communication methods of their choice and to build trust and loyalty. We believe it is fundamental to our long-term success to provide excellent customer service.

We have worked hard this year to provide the best possible service to our customers, and our staff have gone the extra mile wherever they can. We remain true to the core principles our customers value, such as personal telephone answering, resolving problems quickly and first time, and compensating where we have got it wrong, but we know customers' expectations are growing.

The service we offer is increasingly compared, not to other water companies, but to brands customers admire either locally or nationally. Feedback shows they are generally very satisfied with our service and an increasing number see it as value for money. Our recent tracker survey of 1,000 customers showed 69% rated our services as good value for money compared to 62% in the previous year.

#### *in brief*

- The Consumer Council for Water announced in the year that we received the fewest number of complaints of any water and sewerage company, only two complaints for every 1,000 customers. Complaints fell again this year.
- Maintained high levels of customer satisfaction while taking on responsibility for the performance and operation of 11,000 miles of private sewers – doubling the length of our sewer network.
- Retained our government Customer Service Excellence award.
- Introduced a customer care team, calling customers once we leave their property to check their operational problem has been resolved.
- Shortened our operational response times, fixing visible leaks within 24 hours where possible.
- Offered advice on reducing bills and becoming more water efficient.
- Given customers an improved voice through our liaison panels and scrutiny group.
- Launched 'Have your say', our new online customer panel giving more than 2,000 domestic customers a greater say in Wessex Water, along with an equivalent online business panel.
- Launched 'tap', our tailored assistance programme, helping more than 12,000 vulnerable customers to afford their ongoing water bills and repay their debt.
- Launched our 'Money Matters' awards, helping young people in our communities to develop better financial literacy and money management skills.

#### *Customer service*

Last year we were again a leading company on Ofwat's service incentive mechanism (SIM), supported by the results of our own satisfaction and value for money surveys. However, through our internal customer experience group we have looked for ways to continue improving customer service and our SIM score and meet customers' growing expectations. We have improved our processes in many areas and undertaken a review of our speed of response for operational problems, comparing ourselves to companies outside the water industry. We introduced new ways of keeping customers informed, in particular making wider use of text messaging and outbound calling.

And we have started a wide-ranging IT project to give customers more choice in the way they communicate with us, how they receive and pay their bill and report a problem.

## **DIRECTORS' REPORT (continued)**

Complaints have fallen again this year, with total complaints falling by 9%. We are also resolving more complaints first time and have seen a reduction of 15% in escalated complaints.

This year we introduced our customer care team whose role is to call customers within an hour or two of completing operational work at their property to check we have resolved their problem, that the site has been left clean and tidy and that they are satisfied. If customers do not believe their problem has been resolved then we can rectify it quickly and learn from our mistakes. Feedback has helped us to identify additional information for customers, to improve areas of communication and to deal better with those with recurring problems.

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*

Water the way ahead, our 25-year vision has been completed and we are working with our customer scrutiny group (CSG) as we develop our five-year business plan for our regulator, Ofwat. Now in its second year, the CSG's role is to ensure our customer research is robust and reflects the views of all customer groups across our region and, together with the work of our four liaison panels, ensures more feedback from customers to inform everything we do.

This year we talked to a range of customers across many different research projects. To widen our engagement even further and give them an even greater say in our business, we launched 'Have your say', our new online domestic customer panel, along with an equivalent online panel for business customers.

The panels will take part in a variety of surveys throughout the year linked both to business planning and improving our existing service. Customers may also be asked to take part in online focus groups or comment on items we post on online forums.

### *Affordability, tariffs and debt recovery*

Our aim is for bills to be affordable for our customers and value for money. Water is affordable for the great majority of customers but for some, on the lowest incomes, it is not.

We have launched 'tap', our tailored assistance programme, helping more than 12,000 vulnerable customers on the lowest incomes to afford their ongoing water charges or repay their debt.

### *Business customers and added value services*

More than 10 years ago we established a dedicated service desk for our major business customers. We have continued to expand this service, in particular by including more customers who have multiple premises such as high street chains. In addition we have expanded the number of customers who now have a dedicated account manager.

We have worked hard with our customers to drive down water use. In particular we have worked with local authorities and other multi-site organisations to provide a site by site analysis of consumption over the past five years.

We have also completed a survey of schools in our region which has delivered savings to them in excess of £150,000.

A large proportion of our multi-site organisations have requested electronic bills and bill payment and we plan to roll this service out next year.

### *Education and water efficiency*

Informing customers of all ages about what we do and encouraging them to use water wisely forms an important part of our work. In the past year our education officers have received an unprecedented number of requests from schools, colleges and community groups across our region. They delivered lessons about our water and sewage treatment as well as activities on environmental topics and water saving and behind the scenes insight into how we supply drinking water and treat sewage.

Our website and publications offered educational information to customers, encouraging use of our online water and energy calculator and providing informative online videos. We engaged with them further by attending events, offering a free water home check service, promoting water efficient products through our online shop and distributing free WaterSave packs.

We have two free apps available for downloading on mobile devices. The Bag it and Bin it app communicates what should and should not be put down the toilet and a leakage app enables customers to pinpoint a leak and upload a picture so we can deal quickly with an incident.

### *Watermark awards*

Our Watermark awards help organisations with their environmental projects. Organised by the Conservation Foundation, the scheme has awarded thousands of pounds to nearly 50 environmental groups in the last year. Their projects received anything from £150 to £1,500 and included funding for nature trails for a disabled access group, the restoration of a charity bus and a pond to protect great crested newt colonies.

## DIRECTORS' REPORT (continued)

### Our finance

We take a prudent approach to the financial management of the company and with the full support of our shareholder we have decided not to adopt a highly leveraged structure. Virtually all the debt raised from the financial markets sits within the company and is primarily for the use of funding the capital programme.

The UK group structure is simple and transparent with WWSL and the company owned by a single UK holding company.

We recognise how important it is to maintain our existing credit ratings which enables us to access the financial markets at all times. When declaring dividends the board of directors pays great attention to the level of our financial ratios and hence our future credit ratings.

We have an open relationship with HMRC in respect of our tax affairs and we are consistently classified by them as a low risk taxpayer. We choose not to pursue anything that would seriously alter that position. We clearly recognise that we have a duty to pay an appropriate amount of tax on the profits we make and pay that in a timely manner.

Overall we operate our finances to reward our shareholder with an appropriate return on their investment. However, we do not lose sight of the fact that this return needs to be consistent with the needs of our customers, as well as our obligations to deliver a sizeable capital investment programme and to protect the environment in which we operate.

#### *in brief*

- Profit before taxation increased despite excessive rainfall in the year, inflationary pressure on operating costs and an increase in financing charges
- The capital programme is beginning to peak for this price review period and we delivered an increase of 21% in investment compared to the previous year
- Profit before taxation in WWSL of £140.7m incurred a corporation tax charge of £29.7m which is already in the process of being paid to HMRC
- Gearing, as measured by net debt to regulatory capital value at March, remains at 64% which is modest in water sector terms
- Our total cost of debt remains attractive at around 5%
- Dividends in the year were declared in accordance with board policy which at all times is to preserve our existing credit ratings and access to new capital

#### *Capital investment*

After three years of the current five-year price review period our capital expenditure represents 83.2% of the Final Determination allowance up to the end of year three.

We have completed a £26m project to help safeguard the future of water quality at beaches in Weston-super-Mare two years ahead of the introduction of new bathing water standards. Our work at the town's sewage treatment works will significantly contribute to safeguarding water quality at beaches in Weston.

The first outputs associated with our water supply grid programme have been completed and planning permission has been granted for a major section of the project – the £100m, 64km Corfe Mullen to Salisbury trunk main.

The sewer overflow improvement programme remains ahead of the required regulatory output profile with 30 projects achieved by the end of year three compared with 23 required.

We have identified a solution which did not involve construction for the growth scheme at Ramsey service reservoir, resulting in significant savings. The network solution will be implemented on completion of the Operation Clean and Clear Taunton project in 2013-14.

We continue to deliver savings across our investment programme through efficient delivery and innovation. We are sharing £50m of outperformance with customers through a number of customer focused initiatives, such as

- transfer of private sewers – taking ownership of an additional 11,000 miles of sewers and drains that were previously owned by customers
- tap – debt advice and assistance through an innovative programme designed to meet individual customers' needs
- visible leak initiative and real-time monitoring – improving response times for visible leaks ensuring we respond quickly and efficiently to emergent problems on our network
- customer engagement – developing our channels of communication with customers to offer them more opportunities to save money or deliver improvements to their water environment
- innovation – working with University of Bath to research new and more efficient ways of delivering resilient services in the future

## DIRECTORS' REPORT (continued)

### Our environment

We aim to provide high quality, sustainable water and environmental services while at the same time protecting and improving the environment. Working in a collaborative way, focusing on the environment as one of our most important assets, enables us to provide more resilient solutions to improve raw and river water quality, reduce our energy demands and carbon footprint, as well as enhancing wildlife.

#### *in brief*

- Industry leading performer according to the Environment Agency's annual Environmental Performance Assessment
- 100% compliance with sewage discharge consents and abstraction licences
- Fourth time in five years we have had no Category 1 or 2 pollution incidents
- No prosecutions
- Second lowest number of total pollution incidents
- Frome and Piddle catchment initiative, a Defra sponsored collaborative project, to test the catchment based approach launched with an agreed and costed action plan
- Sustainable phosphorus removal trial at Somerton sewage treatment works gained the Green Business award and Green Apple award
- Completed 15 investigations to improve our understanding of our environmental impacts and target future investment based on sound science

We believe in working with the environment more naturally to build resilience by gaining greater understanding and working together with other stakeholders, rather than relying solely on engineered solutions. Over the past year our initiatives have covered a number of areas:

#### *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. Over the previous six years where we have been working collaboratively with farmers, we have seen significant reductions in the levels of nitrate concentrations in our drinking water sources.

Although this year there has been a small rise in nitrate levels during the winter due to the weather, the opposite has been true at the sites at risk of pollution from metaldehyde (the active ingredient in slug pellets).

While other water companies have seen an increase in the incidence of metaldehyde in surface water reservoirs, we have not. This is directly due to our collaborative work with farmers throughout the season to provide an alternative to pesticides, and the advice we have given them on application rates, timings and frequency.

We continue to believe that dealing with the problem at source is a more sustainable and economic approach than energy and chemical intensive end-of-pipe treatment.

#### *Storm overflows and Coastwatch*

Storm overflows understandably concern our customers and can occur more frequently during very wet summers. We have completed intensive and innovative investigations to identify our impact on bathing waters at four Somerset beaches which do not meet the tighter standards that will be introduced in 2015. The results of these studies will inform our quality programme during the next five-year price review period to ensure that investment is targeted and supported by sound scientific evidence.

Our Coastwatch online water quality service has been improved to include amenity waters such as beach streams and boating lakes. It is a key route to engaging with our partners along the coast including local councils, Surfers Against Sewage, Marine Conservation Society and local people.

#### *Bathing Water Directive*

The last 10 years have seen improvement in bathing waters in our region and for the last seven we have maintained 100% compliance with mandatory bathing water standards. However, the summer of 2012 was the wettest since records began and as a result 94% of bathing waters achieved mandatory standards, with 77% complying with the stricter guideline standard.

One of the bathing waters that failed was Uphill at Weston-super-Mare. Bathing waters can be affected by factors outside our control, but we aim to ensure our sewerage and treatment systems do not have an adverse impact.

Our £26m improvement scheme at Weston-super-Mare sewage treatment works was completed ahead of the 2013 bathing season providing increased stormwater storage capacity and improved secondary treatment and ultraviolet disinfection.

#### *Environmental investigations*

Throughout the current five-year price review period our surveying and monitoring programmes have used new technologies such as our in-river water quality monitoring trailer to provide essential data on water quality responses to extreme weather events.



## DIRECTORS' REPORT (continued)

Other investigations have included

- trialling reed beds as a more sustainable process for phosphorus removal
- assessing the impact of discharges from our assets and other sources on the nutrient levels at a number of Sites of Special Scientific Interest (SSSI) in Dorset
- investigating the presence and fate of certain priority hazardous substances through different types of treatment processes
- the impacts reservoirs have on aquatic ecology

### *Wildlife and conservation*

In response to the government's Natural Environment White Paper and Biodiversity 2020, the new England Biodiversity Strategy, we have updated our Biodiversity Action Plan. We were the first private company to publish one in 1998, following the Rio Earth Summit and maintain it as a live document routinely updated following changes to legislation.

During 2012 we continued to manage nearly 300 hectares of our land designated as an SSSI and exceeded government targets for favourable or unfavourable but recovering status. We continued to enhance our other land for wildlife as part of our ongoing birds, bats and bees project focusing on habitat management on our high priority wildlife sites.

The extreme weather during 2012 was challenging to the organisations we support through our Partners Programme. We help fund seven projects which are successfully delivering practical action to contribute to the overall aim of conserving and enhancing biodiversity across our region. These include:

- Dorset Wild Rivers project, delivering 3.35km of river restoration, together with 4.8 hectares of targeted wet woodland and related wetland habitat
- Buglife's Wessex Springs and Seepages project, surveying the invertebrate potential of small and often ignored habitats on the West Dorset coastal cliffs
- a farm water management project in the River Parrett catchment

The past year has shown the value of our partnership approach to conservation with several new or emerging projects enhanced as a result of this collaboration:

- hosting the Frome and Piddle catchment initiative has highlighted the need for work which the Dorset Wild Rivers project has been able to start delivering
- our grid project has been able to work with the South Wiltshire Farmland Bird project to see how we can deliver wildlife enhancements along the pipeline route to offset the temporary impact on species and habitats during construction

### *Carbon management*

Our long-term aim is to be carbon neutral. We have a detailed carbon management plan focusing on avoiding emissions, energy efficiency and developing renewable energy.

We made significant energy savings during 2011-12 and although electricity use increased in 2012-13 by 16.5 GWh (7%) this was a result of the exceptionally wet weather from mid-April to the end of the year. Heavy rainfall increases the amount of energy required for pumping waste water.

Underlying energy use continues to go down and our energy management group carried out a range of projects to increase efficiency and identify unnecessary power use including several at sewage treatment works to reduce energy use while maintaining treatment standards.

## **Our employees**

Our success is predicated on the skills, expertise and goodwill of our employees and without their commitment we would not perform so well. We have continued our recent focus on equipping our employees with the skills and continuing professional development they require to be successful in the future. We take pride in supporting employees' work-life balance, looking after their wellbeing and providing a variety of employee benefits. We believe in promoting diversity and opportunity across our workforce.

### *in brief*

- Exceptional employee performance
- 61% of employees (3,000 training days) took part in a range of development programmes
- Staff believe we have a strong positive and engaging culture
- Development and introduction of key leadership behaviours
- Web based, online recruitment process has improved service delivery to potential candidates and managers

### *Training*

We continue to extend our comprehensive training programme of professional development and upskilling for staff with legal, regulatory and technical training our main priorities. During the year 61% of employees (3,000 training days) took part in development programmes.

## DIRECTORS' REPORT (continued)

We currently have a portfolio of more than 76 technical and craft training courses. In addition, we have various external specialist environmental, engineering and manufacturer delivered programmes.

We aim to fulfil our commitment to actively encourage and support continuing professional development that guarantees both a high standard of performance for Wessex Water and a fulfilling and rewarding career for our staff. Technical capability is vital to our business, but we also recognise the need for strong and effective managers and leaders. We have refined our talent model and are now in the process of ensuring we have meaningful and relevant development opportunities to support our succession plan.

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

This year we have developed and delivered two new management programmes which we believe now complement and complete our leadership pathway.

- The Induction for New Managers is designed for people stepping up to management for the first time in their career. It explores the issues around potentially managing peers, setting expectations and performance goals and basic HR policy and procedures, with a key focus on the moral dilemmas associated with a required shift in attitude and approach from operator to manager.
- The Managing for Performance Programme supports our belief that as our business evolves our leaders of the future need to have a more strategic approach to how they manage their departments and teams. The programme examines and introduces tools and techniques on engagement, motivation and development. It was designed specifically for our middle management tier to bridge the gap between the foundation programme and the leadership capability programme we continue to run in partnership with Coventry University.

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

The Supervisory Foundation for Leadership Programme continues to be one of our most frequently requested courses and more than 70% of our existing supervisory/team manager staff have completed the three-day programme.

We continue to forge and maintain links with the Institute of Directors, London Business School, and the University of West of England to deliver a range of executive development options.

Further education and professional development continue to be important to our business and we encourage our staff to actively seek charterships in their professional disciplines. The business is currently supporting 23 candidates through professional development and more than 50 through further education programmes including environmental and engineering degrees and business administration and management programmes ranging from Institute of Leadership certificate to MBA.

Our apprenticeship programmes are flourishing and we are now in the process of extending apprenticeships to our customer contact centre, laboratory, information services and engineering and construction departments. We are conscious that today's apprentices are our potential managers and leaders of the future, so we recognise the importance of our investment in our apprenticeship training programmes.

We actively seek to encourage our staff to participate with the aim of improving both the business and individual performance which ultimately provides the best possible service and expertise to our customers.

### *Health and safety*

Protecting the health, safety and welfare of our staff, contractors and anyone who is affected by our daily activities is a responsibility that we take very seriously. Health and safety is 'not an optional extra' and this underpins a strong safety culture that is promoted across all parts of the business.

Our safety management processes centre on identifying hazards and ensuring that control measures are implemented to prevent injury or harm from any residual risk. All employees, whatever their position, have an active role in health and safety. We provide training, information and supervision to ensure employees work safely at all times, looking after their own and their colleagues' safety. We have a team of experienced health and safety professionals who offer support to individual managers and staff.

We have well established routes for consulting and communicating on health and safety matters across the company. Central to this is the Health Safety and Welfare Committee with senior management, health and safety professional staff and trade union representation. This is supported by a number of business areas and work activity based committees. We use a wide variety of media to communicate with staff including dedicated pages on our intranet, use of Source, our TV station, staff handbook, toolbox talks, DVDs and safety forums.

Our safety performance has continued to be good this year with a similar number of incidents reported to the Health and Safety Executive as in recent years. However, the severity of the incidents reported has been reduced. The principal causes of incidents remain linked to slips, trips and falls or to manual handling. Work to further improve performance and awareness in these areas forms part of our health and safety plan for 2013-14. During 2012-13 we received the British Safety Council international safety award (merit) and the Royal Society for the Prevention of Accidents gold safety award.

## DIRECTORS' REPORT (continued)

### *Innovation*

During the course of this year we have changed the way we recruit suitable, skilled employees who are culturally aligned, flexible and deliver results. We have replaced our paper based, manual recruitment process with a web based, online process which has improved our service delivery to potential candidates and managers and is expected to reduce the time taken to recruit skilled candidates to vacant roles.

A key driver for continued innovation is cost reduction alongside maintaining or improving the quality of our service delivery. The online recruitment process has enabled us to recruit good quality candidates while leaving potential employees with a positive impression of Wessex Water through their experience of the recruitment process. The quality of the online recruitment process reflects our position in the marketplace.

We will continue to look for innovative opportunities to improve service levels to all stakeholders.

### *Leadership behaviours*

All companies have their own culture – the atmosphere at work, the way people behave and the way things are done. While our staff have told us we have a strong, positive and engaging culture (82% of staff rated Wessex Water a good place to work), we are continuing to develop our culture further.

Every employee, no matter what their job, has an important leadership role to play whether it is with our regulators, our customers or our employees. Supported, respected leaders and enthusiastic, empowered staff play a vital role in building our culture and reinforcing our position as a high performing water and sewerage company.

We have developed and introduced key behaviours that we expect leaders at all levels to demonstrate in all interactions with customers and employees. Through consistent behaviours by all staff at different levels, this will support the culture we are looking to build. The Wessex Water leadership behaviours support our corporate aims and values and the model covers three key areas:

- business – describes behaviours expected from leaders to manage the business successfully
- people – describes how to lead others
- self – sets out personal leadership behaviours

We use leadership behaviours to identify leadership potential, select and appoint leaders, develop leadership capability, talent and succession planning processes and give feedback to our leaders on their performance.

### **Our infrastructure**

We aim to manage and maintain our assets by making sure they operate efficiently and effectively, providing high quality treatment and service. We are the largest infrastructure investor in the region and create local jobs both directly in constructing new assets and in the chain of regional suppliers necessary to support the workload. We fully integrate sustainability principles and practice in our capital programme and scheme options.

### *in brief*

- £235m invested in maintaining and improving services to our customers and the environment
- Provided more than 1 000 jobs both directly in constructing new assets and in the regional supply chain
- Met all our regulatory outputs
- Prepared our draft water resources management plan for consultation
- Progressed our water supply grid, a key component of our water resources planning over the next 25 years which will increase security of supply to customers
- Making good progress on a major programme of mains rehabilitation in Taunton to improve the appearance of the water
- Exceptional 2012 weather affected the number of flooding incidents from our sewerage network and we invested more than £7m to reduce flooding
- Completed the first full year following the transfer of private sewers
- Completed schemes at Weston-super-Mare sewage treatment works to improve quality of bathing water, at Holton Heath sewage works, in Dorset, to meet the Shellfish Directive, and at six sewage treatment works in the Somerset Levels to reduce levels of phosphorus

### *Water resources*

Following the very dry weather in 2011 the last 12 months have been the wettest since the early 1960s. Reservoir levels, river flows and groundwater levels recovered and have been above average ever since.

While the wet weather resulted in a very healthy water resources position throughout most of 2012-13, it caused high nitrate concentrations in the water at a number of groundwater sources. To ensure compliance with drinking water standards was maintained we stopped using some sources and blended source water where required.

In February 2013 we published an update of our drought plan which set out the actions we would take during extended periods of dry weather to reduce demand and/or increase supplies. The update included lessons learnt from the dry weather in 2011 and early 2012.

## **DIRECTORS' REPORT (continued)**

At the end of March 2013 we submitted our draft water resources management plan to Defra. The plan describes how we will balance water supplies with water demands while protecting the environment for the next 25 years.

Our proposals include the introduction of a policy to install meters on properties when they change ownership and enhance our water efficiency services – both of which will help drive demand and abstraction down and reduce leakage. The plan forecasts a surplus of supply over demand and we have examined the scope to export water to neighbouring companies with a deficit of resources. We are consulting on the plan this summer.

Population growth will test our resources and infrastructure and advising customers and encouraging water saving behaviours will help with this.

### *Leakage*

Over the last year we have continued to make good progress on leakage. We have moved towards 24-hour repair of leaks and successfully beat our new lower leakage target.

### *Sewage flooding*

The record wet weather in 2012 had a significant impact on the number of flooding incidents experienced in our region. Fully saturated ground for approximately half the year meant that rainfall events that would otherwise not have caused incidents resulted in flooding.

Unprecedented groundwater levels infiltrated private drains and public sewers throughout the region. In order to protect properties from flooding and losing the ability to use their drainage facilities, we mobilised overpumping and tankering in 36 locations.

We have invested more than £7m to reduce the probability of flooding at 92 properties and external areas in the past year and remain on track to meet our regulatory commitment of removing 527 properties and areas from the flooding risk registers during the current five-year period.

Work continues with local councils in developing surface water management plans and flood management strategies. We worked with Bournemouth Borough Council at Leybourne Avenue, Bournemouth, on plans to construct a sustainable above ground embankment storage system on land owned and maintained by the council, reducing surface water flood risk to properties in the area.

Climate change is bringing more frequent periods of dry weather and very heavy rainfall and planning for this now is essential to dealing successfully with these issues. Providing infrastructure to capture rain when it is abundant and saving it for times of drought will be essential.

### *Private sewers transfer*

Last year was the first full regulatory year following the transfer of private sewers and lateral drains in October 2011 which doubled the length of our sewer network to approximately 22,000 miles (35,000 kilometres).

We recruited additional staff in our call centre and control room and used external drainage contractors to supplement our crews, allowing us to manage the initial influx of work in October 2011 and the subsequent, steady increase in customer calls and work activities throughout the following year. In 2012-13, more than 11,000 jobs were raised and actioned against transferred assets, more than doubling the sewerage workload pre-transfer.

### *Asset management*

To manage our assets effectively and efficiently we continue to ensure all risks associated with operational service are understood and managed throughout the business in order to plan and prioritise maintenance and investment needs.

Our asset management framework has helped us develop a more integrated approach to defining strategic asset management objectives and business processes and systems for delivering them. A key component of this framework has been the implementation of work and asset management systems and these are being extended to all parts of the business to enable us to continue improving our asset knowledge.

For risk management we use modelling and analytical tools to help prioritise investment. These incorporate

- assessments of the impact and likelihood of service failure which can be applied consistently across all our assets
- a review of all customer, environmental, legal, and regulatory risks
- reporting to senior management/Board on strategic high-level risks and mitigation measures

Under Ofwat's serviceability toolkit our serviceability was stable for the sixth consecutive year.

### *Infrastructure improvements*

In Taunton we are carrying out a major programme of mains rehabilitation in order to improve the appearance of the water and provide increased security of supply. No dig techniques have been used extensively to minimise interruptions to customers and businesses and disruption to the public.

## **DIRECTORS' REPORT (continued)**

A major milestone on our water supply grid project was achieved in April 2013 when planning permission was granted for the 64km transfer pipeline from the south to north of our region. This means construction will be able to start in the autumn. The scheme is due to be completed by 2018.

We completed a scheme at Holton Heath sewage works in Dorset where, by transferring flows to the larger treatment works nearby at Wareham, we have ensured the treated effluent is disinfected and the frequency of storm spills reduced. This scheme meets the requirements of the Shellfish Directive to improve the quality of shellfisheries in Poole Harbour.

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

Other schemes include

- construction work to extend Sutton Bingham water treatment works near Yeovil and improve its performance with regard to taste and odour
- construction work at Taunton sewage treatment works on a major £14.3m scheme to extend the secondary treatment plant and improve the quality of the effluent discharged into the River Tone
- construction work at Puddletown sewage treatment works in Dorset to improve the quality of effluent discharged to the river
- more than £4m invested to improve the environmental impact at a further 20 overflows in Bristol
- a further £4m spent on proactively renovating more than 15km of sewers throughout our region

Drought and the development of infrastructure to meet the demands of dry weather conditions pose challenges for the future.

The drainage infrastructure will need to cope with increasing levels of urban creep, especially if planning laws are relaxed, and rainfall events will have more significant impacts on flow rates in sewers as the percentage of impermeable areas continues to grow.

We continue to use environmental and sustainability criteria in the evaluation of all new capital project expenditure. Project screening includes impacts on biodiversity, landscape, watercourses, heritage, visual impact, vehicle movements, noise and the whole-life carbon footprint of new assets.

### *Innovation*

Innovation is important to us so we have signed a joint venture enterprise with the University of Bath. It is worth more than £3m, will create around 20 new research posts and engender innovative ideas that will give us a clear advantage in the next decade.

## **WESSEX WATER ENTERPRISES LTD**

The company generated turnover of £17.0m (£13.9m 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, the treatment of food waste, solicitors' searches and sale of industrial cooling water.

During the year we opened our food waste facility at Avonmouth, Bristol sewage treatment works, operated by our subsidiary business GENeco, this initiative makes use of spare digester capacity to increase the generation of biogas and will produce up to 10 GWh per year of additional renewable electricity at the site.

We have also reached an agreement with Triodos Renewables for their development of wind power at the Avonmouth, Bristol sewage treatment works where four turbines are due to be installed, expected to produce between 15 and 20 GWh of electricity per year.

## **SC TECHNOLOGY GmbH**

Trading under the name Swiss Combi the turnover of the company for the year was £8.5m (£8.4m last year). The principal subsidiary in Holland operates two sludge drying plants and has long term contracts with two major customers.

## **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' REPORT (continued)

### DIRECTORS

The directors of the company during the year and subsequently were

Colin Skellett  
Mark Watts  
Peng Koon Chun – 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 Siang Yeoh \*  
Tiong Lay Yeoh \*

### DIRECTORS' EMOLUMENTS

	Salary	Bonus	Benefits	Total before pension contributions	Pension contributions	Total 2012-13	Total 2011-12
	£000	£000	£000	£000	£000	£000	£000
Colin Skellett	412	172	27	611	-	611	612
Mark Watts	208	105	17	330	34	364	344
Total	620	277	44	941	34	975	956

In addition Colin Skellett and Mark Watts received emoluments of £100k and £80k respectively for their services to the immediate parent company (see note 32)

No emoluments were paid to the other directors

### DIRECTORS SHARE INTERESTS

\* Shares interests of these directors are disclosed in the accounts of YTL Power International Berhad and YTL Corporation Berhad

#### Share options

The following directors have been granted ordinary share options of Malaysian Ringgit RM0 50 each in YTL Power International Berhad (see note 28) under the 2011 UK Plan

	Opening number 1/7/2012	Exercise price RM	Date of grant	Exercise date	Expiry date	Closing number 30/6/2013
Colin Skellett	87,000	1 65	01/06/2012	01/06/2015	31/03/2021	87,000
Colin Skellett	1,913,000	1 49	01/06/2012	01/06/2015	31/03/2021	1,913,000
Mark Watts	87,000	1 65	01/06/2012	01/06/2015	31/03/2021	87,000
Mark Watts	913,000	1 49	01/06/2012	01/06/2015	31/03/2021	913,000

#### Share warrants

YTL Power International Berhad issued share warrants at a price of RM0 10 that entitled the owner of the warrant to convert the warrant into ordinary shares of YTL Power International Berhad over a period of 10 years. The share warrants held were

	At 30 June 2012	Exercise price RM	Date of grant	Expiry date	At 30 June 2013
Mark Watts	37,800	1 21	12/06/2008	11/06/2018	37,800

#### Shares held

The ordinary shares of YTL Power International Berhad of RM0 50 held were

	At 30 June 2012	Purchased	Sold	At 30 June 2013
Mark Watts	333 353	-	-	333 353

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.

## **DIRECTORS' REPORT (continued)**

### **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.

### **EMPLOYMENT**

The group is an equal opportunities employer. No person or group of persons applying for a job with the group 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 group provides staff with special training facilities to enable them to compete or qualify for positions, or to progress, within the group.

### **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 2013.

### **CHARITABLE DONATIONS**

During the year £402,600 was donated to UK charities (2012 – £349,000).

### **SUPPLIER PAYMENT POLICY**

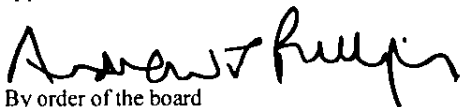
The policy in respect of its suppliers is to agree the payment terms for transactions in advance and to make payments in accordance with those terms. At 30 June 2013 trade creditors represented approximately 31 days trade purchases (2012 – 37 days). The group does not follow any specific external code 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**

KPMG Audit Plc has instigated a transition of its business to KPMG LLP. The Board has decided to put KPMG LLP forward to be appointed as auditor and a resolution concerning their appointment will be put to the forthcoming board meeting.



By order of the board  
A J Phillips  
Company secretary  
Claverton Down  
Bath BA2 7WW  
13 September 2013

## **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 2013 set out on pages 17 to 37. 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 15, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

### Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the group's and of the parent company's affairs as at 30 June 2013 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.

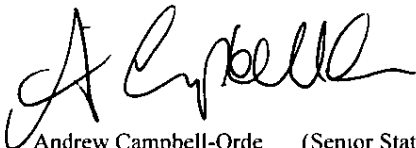
### Opinion on other matter prescribed by the Companies Act 2006

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, in 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.



Andrew Campbell-Orde (Senior Statutory Auditor)  
for and on behalf of KPMG Audit Plc,  
Statutory Auditor  
Chartered Accountants  
100 Temple Street  
Bristol, BS1 6AG  
13 September 2013

**CONSOLIDATED PROFIT AND LOSS ACCOUNT**

For the year to 30 June 2013

	NOTE	Year to 30 06 13 £m	Year to 30 06 12 £m
Turnover	2	516 7	489 9
Operating costs	3	(286 3)	(268 2)
<b>Operating profit</b>	2	<b>230 4</b>	<b>221 7</b>
Interest payable and similar charges	5	(84 7)	(84 8)
Interest receivable	5	3 7	3 4
Other finance charges	5	(2 3)	(1 2)
<b>Profit on ordinary activities before taxation</b>		<b>147 1</b>	<b>139 1</b>
Taxation on profit on ordinary activities	6	(12 2)	(50 1)
<b>Profit for the financial year</b>		<b>134.9</b>	<b>89 0</b>

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

The accompanying notes on pages 21 to 37 are an integral part of this profit and loss account

**BALANCE SHEETS**  
30 June 2013

	NOTE	Group		Company	
		30 06 13 £m	30 06 12 £m	30 06 13 £m	30 06 12 £m
<b>Fixed assets</b>					
Tangible assets	8	2,199.3	2,097.1	-	-
Investments	9	-	-	82.5	82.5
		<b>2,199.3</b>	<b>2,097.1</b>	<b>82.5</b>	<b>82.5</b>
<b>Current assets</b>					
Stock	10	7.8	7.6	-	-
Debtors	11	241.7	235.6	132.8	129.7
Cash at bank and in hand	12	144.7	173.0	3.6	1.9
		<b>394.2</b>	<b>416.2</b>	<b>136.4</b>	<b>131.6</b>
Creditors – amounts falling due within one year	13	(213.9)	(247.3)	(52.8)	(48.3)
		<b>180.3</b>	<b>168.9</b>	<b>83.6</b>	<b>83.3</b>
<b>Total assets less current liabilities</b>					
		<b>2,379.6</b>	<b>2,266.0</b>	<b>166.1</b>	<b>165.8</b>
Creditors – amounts falling due after more than one year	14	(1,888.5)	(1,762.7)	-	-
Provisions for liabilities	15	(105.2)	(124.1)	-	-
Retirement benefit obligations	16	(88.9)	(104.5)	-	-
Deferred income	17	(17.1)	(17.7)	-	-
		<b>279.9</b>	<b>257.0</b>	<b>166.1</b>	<b>165.8</b>
<b>Capital and reserves</b>					
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	119.3	96.4	5.5	5.2
		<b>279.9</b>	<b>257.0</b>	<b>166.1</b>	<b>165.8</b>
<b>Shareholders' funds</b>					
		<b>279.9</b>	<b>257.0</b>	<b>166.1</b>	<b>165.8</b>

The notes on pages 21 to 37 are an integral part of this balance sheet  
Registered in England and Wales No 2366633

The financial statements were approved by the board of directors on 13 September 2013 and signed on its behalf by

M T Watts  
Director



**CONSOLIDATED CASH FLOW STATEMENT**

For the year to 30 June 2013

	NOTE	Year to 30 06 13 £m	Year to 30 06 12 £m
Net cash inflow from operating activities	21	344 8	313 2
Returns on investments and servicing of finance	22	(75 1)	(78 3)
Taxation		(28.0)	(23 4)
Capital expenditure and financial investment	23	(225 0)	(175 2)
Dividends paid		(123 1)	(172 9)
<hr/>			
Cash flow before financing		(106 4)	(136 6)
Financing	24	78 5	293 3
<hr/>			
(Decrease) / increase in cash in the year		(27 9)	156 7
<hr/>			
<b>Reconciliation of cash movement to the movement in net debt</b>			
(Decrease) / increase in cash in the year - above		(27 9)	156 7
Movement in loans and leases		(52 8)	(262 6)
Non cash items	25	(25 7)	(30 7)
<hr/>			
<b>Movement in net debt</b>	25	<b>(106 4)</b>	<b>(136 6)</b>
<b>Net debt at the start of the year</b>	25	<b>(1,575 9)</b>	<b>(1,439 3)</b>
<hr/>			
<b>Net debt at the end of the year</b>	25	<b>(1,682 3)</b>	<b>(1,575 9)</b>

**CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**

For the year to 30 June 2013

	<b>Group</b>	<b>Company</b>	<b>Group</b>	<b>Company</b>
	<b>Year to</b>	<b>Year to</b>	<b>Year to</b>	<b>Year to</b>
	<b>30.06 13</b>	<b>30 06.13</b>	<b>30 06 12</b>	<b>30 06 12</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Profit for the financial year	134.9	123.9	89.0	153.8
Foreign currency adjustment	0.2	-	(0.1)	-
Actuarial gain / (loss) in the pension scheme	16.5	-	(72.2)	-
Deferred tax arising on actuarial gain / (loss) in the pension scheme	(5.1)	-	16.1	-
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total recognised gains and losses relating to the financial year</b>	<b>146.5</b>	<b>123.9</b>	<b>32.8</b>	<b>153.8</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

**RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS**

For the year to 30 June 2013

	<b>Group</b>	<b>Company</b>	<b>Group</b>	<b>Company</b>
	<b>Year to</b>	<b>Year to</b>	<b>Year to</b>	<b>Year to</b>
	<b>30 06 13</b>	<b>30 06 13</b>	<b>30 06 12</b>	<b>30 06 12</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Opening shareholders' funds</b>	<b>257.0</b>	<b>165.8</b>	<b>377.9</b>	<b>165.7</b>
Profit for the financial year	134.9	123.9	89.0	153.8
Dividends (note 7)	(123.6)	(123.6)	(153.7)	(153.7)
Foreign currency adjustment	0.2	-	(0.1)	-
Actuarial gain / (loss) in the pension scheme	16.5	-	(72.2)	-
Deferred tax arising on actuarial gain / (loss) in the pension scheme	(5.1)	-	16.1	-
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Closing shareholders' funds</b>	<b>279.9</b>	<b>166.1</b>	<b>257.0</b>	<b>165.8</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The note on pages 21 to 37 are an integral part of these financial statements

## NOTES TO THE ACCOUNTS

For the year to 30 June 2013

### 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 2013. 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. For measured customers turnover includes an estimate of the sales value of units consumed between the last meter reading and the end of the period. Where premises are unoccupied or where no services are provided, charges are not raised and no turnover is recognised

#### d Tangible fixed assets and depreciation

Tangible fixed assets comprise infrastructure assets and other assets

- 1 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

- 11 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

**l 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

**l 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**

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

**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 13 £m	Year to 30 06 12 £m
<b>2 Segmental analysis</b>		
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	492.5	469.1
Unregulated	24.2	20.8
	<u>516.7</u>	<u>489.9</u>
b Operating profit		
Regulated	225.1	217.3
Unregulated	5.3	4.4
	<u>230.4</u>	<u>221.7</u>
c Net assets		
Regulated	200.1	179.8
Unregulated	79.8	77.2
	<u>279.9</u>	<u>257.0</u>
<b>3 Operating costs</b>		
Manpower costs (note 4b)	55.2	50.6
Materials and consumables	29.2	29.5
Other operational costs	78.8	70.1
Depreciation of fixed assets	124.2	118.1
Amortisation of grants and contributions	(0.7)	(0.8)
(Profit) / loss on disposal of fixed assets	(0.4)	0.7
	<u>286.3</u>	<u>268.2</u>
Operating costs include		
Operating leases for plant and machinery	1.6	1.3
Research and development	0.1	0.1
Directors' remuneration	1.0	1.0
	<u>2.7</u>	<u>2.4</u>
	<b>Year to 30 06 13 £000</b>	<b>Year to 30 06 12 £000</b>
Auditor's remuneration		
Audit of these financial statements	116	86
Audit of financial statements of subsidiaries pursuant to legislation	144	178
Tax compliance services	14	14
Other tax advisory services	21	84
All other services	1	27
	<u>296</u>	<u>389</u>

	Year to 30 06 13 £m	Year to 30 06 12 £m
<b>4 Employment costs</b>		
<b>a Total employment costs of the group</b>		
Wages and salaries	64.7	59.8
Social security costs	5.9	5.4
Other pension costs	10.8	9.5
	<u>81.4</u>	<u>74.7</u>
<b>b Total employment costs are charged as follows</b>		
Capital schemes	20.8	18.2
Infrastructure renewals expenditure	5.4	5.9
Manpower costs (note 3)	55.2	50.6
	<u>81.4</u>	<u>74.7</u>
	<b>30 06 13 number</b>	<b>30 06 12 number</b>
<b>c Monthly average number of employees during the year</b>		
Wessex Water Services Ltd	1,806	1,720
Billing joint venture – Bristol Wessex Billing Services Ltd	332	353
Wessex Water Enterprises Ltd	13	9
SC Technology AG	19	19
Wessex Water Ltd	4	5
	<u>2,174</u>	<u>2,106</u>
	<b>Year to 30 06 13 £000</b>	<b>Year to 30 06 12 £000</b>
<b>d Directors' remuneration</b>		
Total remuneration (including benefits in kind)	975	956
	<u>975</u>	<u>956</u>
Highest paid director (including benefits in kind)	611	612
	<u>611</u>	<u>612</u>
	<b>Year to 30 06.13 £m</b>	<b>Year to 30 06 12 £m</b>
<b>5 Net interest payable</b>		
On bank loans	84.1	83.8
On finance leases	0.6	1.0
	<u>84.7</u>	<u>84.8</u>
Total interest payable	84.7	84.8
Inter company interest receivable	(1.3)	(1.6)
Interest receivable on short-term deposits	(2.4)	(1.8)
	<u>(3.7)</u>	<u>(3.4)</u>
Total interest receivable	(3.7)	(3.4)
Other finance charges	2.3	1.2
	<u>2.3</u>	<u>1.2</u>
Net interest payable	<u>83.3</u>	<u>82.6</u>

	Year to 30 06 13 £m	Year to 30 06 12 £m
<b>6 Taxation</b>		
<b>a Analysis of charge in the year</b>		
Current year corporation tax	31.2	31.6
UK corporation tax at 23.75% (2012 – 25.5%)	(1.4)	(10.8)
Adjustments in respect of previous years		
<b>Total corporation tax charge</b>	<b>29.8</b>	<b>20.8</b>
Deferred tax – current year		
Origination and reversal of timing differences	(7.9)	(18.1)
(Increase) / decrease in discount	(10.3)	40.4
Deferred tax – prior year	(18.2)	22.3
Origination and reversal of timing differences	1.0	8.5
(Increase) in discount	(0.4)	(1.5)
	<b>0.6</b>	<b>7.0</b>
<b>Total deferred tax (credit) / charge</b>	<b>(17.6)</b>	<b>29.3</b>
<b>Taxation charge on profit on ordinary activities</b>	<b>12.2</b>	<b>50.1</b>
<b>b Current tax reconciliation</b>		
Profit on ordinary activities before tax	147.1	139.1
Current tax at 23.75% (2012 – 25.5%)	34.9	35.5
Group relief for nil consideration	(2.8)	(3.0)
Adjustments in respect of previous years	(1.4)	(10.8)
Capital allowances for the year less than depreciation	2.0	3.1
Payment of lease creditor capital	(1.6)	(1.7)
Subsidiary company profits	(0.1)	(0.2)
Other timing differences	(1.2)	(2.1)
<b>Total corporation tax charge (note 6a)</b>	<b>29.8</b>	<b>20.8</b>
<b>c</b> On 20 March 2013 the Chancellor announced the reduction in the corporation tax rate to 20% with effect from 1 April 2015 but these changes were not substantially enacted by 30 June 2013. Had this change been enacted at the balance sheet date the deferred tax provision (note 15) would have reduced by £15.8m to £89.2m, and the deferred tax asset (note 16) would have decreased by £3.4m to £22.8m		
<b>7 Dividends</b>		
Final dividend in respect of a prior year not recognised as a liability in that year	-	23.1
Interim dividends	98.8	106.3
Final dividend	24.8	24.3
	<b>123.6</b>	<b>153.7</b>

## 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
<b>Cost</b>						
At 1 July 2012	681.1	1,269.0	1,213.3	108.9	106.9	3,379.2
Additions	7.0	77.1	51.6	4.4	95.2	235.3
Exchange differences	0.1	-	0.7	-	-	0.8
Transfers on commissioning	20.3	8.9	41.7	2.6	(73.5)	-
Disposals	(1.8)	-	(11.4)	(0.5)	-	(13.7)
Grants and contributions	-	(5.8)	-	-	-	(5.8)
<b>At 30 June 2013</b>	<b>706.7</b>	<b>1,349.2</b>	<b>1,295.9</b>	<b>115.4</b>	<b>128.6</b>	<b>3,595.8</b>
<b>Depreciation</b>						
At 1 July 2012	216.0	445.6	584.5	36.0	-	1,282.1
Charge for the year	13.9	44.6	59.0	6.7	-	124.2
Exchange differences	-	-	0.5	-	-	0.5
Disposals	(0.2)	-	(9.6)	(0.5)	-	(10.3)
<b>At 30 June 2013</b>	<b>229.7</b>	<b>490.2</b>	<b>634.4</b>	<b>42.2</b>	<b>-</b>	<b>1,396.5</b>
<b>Net Book Value</b>						
<b>At 30 June 2013</b>	<b>477.0</b>	<b>859.0</b>	<b>661.5</b>	<b>73.2</b>	<b>128.6</b>	<b>2,199.3</b>
At 1 July 2012	465.1	823.4	628.8	72.9	106.9	2,097.1

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 £38.7m (2012 - £45.0m)

The depreciation charge for the year on assets held under finance leases is £6.5m (2012 - £6.5m)

The net book value of infrastructure assets at 30 June 2013 is stated after the deduction of grants and contributions amounting to £133.3m (2012 - £127.5m) in order to give a true and fair view (see note 1f)

Included in the cost of infrastructure assets is £502.5m (2012 - £454.2m) of expenditure on maintaining the network and £490.3m (2012 - £445.7m) of depreciation included in the profit and loss account

Included in freehold land and buildings above is an amount of £11.4m (2012 - £10.9m) in respect of land which is not depreciated

## 9 Investments

Company	Subsidiary companies £m
<b>Cost</b>	
At 1 July 2012	104.1
Additions	-
	<hr/>
<b>At 30 June 2013</b>	<b>104.1</b>
	<hr/>
<b>Amounts written off</b>	
At 1 July 2012	21.6
Written off in the year	-
	<hr/>
<b>At 30 June 2013</b>	<b>21.6</b>
	<hr/>
<b>Carrying value at 30 June 2013</b>	<b>82.5</b>
	<hr/>
Carrying value at 1 July 2012	82.5
	<hr/>

The investments comprise shares in the subsidiary and associated undertakings (see note 30)

## 10 Stock

	Group	
	30 06 13	30 06 12
	£m	£m
Raw materials and consumables	3.0	3.1
Work in progress	4.8	4.5
	<hr/>	<hr/>
	<b>7.8</b>	<b>7.6</b>
	<hr/>	<hr/>

## 11 Debtors

	Group		Company	
	30 06 13	30 06 12	30 06 13	30 06 12
	£m	£m	£m	£m
Trade debtors	62.8	61.3	-	-
Amounts owed by subsidiary companies	-	-	29.6	29.7
Amounts owed by other group companies	0.6	-	0.6	-
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
Loan to subsidiary company	-	-	2.8	-
Other debtors	7.4	6.6	0.7	0.3
Prepayments and accrued income	81.4	78.2	9.6	10.2
	<hr/>	<hr/>	<hr/>	<hr/>
	<b>241.7</b>	<b>235.6</b>	<b>132.8</b>	<b>129.7</b>
	<hr/>	<hr/>	<hr/>	<hr/>

A loan of £89.4m (2012 - £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	144.7	173.0	-	-
Cash at bank	-	-	3.6	1.9
	<hr/>	<hr/>	<hr/>	<hr/>
	<b>144.7</b>	<b>173.0</b>	<b>3.6</b>	<b>1.9</b>
	<hr/>	<hr/>	<hr/>	<hr/>

£44.7m of short-term bank deposits mature within 1 month, £12.0m within 3 months, £46.0m within 4 months, £27.0m within 7 months and £15.0m within 9 months. Interest receivable on short-term deposits is disclosed in note 5

### 13 Creditors - amounts falling due within one year

	Group		Company	
	30 06 13	30 06 12	30 06 13	30 06 12
	£m	£m	£m	£m
Bank overdraft repayable on demand	14 7	15 1	-	-
Short term bank loans	3 6	54 5	3 6	4 5
Loan from parent company	2 8	-	2 8	-
Obligations under finance leases	7 8	7 0	-	-
Trade creditors	9 6	10 0	-	-
Amounts owed to subsidiary company	-	-	21 2	19 4
Amounts owed to parent company	0 6	0 6	-	-
Amounts owed to associate companies	0 6	0 2	-	-
Dividend	24 8	24 3	24 8	24 3
Other creditors	2 5	2 1	-	-
Corporation tax	17 9	16 3	-	-
Other taxation and social security	2 1	2 0	-	-
Accruals and deferred income	126 9	115 2	0.4	0 1
	<b>213 9</b>	<b>247 3</b>	<b>52 8</b>	<b>48 3</b>

### 14 Creditors - amounts falling due after more than one year

	Group	
	30 06 13	30 06 12
	£m	£m
Loans repayable - in more than 1 year, but not more than 2 years	-	-
- in more than 2 years, but not more than 5 years	100 0	100 0
- in more than 5 years	215 0	215 0
	<b>315 0</b>	<b>315 0</b>
Finance lease repayable		
- in more than 1 year, but not more than 2 years	8 6	7 8
- in more than 2 years, but not more than 5 years	31 9	29 1
- in more than 5 years	2 8	14 7
	<b>43 3</b>	<b>51 6</b>
Bonds - in more than 5 years	1,529 2	1,395 1
Other creditors	1 0	1 0
	<b>1,888.5</b>	<b>1,762 7</b>

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

Bond at 5 375% repayable in March 2028	198 4	198 3
Bond at 5 75% repayable in October 2033	346 4	346 2
Bond at 4 0% repayable in September 2021	305 4	197 5
Index linked bond at 3 52% plus inflation repayable in July 2023	69 5	66 7
Index linked bond at 2 186% plus inflation repayable in June 2039	58 0	56 2
Index linked bond at 1 75% plus inflation repayable in July 2046	93 5	89 7
Index linked bond at 1 75% plus inflation repayable in July 2051	93 6	89 8
Index linked bond at 1 369% plus inflation repayable in July 2057	93.5	89 8
Index linked bond at 1 374% plus inflation repayable in July 2057	93 6	89 8
Index linked bond at 1 489% plus inflation repayable in November 2058	59 1	57 0
Index linked bond at 1 495% plus inflation repayable in November 2058	59 1	57 0
Index linked bond at 1 499% plus inflation repayable in November 2058	59 1	57 1
	<b>1,529 2</b>	<b>1,395 1</b>

## 15 Provisions for liabilities

	Deferred tax £m	Restructuring costs £m	Group Total £m
At 1 July 2012	123.9	0.2	124.1
Utilised	-	(0.2)	(0.2)
Provided in year	-	0.2	0.2
Origination and reversal of timing differences	(8.1)	-	(8.1)
Increase in discount	(10.8)	-	(10.8)
	<hr/>	<hr/>	<hr/>
<b>At 30 June 2013</b>	<b>105.0</b>	<b>0.2</b>	<b>105.2</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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

	Group	
	30 06 13 £m	30 06 12 £m
Deferred tax is provided as follows		
Accelerated capital allowances	254.0	262.3
Other timing differences	(0.4)	(0.6)
	<hr/>	<hr/>
Undiscounted provision for deferred tax	253.6	261.7
Discount	(148.6)	(137.8)
	<hr/>	<hr/>
Discounted provision for deferred tax	105.0	123.9
	<hr/> <hr/>	<hr/> <hr/>

## 16 Pensions

FRS 17 pension liability (see note 16e)	113.9	135.8
FRS 17 deferred tax asset	(26.2)	(32.6)
Unfunded and compensatory added years pension	1.2	1.3
	<hr/>	<hr/>
	88.9	104.5
	<hr/> <hr/>	<hr/> <hr/>

- 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 £13.1m (2012 - £10.7m). 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 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 2013 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

	30.06.13	30.06.12
Rate of increase in salaries – short term	2.15% to 3.4%	2.5%
Rate of increase in salaries – long term	4.2%	3.8%
Rate of increase in pensions in payment	2.4% or 3.2%	2.3% or 2.9%
Rate of increase in pensions in payment – reduced level members	2.2%	2.1%
Discount rate	4.6%	4.4%
Inflation assumption – RPI	3.4%	3.0%
Inflation assumption – CPI	2.4%	2.3%

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 27.1 years if they are male, and for a further 28.9 years if they are female. For a member who retires in 2033 at age 60 the assumptions are that they will live, on average, for a further 28.7 years after retirement if they are male, and a further 30.5 years after retirement if they are female.

### Sensitivity analysis

The calculation of the defined benefit obligation is sensitive to the assumptions set out above. A reduction in the discount rate of 0.1% from 4.6% to 4.5% would increase the scheme liabilities by £9.2m from £536.0m to £545.2m, increasing the scheme deficit to £123.1m. An increase in the inflation assumption of 0.1% (from 2.4% to 2.5% for CPI and 3.4% to 3.5% for RPI) would increase the scheme liabilities by £8.0m from £536.0m to £544.0m, increasing the scheme deficit to £121.9m.

- e The value of the assets and liabilities at 30 June 2013 and the previous year was as follows

	30.06.13	30.06.12
	£m	£m
Equities	188.8	172.2
Property	45.2	26.6
Government Bonds	108.8	98.2
Corporate Bonds	78.9	82.8
Other	0.4	1.0
	<hr/>	<hr/>
Total fair value of the assets	422.1	380.8
Present value of defined benefit obligations	(536.0)	(516.6)
	<hr/>	<hr/>
Deficit in the scheme	(113.9)	(135.8)
	<hr/> <hr/>	<hr/> <hr/>

The expected rates of return were as follows

	%	%
Equities	7.8	7.7
Property	7.2	6.7
Government Bonds	3.3	2.7
Corporate Bonds	4.2	3.6
Other	0.8	1.6
	<hr/>	<hr/>
	5.9	5.4
	<hr/> <hr/>	<hr/> <hr/>

### 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 2013.



16 Pensions (continued)

f Additional analysis

	30.06 13 £m	30 06 12 £m
<b>Analysis of profit and loss charge</b>		
Current service cost	10 6	9 2
Past service cost	0 2	0 3
Interest cost	22 6	24 0
Expected return on scheme assets	(20.3)	(22 8)
	<hr/>	<hr/>
Expense recognised in profit and loss account	13 1	10 7
	<hr/>	<hr/>
<b>Changes to the present value of defined benefit obligations during the year</b>		
Opening present value of defined benefit obligations	516 6	431 6
Current service cost	10.6	9 2
Interest cost	22.6	24 0
Contributions by scheme participants	0.2	0 3
Actuarial losses on scheme liabilities	2.7	67 3
Net benefits paid out	(16 9)	(16 1)
Past service cost	0 2	0 3
	<hr/>	<hr/>
Closing present value of defined benefit obligations	536.0	516 6
	<hr/>	<hr/>
<b>Changes to the fair value of scheme assets during the year</b>		
Opening fair value of scheme assets	380.8	359 8
Expected return on scheme assets	20.3	22 8
Actuarial gains / (losses) on scheme assets	19.2	(4 9)
Contributions by the employer	18 5	18 9
Contributions by scheme participants	0 2	0 3
Net benefits paid out	(16 9)	(16 1)
	<hr/>	<hr/>
Closing fair value of scheme assets	422.1	380 8
	<hr/>	<hr/>
<b>Actual return on scheme assets</b>		
Expected return on scheme assets	20.3	22 8
Actuarial gains / (losses) on scheme assets	19.2	(4 9)
	<hr/>	<hr/>
Actual return on scheme assets	39 5	17 9
	<hr/>	<hr/>
<b>Analysis of amounts recognised in Statement of Total Recognised Gains and Losses</b>		
Total actuarial gains / (losses)	16 5	(72 2)
	<hr/>	<hr/>
Cumulative amount of losses recognised	(148.4)	(164 9)
	<hr/>	<hr/>

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

	30 06 13 £m	30 06 12 £m	30 06 11 £m	30 06 10 £m	30 06 09 £m
Fair value of scheme assets	422 1	380 8	359 8	311 6	277 7
Present value of scheme liabilities	(536 0)	(516 6)	(431 6)	(411 4)	(323 6)
Deficit in the scheme	(113.9)	(135 8)	(71 8)	(99 8)	(45 9)
Experience gains / (losses) on scheme assets	19 2	(4 9)	24 7	10 8	(45 7)
Experience gains / (losses) on scheme liabilities	0 2	(3 1)	0 8	2 8	10 5

	30 06 13	30 06 12
	£m	£m
<b>17 Deferred income</b>		
Grants and contributions		
At 1 July	17 7	18 5
Received in the year	0 1	-
Less amortisation	(0 7)	(0 8)
	<hr/>	<hr/>
At 30 June	17 1	17 7
	<hr/> <hr/>	<hr/> <hr/>
<b>18 Called up equity share capital</b>		
	Group and	Company
	£m	£m
<b>Authorised</b>		
346,666,670 ordinary shares of 60p each	208 0	208 0
	<hr/>	<hr/>
<b>Allotted and fully paid</b>		
219,585,986 ordinary shares of 60p each	131 8	131 8
	<hr/> <hr/>	<hr/> <hr/>
<b>19 Share premium account</b>		
	Group and	Company
	£m	£m
Share premium	28 8	28 8
	<hr/> <hr/>	<hr/> <hr/>
<b>20 Profit and loss account</b>		
<i>Group</i>		
At 1 July	96 4	217 3
Profit attributable to shareholders	134.9	89 0
Dividends (note 7)	(123.6)	(153 7)
Foreign currency adjustment	0.2	(0 1)
Actuarial gains / (losses) net of taxation	11.4	(56 1)
	<hr/>	<hr/>
<b>At 30 June</b>	119 3	96 4
	<hr/> <hr/>	<hr/> <hr/>
<i>Company</i>		
At 1 July	5 2	5 1
Profit attributable to shareholders	123 9	153 8
Dividends (note 7)	(123 6)	(153 7)
	<hr/>	<hr/>
<b>At 30 June</b>	5 5	5 2
	<hr/> <hr/>	<hr/> <hr/>

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 £123.9m (2012 - £153.8m) after dividends from subsidiary companies of £123.6m (2012 - £153.4m).

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

	Year to 30 06 13 £m	Year to 30 06 12 £m
Operating profit	230.4	221.7
Depreciation	124.2	118.1
Amortisation of grants and contributions	(0.7)	(0.8)
Provisions	(7.7)	(9.3)
(Profit) / loss on disposal of fixed assets	(0.4)	0.7
(Increase) in stocks	(0.2)	(0.8)
(Increase) in debtors	(7.1)	(18.0)
Increase in creditors	6.3	1.6
	<u>344.8</u>	<u>313.2</u>

## 22 Returns on investments and servicing of finance

Interest received	4.6	2.1
Interest paid	(79.1)	(78.9)
Interest element of finance lease rentals	(0.6)	(1.5)
	<u>(75.1)</u>	<u>(78.3)</u>

## 23 Capital expenditure and financial investment

Purchase of tangible fixed assets	(234.8)	(181.9)
Sale of tangible fixed assets	3.8	1.1
Connection charges, grants and deferred income	6.0	5.6
	<u>(225.0)</u>	<u>(175.2)</u>

## 24 Financing

Loans and finance leases received	137.7	303.1
Loans and finance leases repaid	(59.2)	(9.8)
	<u>78.5</u>	<u>293.3</u>

## 25 Movement in net debt

	1 July 2012 £m	Cash Flow £m	Non cash items £m	30 June 2013 £m
Short term cash investments	173.0	(28.3)	-	144.7
Bank overdraft	(15.1)	0.4	-	(14.7)
Short term loans	(54.5)	50.9	-	(3.6)
Loans repayable after one year	(315.0)	-	-	(315.0)
Loan from parent company	-	(2.8)	-	(2.8)
Amounts owed by parent company	89.4	-	-	89.4
Finance leases repayable within one year	(7.0)	(0.8)	-	(7.8)
Finance leases repayable after one year	(51.6)	8.3	-	(43.3)
Bonds repayable after one year	(1,395.1)	(108.4)	(25.7)	(1,529.2)
	<u>(1,575.9)</u>	<u>(80.7)</u>	<u>(25.7)</u>	<u>(1,682.3)</u>

## 26 Financial instruments

Short term debtors and creditors have been excluded from the financial instrument disclosure other than £144.7m (2012 - £173.0m) of cash at bank and in hand, £28.9m (2012 - £76.6m) of short term borrowings and £89.4m (2012 - £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 2013 there were no undrawn facilities (2012 - £25.0m). There are no securities attributed to any of the borrowings

### a Interest rate and currency exposure

	Fixed rate borrowings 2013 £m	Floating rate borrowings 2013 £m	Total borrowings 2013 £m	Fixed rate borrowings 2012 £m	Floating rate borrowings 2012 £m	Total borrowings 2012 £m
Sterling	1,529.2	153.1	1,682.3	1,395.1	180.8	1,575.9

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

	Interest rate % 2013	Period years 2013	Interest rate % 2012	Period years 2012
Sterling	3.8	24.9	3.8	26.9

Floating rate borrowings with interest rates moving in line with LIBOR comprise £28.9m (2012 - £76.6m) of short term borrowings, £358.3m (2012 - £366.6m) of long term borrowings less £89.4m (2012 - £89.4m) owed by immediate parent company and £144.7m (2012 - £173.0m) of cash at bank and in hand

### b Fair values

	Book value £m 2013	Fair value £m 2013	Book value £m 2012	Fair value £m 2012
Borrowings less than 1 year	(115.8)	(115.8)	(96.4)	(96.4)
Amounts owed by immediate parent company	(89.4)	(89.4)	(89.4)	(89.4)
Floating rate borrowings over 1 year	358.3	358.3	366.6	366.6
Fixed rate borrowings over 1 year	1,529.2	1,791.6	1,395.1	1,701.3
	1,682.3	1,944.7	1,575.9	1,882.1

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 (2012 - £0.1m). There are no commitments under other operating leases
- b Capital expenditure contracted but not provided at 30 June 2013 was £81.6m (2012 - £84.8m)

## 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 current scheme is 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)

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. A charge of £0.7m was recognised in the profit and loss account for FRS 20. The fair value was calculated using a trinomial model with the following key assumptions

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

The following options were outstanding at 1 July 2012 and 30 June 2013

Granted – Ordinary shares of RM0.50 each	Outstanding at 1 July 2012	Granted in year	Forfeited	Outstanding at 30 June 2013
01/06/2012 Unapproved	9,997,000	-	(478,000)	9,519,000
01/06/2012 Approved	41,919,000	-	(820,000)	41,099,000
<b>TOTAL</b>	<b>51,916,000</b>	<b>-</b>	<b>(1,298,000)</b>	<b>50,618,000</b>

## 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 2013 was £0.3m (2012 - £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
Wessex Enterprises Laundry Services Ltd	United Kingdom	Laundry services
Water 2 Business Ltd	United Kingdom	Retail services

\* 100% owned by Wessex Water Services Ltd \*\* 100% owned by Wessex Water Enterprises Ltd  
Other subsidiary companies are dormant or are 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 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