WESSEX WATER LTD

ANNUAL REPORT AND FINANCIAL STATEMENTS

30 June 2014

Registered in England and Wales No. 2366633

CONTENTS

STRATEGIC REPORT

Principal Activities

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

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

Financial performance

Profit after tax increased by £33.7m from £134.9m to £168.6m, due to the factors shown below.

Turnover increased by £30.1m or 5.8% to £546.8m, mainly driven by the increase in the regulated turnover of WWSL.

Operational costs excluding depreciation increased by £13.5m from £163.2m to £176.7m. There were increases in business rates, increases due to the cost of new obligations and increases in the costs of pumping and transportation because of the extensive flooding caused by the prolonged wet weather in the winter months.

Depreciation charges (including the infrastructure maintenance charge and the disposal of assets) have increased by £8.1m from £123.1m to £131.2m. The increase is a result of a £2.8m increase in the infrastructure maintenance charge, while depreciation increased by £5.3m of which £1.8m was an increased cost of disposal of assets and £3.5m an increase in base depreciation from the continuing capital investment programme.

Interest charges, including other finance charges, decreased by £8.9m from £83.3m to £74.4m, of which £2.1m was a reduction in the interest costs associated with pension accounting under FRS17 and £6.8m due to the reduction in the cost of debt from 4.4% to 3.9% (despite an increase in net debt of £76.3m from £1,682.3m to £1,758.6m).

The cash outflow of £76.3m comprised:

• cash flow from operating activities of £358.9m, less
• interest payments of £73.8m
• tax payments of £11.6m
• net capital investment of £224.9m
• dividend payments of £124.9m.

There was a tax credit in the year of £4.1m, a movement of £16.3m from £12.2m charged last year, comprising:

• a corporation tax reduction of £19.5m because of a £17.1m increase in prior year credits. The large prior year credit in the year was the result of an industry-wide agreement with HMRC for the re-categorisation of capital allowances from industrial buildings allowances (IBA) into long life plant. The agreement followed the government decision to reduce the IBA over a period from 4% in the year to March 2008 to zero in the year to March 2012. There was also a fall in the corporation tax rate from 23.75% to 22.5%.

• deferred tax moving from a £17.6m credit last year to a £14.4m credit this year. The principal reason for the credit in 2013-14 is the increase in discount rates from June 2013 to June 2014 which has increased deferred tax discounting. Although the IBA agreement (that creates a credit to corporation tax) produces an equal and opposite charge to gross deferred tax that charge is reduced significantly by the deferred tax discounting.

Dividends declared in the year amounted to £100.1m compared to £123.6m last year.

Under FRS 17 'Retirement Benefits' the pension scheme deficit of £113.9m at the start of the year has decreased to £98.8m at 30 June 2014, the increase in the liabilities of £30.5m being less than the £45.6m 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 43.7% (2013 – 44.6%) as cost increases were proportionately more than the increase in turnover, and interest cover (excluding pensions finance charge) increased slightly to 3.2 times (2013 – 2.8 times) as net interest costs fell from the previous year.

STRATEGIC REPORT (continued)

Wessex Water Services Ltd

Overview (some indicators are measured for the regulatory year to 31 March 2014)

It is 40 years since Wessex Water was formed as a regional water authority on 1 April 1974 and in October it will be 25 years since we were privatised. It is sometimes difficult to remember the scale of the changes that have taken place: from a time when the River Avon, through Bristol, had to be chlorinated in the summer to kill the smell and some rural customers often went days without proper water supplies during very dry weather, to today, when our standards are among the highest in the world.

Much of the improvement has been due to privatisation which provided access to private capital for investment and gave incentives to deliver high levels of customer and environmental service as efficiently as possible.

Over the last year, Wessex Water has again been the best performing water and sewerage company, with more than 96% customer satisfaction and the lowest level of complaints. We consistently deliver around 100% compliance with environmental standards, have the lowest level of pollution incidents and have not imposed a hosepipe ban since 1976.

The improvements of the past 25 years have put us in a good position to meet the challenges of climate change, a growing population and increasing customer expectations. Our commitment to embedding sustainability throughout the business was rewarded by the company retaining The Queen's Award for Enterprise in Sustainable Development.

Weather and compliance

Extremes of weather were very evident over the last year, most notably the exceptionally wet autumn and winter of 2013-2014. December to February were the wettest for almost 100 years.

Our staff were fully deployed dealing with problems and to minimise the impact on customers we introduced temporary tankering and pumping at 48 locations across the region. Even so, we maintained very high compliance with drinking water quality at 99.97% and compliance with abstraction licences at 99.98%.

However, partly because of the extreme weather, the number of pollution incidents increased, so we are working hard to identify additional measures to reverse this position. The weather was also one of the main reasons why operating costs rose by £21.6m to £307.9m. Other factors included the cost of new obligations, higher business rates and inflation. Operating profit rose by £8.5m to £238.9m.

Investment and bills

During the year we invested a total of £230:8m to improve existing infrastructure and build new assets. This investment included continuing work on the regional supply grid which will significantly improve resilience and quality of water supplies. In total, we completed 700 separate projects and are on target to deliver all our regulatory outputs by the end of 2015.

Other major work included mains refurbishment in and around Taunton, replacement of Ashford water treatment works, phosphorus removal schemes at three sewage treatment works and work to improve the treatment of sewage sludge and to generate more renewable energy at our Trowbridge plant.

While continued investment is essential, we also need to keep bills affordable. The proportion of household income spent on water and sewerage services has increased by only 0.2% since privatisation, but we know that for some customers the bills are difficult to meet.

The Board decided not to apply the real terms increase in bills for 2014-2015 that had been agreed with the regulator at the last price review in 2009. We also extended our tailored assistance programme, tap, to help customers in financial difficulties. Currently, 15,000 households benefit and the latest changes should add another 10,000.

We have continued to work closely with the Citizens Advice Bureau and debt agencies and our Money Matters grants have helped 10 organisations that offer financial, literacy and money management help. The quality of our overall customer services has again been demonstrated by retaining the Customer Service Excellence award.

Planning for the future

We have published Water – a new direction, our business plan for services, investment and bills for 2015-2020. This built on the need to continue investing in our infrastructure and the requirement to keep bills affordable. We propose spending 20% more than the current five-year period, while bills will fall in real terms this year and every year until 2020 – reducing by more than 5% over the five years.

The plan focuses on reducing the burden for all customers, increasing support for those who have real difficulty in paying while at the same time meeting all regulatory outputs and continuing to raise service standards. We propose to achieve this difficult balance by even greater innovation in delivering improvements and by phasing investment to reflect customers' ability to pay.

STRATEGIC REPORT (continued)

The plan has been subject to detailed review by our customer scrutiny group and has wide support from across the region. The plan is now subject to Ofwat scrutiny following which it will publish its determination.

Governance

Wessex Water operates to the highest standards of corporate governance and, as a privately owned company, our board meetings provide for the full engagement of shareholder, independent and Executive Directors. All decisions affecting the business are taken at these meetings. For example, the Board has been fully involved in every aspect of the development of our business plan.

Our governance is not static and we have made changes to comply with the UK Code, including separating the roles of Chairman and Chief Executive. We have also formed a Corporate Responsibility Committee.

Our employees

Our employees have again been outstanding in dealing with the challenges of extreme weather, alongside all the day to day demands of the business – they consistently go the extra mile for customers.

As economic growth takes off and major infrastructure projects, such as Hinkley Point C nuclear power station, begin construction, we need to ensure we retain and attract both existing skills and the new skills we will need in a competitive marketplace. So we have significantly increased apprenticeships and are working closely with universities, colleges and schools.

We also need to grow the diversity of our workforce, including attracting more women and ethnic minorities into the Company and progressing the careers of those already in the business.

The future

Twenty five years on from privatisation, our commitments to the highest quality of customer service, to the environment and to innovation make us the leading UK water and sewerage company. We will continue to deliver on those commitments, ensuring lower bills for customers, ongoing investment in our region and a fair return for our investors.

Customers and communities

Excellent customer service is fundamental to the success of our business so we put customers at the heart of everything we do. We aim for the highest levels of customer satisfaction, and we continue to build customer trust and loyalty.

We deliver what customers want; excellent water and sewerage services, a person to answer the telephone, resolving problems quickly and first time, checking they are happy with the outcome and compensating where we have things wrong. Our staff go the extra mile whenever they can.

We are consistently the top water and sewerage performer in Ofwat's measure of customer service and our standards of service and package of customer guarantees are industry leading. Day to day feedback shows customers are generally very satisfied with our service and see it as good value for money. But we can always do more, so we continue to improve and to compare ourselves with the best service providers across all business sectors.

In brief

- Maintained high levels of customer satisfaction and retained our government Customer Service Excellence award
- Once again reduced the number of complaints we received – the fewest of any water and sewerage company
- Gave more choice in the way customers interact with us, including text surveys and Live Chat
- Kept customers better informed of progress on problems such as bursts with more use of text messaging and outbound calling
- The first utility to sign up to the Keep Me Posted campaign
- Provided more advice on reducing bills and becoming water efficient; expanded our range of free or subsidised water and energy saving products
- Launched an online water quality tool to help customers diagnose problems
- Used our online customer panels to test customers' views on key issues
- Widened the eligibility for our low rate social tariff, Assist, and reduced the bills for metered customers on benefits who have unavoidably high water use, through WaterSure Plus
- Launched an expert advisory group on affordability and an action plan to raise awareness and increase take-up of tap – our range of schemes and low rate tariffs to help customers who have difficulty paying
- Awarded a grant from our Money Matters scheme to 10 organisations that help vulnerable people develop better financial knowledge and money management skills.

In detail

Drinking water quality

Compliance with drinking water quality standards continues to be very high. Our overall performance in 2013 was 99.97%. Average compliance over the past three years is 99.98% and has not fallen below 99.95% since 2005. Of 29,000 tests there were only 14 failures, one more than last year.

STRATEGIC REPORT (continued)

We are approaching the end of a major programme of mains rehabilitation aimed at reducing the number of contacts we receive from consumers about the appearance of their water. Investment to address this issue in Taunton is due to complete this summer.

There was a further 5% reduction in the number of customer contacts in 2013. We ran a publicity campaign to raise awareness with customers and let them know where they can obtain advice about water quality issues related to their own plumbing or taps.

Our website now includes an interactive tool that helps customers answer questions on water quality related problems.

Customer service
Last year we were again the top scoring water and sewerage company on Ofwat's service incentive mechanism (SIM), a result supported by our own satisfaction and value for money surveys.

However, we continue to seek ways to improve our services further, to meet customers' growing and more diverse expectations.

We have improved how we do things and our speed of response to operational problems. More use of text messaging and outbound calling keeps customers better informed during operational incidents such as burst water mains. We can let them know there is a problem, for how long services will be interrupted and when they will be back to normal.

We have also expanded the team who call customers after we have completed work affecting their property to check we have resolved their problem, that the site has been left clean and tidy and that they are satisfied.

Customers are contacted over the phone or via a text survey so if they do not believe their problem has been resolved we can rectify it quickly and we can learn from our mistakes.

This feedback has also identified additional information to help customers, and better ways of communicating.

Changes in technology enable us to give customers a wider choice of communication methods, introducing more self-service opportunities, including Live Chat, while retaining personal telephone answering because of its popularity.

We have added a smart agent water quality adviser to our website to help customers to self-diagnose problems. We were also the first utility signed up to the Keep Me Posted campaign, through which we promise to offer choice in the way customers communicate and interact with us and receive information, including bills.

Complaints fell again, this year by 16%; we resolved more complaints first time and there was a reduction of 10% in escalated complaints. 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
We have submitted our five-year business plan to our regulator, Ofwat. The plan was heavily influenced by customer and stakeholder engagement overseen by an independent customer scrutiny group.

The Group ensured our customer research was robust and reflected the views of all customer groups across our region.

Our new online customer panel, Have your say, proved a great success, with four surveys this year on various topics and after each a newsletter sent to participants to explain the findings and what we are doing as a result.

These initiatives, together with regular surveys of customers' views on bills and services and our long established customer liaison panels, ensure we keep fully informed of customers' views and requirements.

Affordability, tariffs and debt recovery
For the great majority of customers our bills are affordable, representing only 1.6% of average household expenditure. However, for some customers on low incomes this is not the case.

Through our tailored assistance programme, tap, we are helping more than 15,000 customers; some through lower charges, some by relieving past debt and others through practical help to reduce water and energy bills.

Working closely with debt advisers we offer each customer a tailored solution to meet their own financial circumstances. In 2013-14 we also increased our work with organisations such as National Debtline and StepChange, that offer telephone and online advice.

We have set up an expert advisory group on affordability with whom we have developed an action plan to raise awareness of our work and increase take-up of our schemes and low rate tariffs. The action plan includes a growing number of partnerships with community based organisations and advice agencies.

Our Money Matters scheme made awards to 10 organisations running community based projects to improve financial knowledge and money management involving school age children or teenagers and vulnerable customers.

STRATEGIC REPORT (continued)

Retail competition
We are preparing for retail competition, scheduled to begin in April 2017 for business customers, and have formed a new company, Water2Business and applied for a retail licence so Water2Business can operate throughout England. We are working with customers who will benefit from competition to identify added value services that will improve their business, help them save money and make their relationship with us as easy as possible.

Education and water saving
We encourage customers of all ages to use water wisely and we play our part by continuing to drive down leakage, halved over 10 years, and target fixing visible leaks within 24 hours.

The volume of water into supply is now the lowest it has been for 30 years. Our website has information about our work and how to save water, including an online water and energy calculator.

We also offer a free water home check service, water efficient products via our online shop, free WaterSave packs and two free apps for mobile devices, in addition to information in our customer magazine and a range of other leaflets. One app enables customers who spot a leak to upload a picture so we can fix it quickly. Our Bag it and bin it app is a game that teaches players which items can cause sewer blockages and so should not be flushed down the drain.

We also have an extensive free education service for schools, colleges and community groups including three education advisers who deliver lessons from key stage 1 to A-level. These cover the water cycle, environmental topics, water saving and our water and sewerage operations.

Watermark awards
Our Watermark award scheme is in its 20th year and helps organisations with their environmental projects. For its 20th anniversary we launched a special award for water conservation projects in our region.

The Sustainable Watermark provided grants of up to £2,000 for groups working on water saving projects in community halls, schools or other community buildings. The winners included Rainbow Gardens in Weymouth, who installed rainwater harvesting equipment to enable their community garden to be self-sufficient in water during the summer.

Environment

We aim to provide high quality, sustainable water and environmental services, while protecting and improving the environment. Resources and services provided by the environment are central to our work and we take care to minimise our impacts on the water cycle, land, the atmosphere and biodiversity.

We are working more and more closely with others to improve management of the water cycle and are protecting the quality of water supplies by dealing with potential threats at their source. We use various ways to raise public awareness of the need to use water wisely and to avoid doing things that cause sewer blockages.

While improving effluent quality from sewage treatment works, we are also working on ways to address diffuse pollution of watercourses.

We actively contribute to the protection of wildlife in our region. This includes improved management of our landholding, measures to ensure that our construction programme respects local habitats and work with organisations on the frontline of improving biodiversity.

We are pursuing a range of options to reduce our carbon footprint and have an active energy efficiency programme with increasingly sophisticated data analysis that pinpoints locations requiring optimisation. We are diversifying renewable energy generation and have recently added new small scale hydro power and food waste digestion.

Measures such as catchment management, leakage reduction and separation of surface water from foul sewers help to reduce our energy use and our carbon footprint.

In brief
- 99% compliance with sewage discharge consents and 99.98% compliance with abstraction licences
- Zero prosecutions
- Deterioration in total number of pollution incidents – but still at industry leading levels
- The start of collaborative research with the University of Bath on the ability to remove phosphorus from effluent with algae and reedbeds; and methods to improve the production of biogas in anaerobic digesters
- The first full operational year of our food waste digestion facility, providing a significant increase in the biogas produced at Bristol sewage treatment works
- Rivers Frome and Piddle catchment initiative launched, a Defra sponsored collaborative project to test the catchment based approach
- We are leading the development of a similar plan for the River Stour catchment, and supporting other plans for the Bristol and Hampshire Avon rivers

STRATEGIC REPORT (continued)

• Sustainable phosphorus removal trial at Somerton sewage treatment works gained the Green Business and Green Apple awards
• Completed 15 investigations to improve our understanding of our environmental impacts and target future investment based on sound science
• Catchment management work has continued to reduce the level of pesticides in our source water, in particular levels of metaldehyde have been very low despite the very wet winter.

In detail
Environmental performance
Severe weather conditions contributed to deterioration in our environmental performance.

Whilst we had the lowest level of pollution incidents in the industry we had a poorer performance for serious pollution incidents (which rose from zero in 2012 to six in 2013). In response we developed a pollution action plan which focuses on awareness and culture, and proactive operational interventions to mitigate the risk of pollutions in the future.

We experienced numerical permit failures at three sewage treatment works – a reduction in performance from 2012, but still the second highest level of compliance in the industry.

Bathing waters
Good weather in the summer helped bathing water compliance during 2013, with all our region's bathing waters passing the EU's mandatory compliance standard.

Our £26m improvement scheme at Weston-super-Mare sewage treatment works was completed in April 2013, prior to the start of the bathing season. This provides improved treatment, greater ultraviolet disinfection and storage capacity for storm waters. Sampling results showed good improvement in effluent quality from the site.

A revised Bathing Water Directive comes into effect in 2015. In preparation, we have been working with the Environment Agency and others to identify sites that will need further improvement between 2015 and 2020.

We continued with our innovative communications about bathing water quality during 2013, including our Coastwatch overflow spill notification system and revisions to our Bag it and bin it app. Four sites have been added to Coastwatch for the 2014 bathing season – Chideock, Abbotsbury and Ferrybridge pumping stations, and Henleaze Lake.

Catchment services
Rather than relying solely on engineered solutions, we believe in working with the environment through natural methods and working with others in order to build resilience. Dealing with impacts on water quality at source is a more sustainable and economic approach than energy and chemical intensive end-of-pipe treatment.

Our catchment management work now covers 15 catchments where nitrate or pesticide pollution affects raw water quality. Where we work collaboratively with farmers we have seen significant reductions in nitrate concentrations in our drinking water sources, although nitrate levels during the winter in the last two years did rise because of the very wet weather.

The opposite has been true at the sites at risk of pollution from metaldehyde, an active ingredient in slug pellets. While other water companies have experienced an increase in the incidence of metaldehyde in surface water reservoirs, we have not. This is directly due to our collaborative work with farmers, our offer of non-metaldehyde alternatives and the advice we give on application rates, timings and frequency.

Water resources
Last year was one of extremes. Dry weather during the summer led to high water demand but we maintained a good water resources position throughout the year. This was followed by a much wetter than average autumn and winter.

Overall, 1,120 mm fell during the year, which was 33% above the long-term average and more than the previous year. January 2014 was the wettest month on record in the UK – more than 200mm fell in our region – nearly 240% of average rainfall for the month. To ensure compliance with drinking water standards we stopped using some sources that were affected by the heavy rain.

Our draft water resources management plan sets out how we will balance water supplies with water demands and protect the environment for the next 25 years. As part of the plan we propose increasing metering by installing meters when a household changes occupier, and enhanced water efficiency services.

These measures will help reduce household demand and leakage to create a surplus of water supplies over demand for the next 25 years. Following public consultation on the draft plan we published our statement of response to the representations received from individuals and organisations. The plan was generally well received by regulators and the public and we have received Defra's approval to publish it in a final version.

Environmental investigations
We believe that investment should be based on sound science. By gathering data through investigations we can better understand our impacts and then trial solutions.

STRATEGIC REPORT (continued)

Our current environmental investigation programme is drawing to a close. Findings have been reported to the Environment Agency, Natural England and other interested stakeholders and were fed into our 2015-20 business plan. If agreed by Ofwat subsequent actions will include trials of:

- different compensation flow and operating regimes at reservoirs to mimic more natural river flows in downstream watercourses
- a catchment permitting system in the Bristol Avon catchment that allows us to reduce phosphorus from sewage treatment works by optimising existing treatment systems, and using new technologies and more sustainable solutions
- novel technologies for the removal of priority substances and phosphorus.

We will also increase catchment management upstream of Poole Harbour to reduce nitrogen through land management rather than installing a multi-million pound nitrogen removal plant at Dorchester.

Wildlife and conservation
We have extensively surveyed our key conservation sites over the last four years resulting in changes to their management. The benefits of this work to wildlife and local communities include:

- implementation of Higher Level Stewardship (agri-environment agreements) at land surrounding Sutton Bingham reservoir resulting in improvements to our hay meadows and woodlands
- improvements to the nature trail at Clatworthy reservoir and new visitor information highlighting the wildlife visitors may see at our major reservoirs
- two new pedestrian bridges at Sutton Poyntz to protect our Site of Special Scientific Interest (SSSI) and provide safe access for the public into our woodland
- improved management of SSSI heathland at Nutscale reservoir, agreed with Natural England, and a new bridge to facilitate access for this conservation work
- work at a significant scale to remove invasive non-native plants from our land.

Our management of nearly 300 hectares of land designated as SSSIs ensured that the condition of these vital habitats exceeded government targets: 99.5% of our SSSIs were assessed as being in favourable or unfavourable but recovering status.

The wildlife projects funded by our Biodiversity Action Plan Partners Programme have also been very productive over the last four years. These include scientific research, partnership working and activities that align with our core services. Highlights include:

- South Wiltshire Farmland Bird Project: a specialist adviser has worked with 119 farmers in southern Wiltshire to provide more than 800 hectares of farmland bird habitats, including safe nesting areas, summer insect food and winter seed food
- Dorset Wild Rivers: 11km of river has been restored since 2010 and more than seven hectares of wet woodland have been planted with nearly 5,000 trees
- Buglife's Wessex Springs and Seepages for Invertebrates: identifying the habitats of rare insects such as the Cliff tiger beetle, Southern damselfly, Bog hoverfly and Southern yellow splinter to guide future management to help conserve populations
- Wessex Biodiversity Science Initiative: free training courses and training material to help local groups improve their own wildlife research and monitoring.

Carbon management
One of our long-term sustainability goals is to be carbon neutral in our annual operations. This requires efforts to avoid greenhouse gas emissions, improve energy efficiency and increase renewable energy generation.

Electricity use accounts for more than 70% of our carbon footprint and has been increasing since the early 1990s due to tighter sewage treatment standards. The last few years have also shown a close correlation between our energy use and the weather.

During 2011-12 dry conditions resulted in lower volumes of sewage for pumping and treatment, leading to our lowest electricity use since 2002. However, wet weather in 2012-13 and 2013-14 increased the amount of energy required for pumping and treating waste water.

We have continued to improve energy efficiency and identify unnecessary power use. Alongside the regulated business our food waste facility at Bristol sewage treatment works, operated by a fellow subsidiary GENeco Ltd, completed its first full year of energy production. The site also saw the construction of four 2.05 MW wind turbines owned by Triodos Renewables.

Employees

We are very proud of the skills, expertise and goodwill of our employees whose exceptional commitment is central to our success. We continue to focus on equipping our employees with the technical, leadership and management skills they require to be successful in the future and take pride in looking after their wellbeing and providing a variety of employee benefits. Promoting diversity and opportunity across our workforce was a particular focus this year.

Our commitment to attracting skills and providing young people with opportunities to join our business has continued with the development of new apprenticeship programmes. This year we launched programmes in our laboratory and customer contact centre and additional apprenticeship programmes are planned for next year.

The health and wellbeing of our employees has been a high priority this year. We provided free health checks for 400 employees with follow up advice on maintaining a healthy lifestyle.

In brief

- A very positive and engaging culture with 87% of staff rating Wessex Water as a good place to work. We continue to have a high level of staff engagement.
- Focus on continuously developing our suite of management and leadership training programmes. We achieved accreditation from the University of West of England for our Institute of Leadership and Management level 5 management development programme.
- Further development of our integrated talent management and succession planning programmes.
- 79% of employees (1,813 employees) took part in a range of skill development programmes.
- Development of a diversity taskforce and a range of diversity initiatives including a networking group for women in the business.
- Very good safety performance with an increased emphasis in the year on reporting near misses.
- The launch of a behavioural safety programme to further improve our health and safety culture.
- Employee wellbeing continues to be a priority and this year we provided free health checks to 400 staff.
- The launch of new apprentice schemes in our customer contact centre and scientific laboratory.
- More than 30 employees currently undertaking professional development towards chartered status in their chosen sector with eight attaining chartered status this year.

In detail

Training

Maintaining and developing skills for the future is a key priority for us. We pride ourselves on the number and standard of the technical training programmes we develop and run for employees.

We deliver training through a variety of courses including structured internal courses, tool box talks, seminars and specialist college courses. This year, a total of 1,813 staff (79% of our workforce) took part in more than 400 different types of training course, including advanced environmental and management programmes.

Excellent customer service is one of our key priorities and central to our training. This year we launched Going the Extra Mile, a programme which explores how we can exceed the excellent customer service we offer already. More than 230 members of our frontline staff have taken part so far.

As strong and effective leadership is a critical component in maintaining our status as a high performing water company, one of our key objectives this year has been identifying and developing talent.

We successfully achieved accreditation from the University of West of England for our Institute of Leadership and Management level 5 management development programme, which bridges the gap between our existing supervisory foundation and senior manager leadership programmes. We continue to sponsor a number of managers to complete their level 7 strategic leadership programme and actively encourage our highest achievers to convert their qualifications into MBAs.

Apprenticeships provide young people with opportunities to join our business and develop their careers. We currently have 26 apprentices in our Operations division and this year we launched an apprentice programme for 16 – 18 year olds in our engineering and construction division and laboratory and customer contact centres.

We continue to actively support and encourage our staff to undertake professional development routes, and have achieved accreditation from the Institution of Engineering and Technology (IET) and the IET apprenticeship scheme, offering a further route for continued professional development for our employees.

Diversity

We have an ongoing commitment to develop and encourage diversity across our business. This year we launched a diversity taskforce of senior managers to develop policy and initiatives that encourage and promote equality and diversity. The social enterprise, Women on Boards, ran development seminars for 60 female employees, focused on their personal and career development. We also launched a female networking group with external speakers in order to encourage a balanced gender profile.

At 30 June 2014 WWSL had 1,993 employees of whom 412 were women and 1,581 were men. This number included 11 Directors of whom 3 were women and 8 were men.

Culture

All companies have their own culture – the atmosphere at work, the way people behave and the way things are done. We have a strong, friendly and positive culture; staff enjoy working for the Company and with each other.

This year we ran a survey giving staff the opportunity to feed back on topics including leadership, training, communication and career development. The results were very encouraging and show continued improvement in the culture of Wessex Water. Our employees are extremely engaged in their work; 79% have strong loyalty to the company, 87% of staff rated Wessex Water a good place to work and 82% feel encouraged to carry out work to the best of their abilities.

We are working with employees to identify areas for improvement and ways to make Wessex Water an even better place to work.

Health and safety
Protecting the health, safety and welfare of our staff, contractors and customers is a duty that we take very seriously. No activity is truly without risk; our safety management systems and procedures aim to remove unnecessary risk and control and manage any residual risk to ensure injury or harm to individuals is prevented.

Central to our safety culture is that all staff, irrespective of their position, are empowered to ensure health and safety is "not an optional extra". Managers, supervisors and staff all receive appropriate levels of training to ensure they can work safely without risk to themselves, colleagues or customers. A team of experienced health and safety professionals supports and advises staff, investigates accidents and where necessary enforces company safety standards.

In spite of increased awareness and changes to working arrangements and training, there are accidents: the principal causes are slips, trips and falls or manual handling. We will continue efforts to improve performance in these areas.

We monitor and investigate all reported safety incidents and dangerous occurrences to establish the cause and identify improvements that will prevent a recurrence. This year we increased emphasis on the reporting and investigation of near-misses, which is crucial to preventing future accidents.

We have provided automated external defibrillators at strategic locations and trained 40 first aiders in their use.

Our overall safety record remains good and we have received awards from recognised safety organisations; our Operations division received the British Safety Council international safety award (distinction) and Wessex Engineering and Construction Services received the Royal Society for the Prevention of Accidents gold safety award for a further year.

Infrastructure

We have an excellent record on the installation and management of infrastructure. The implementation of the regional supply grid will add resilience to our existing system. For the long-term we are extending catchment management measures to reduce raw water quality issues at source.

We manage and maintain our assets to ensure they operate efficiently and effectively, providing high quality treatment and service. We fully integrate sustainability principles and practice into our capital programme and scheme options.

Our approach to risk and asset management is to ensure that risks are understood and managed throughout the business. Our processes enable us to maintain an acceptable level of risk, balancing investment needs against improving service and environmental performance.

Modelling and analytical tools applying our risk and value approach help us to prioritise investment based on:

• a consistent method of assessing the impact and likelihood of service failure which can be applied across all our assets at a tactical and strategic level
• a review of all customer, environmental, legal and regulatory risks
• reporting to senior management/board on strategic high-level risks and mitigation measures.

We believe it is unacceptable to have asset failures that compromise public health, affect customer services, lead to environmental damage or cause significant disruption. We continue to drive innovation and stretch ourselves to improve our industry leading levels of performance.

In brief
•£224m invested to maintain and improve services to our customers and environment.
• Largest infrastructure investor in the region providing more than 1,000 jobs directly in constructing new assets and in the regional supply chain.
• Met all our regulatory outputs and met or exceeded all activity targets.
• We progressed our water supply grid, a key component of our 25-year water resource plan.
• Nearing completion of mains rehabilitation programme in Taunton to improve the appearance of the water.
• Exceptional 2013 weather affected the number of flooding incidents from our sewerage network and we invested more than £10m to reduce sewer flooding risk.
• We successfully achieved certification to the new international standard ISO55001:2014 for asset management.
• Achieved our third re-certification to PAS55:2008 asset management standard.
• Using Ofwat's toolkit we assessed our asset serviceability as stable for the seventh year running.

In detail
Leakage
We met our leakage target for the year despite the long hot summer of 2013 creating an additional challenge due to ground shrinkage. We employed additional leakage staff and spent £1m on extra leakage detection and repairs. We aim to fix all visible leaks within 24 hours.

STRATEGIC REPORT (continued)

Sewage flooding
The Met Office reported that the wet weather between December 2013 and February 2014 broke all records. Fully saturated ground for nearly half the year meant rainfall events that would otherwise not have caused incidents, resulted in flooding.

The high groundwater levels also infiltrated and inundated privately owned drains and some public sewers across the region. To protect properties from flooding and losing the ability to use their drainage facilities, we mobilised overpumping and tankering in 48 locations.

Although we are delivering a prioritised programme of infiltration reduction at catchments that have suffered, many of the problems can only be resolved through a partnership approach with other flood risk management authorities, such as local authorities and the Environment Agency.

Work continues with local councils to develop surface water management plans and flood management strategies. We are working with both Somerset County Council and the Environment Agency on the Somerset Levels and Moors 20-year flood action plan.

We have invested more than £10m to reduce the likelihood of flooding at 127 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 by 2015.

Asset management
Our asset management framework has helped us develop a more integrated approach to risk and investment decision making which has been recognised by re-certification to PAS55:2008 and certification to the new international standard ISO55001:2014.

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 and operational efficiency. Ofwat's measures showed our serviceability was stable for the seventh consecutive year.

Infrastructure improvements
In Taunton our £16m investment to modernise ageing water mains is well advanced. The work, which will improve the appearance of the water and provide increased security of supply, is due for completion in summer 2014.

No dig techniques were also successfully used on a scheme to replace a water main through the centre of Abbotsbury in Dorset, so minimising the impact on customers and businesses during construction.

Our regional supply grid is well underway, with construction of three new service reservoirs in Dorset, pipe laying down the Wylye valley, near Shaftesbury and at Blandford, and the building of two pumping stations. Further construction sites will start in 2014 and the overall project is due to be completed by 2018.

We delivered two sewerage schemes in the year which enabled 354 properties to connect to the public sewer network for the first time, reducing pollution for the communities involved.

We completed schemes at three sewage treatment works in Somerset: Evercreech, Shepton Mallet and Yeovil, to reduce levels of phosphorus discharged into rivers on the Somerset Levels. At Puddletown sewage works in Dorset we completed a major scheme to improve the quality of the effluent discharged to the river.

We have completed the first of three schemes to increase the quantity of sludge treated through anaerobic digestion processes and increase the level of renewable electricity we generate. This work, at Trowbridge, cost £11m, and will produce an additional 8GWh of electricity each year.

Other schemes include:

- major refurbishment of Ashford water treatment works, near Bridgwater, to maintain water quality and capacity
- construction of a replacement grout curtain for Wimbleball dam, a 50 metre high concrete dam in Exmoor, in conjunction with South West Water
- construction work at Taunton, Mere and Iwerne Minster sewage treatment works to improve the quality of the effluent discharged into rivers.

Innovation
Innovation is a central theme across our business and in recent years we have been pursuing novel approaches to achieve environmental and social outcomes.

These include providing agronomic advice to farmers to protect drinking water sources, real-time reporting of sewer flooding incidents near bathing waters, a wide range of no-dig methods to refurbish water mains and sewers to reduce disruption and costs, and early adoption of enhanced anaerobic digestion of sewage sludge.

Innovation was also a prominent theme in the business plan we published for Ofwat's 2014 Periodic Review.

We encourage staff to promote better ways of working through our Eureka! programme, and carry out trials and investigations through our Innovation and Technology Forum. In 2013-14 these included trials of multimedia filters for spring sources and ultrasonic devices to control algae in reservoirs.

We also took part in collaborative trials with other water companies. These included a comparison of the efficiency of advanced sewage aeration equipment and the effectiveness of different dissolved oxygen monitors, all of which have the potential to deliver energy efficiency savings.

In 2013-14 we devised an internal Dragons' Den to review ideas that offer the best potential cost savings. Successful projects included a timer device for ultraviolet disinfection and modification of flows at a sewage treatment works inlet to reduce energy use and repair costs.

It was also the first year of our joint research programme with the University of Bath. This comprises five workstreams which cover low energy sewage treatment and nutrient recovery; methods for improving the biogas yield of sewage sludge digesters; emerging pollutants in waste water that pose potential risks to the environment; engaging customers to encourage responsible water use and to discourage sewer misuse; and improved techniques for assessing the whole life costs of physical assets.

Risk Review

The management of risk is of fundamental importance to the Company, in the interests of avoiding both financial loss and customer dissatisfaction. Customers, regulators and the press have increasing expectations and are less willing to accept failure. The Company's policy on risk identification and management is subject to annual review by the Board.

The risk environment changes through time as some risks become less likely or less damaging while new ones emerge. The Company's processes are designed to respond flexibly to these changes and to ensure that the necessary controls and mitigation measures are put in place. The Audit Committee has oversight of the controls and mitigations put in place to ensure that the Company is only exposed to the degree of risk set by the Board.

Risk process

The identification and management of risk is delivered through a tiered system of groups from operational staff, senior management, executive directors and the Wessex Water Services Limited Board. The Board reviews and holds ultimate responsibility for the risk process and for the identification and mitigation of risks. At the lowest level, asset and operational risks are reviewed, assessed and recorded monthly by operational staff. Risks are scored using a best practice process which assesses probability and impact on a five by five matrix. Risk mitigation plans are recorded and implemented where appropriate and pre and post mitigation scores are recorded. Results are reported to each Group Management Team and Board meeting.

These identified risks act as a foundation for a separate corporate risk register which is maintained by a risk group comprising senior managers from the business. The risk group reviews all business risks, including emerging and strategic risks. All risks are assessed by business experts responsible for that area of the business. Where a high scoring risk has been identified the risk group reviews additional measures that could be put in place to reduce its impact to an acceptable level.

Wherever possible, a risk is measured by its potential financial and environmental impact in the next five years, whether direct or indirect, including any possible impact on the price review process in 2014. The risk group meets twice a year and submits the current corporate risk register and summary report to a Risk Management Committee comprising the Executive Directors of the Board, again meeting twice a year. The Risk Management Committee scrutinises and challenges the risks included within the register and requires additional work where necessary to better classify the risk or explore other mitigation methods which may be available.

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

Principal risks

The 10 principal risks identified and agreed by the Board are:

1 Government/regulatory action. Changes to legislation or other regulatory action can adversely affect the way in which the business operates and its profitability. Relationships with politicians and regulators are maintained so that the Company's views are heard about the impact on the Company and its customers of any proposed legislative changes.

2 Information management and digital security. The Company holds and processes large quantities of data which is considered sensitive within the meaning of the Data Protection Act. Failure to process and protect the data in the prescribed manner is an offence. Additionally the Information Commissioner can take enforcement action which would require the Company to take prescribed actions for improvements in the future. In the year our Information Systems department has achieved best practice accreditation to the ISO27001 standard for digital security.

3 IS business resilience. Most activities undertaken by the business are reliant on the availability of IT services and facilities. The Security Service has identified the growing threat of cyber-attack or industrial espionage as a high risk to both businesses and utilities. The Company continues to examine ways in which IT resilience can be maintained and where appropriate improved.

4 Inappropriate staff actions. Considerable damage could be done to the reputation of the Company by a rogue or radicalised employee or contractor. References are obtained for all new starters whether permanent or contract. CRB checks are undertaken for all new permanent and fixed term staff.

5 Theft of plant/materials. The high price of commodities and fuel makes isolated sites such as reservoirs and treatment works obvious targets for thieves. Thefts could affect the environment, service to customers or the safety of staff. Extensive measures including installation of CCTV, forensic marking and liaison with the police have been taken to detect and prevent theft.

6 Major pollution incident. Control of the escape of polluting matter to the environment is central to the Company's business. Significant effort is made to prevent such an incident occurring through staff adherence to Company processes and procedures. New staff are trained in these processes and procedures and their importance.

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

8 Unfit water. A major failure of process or contamination of the water supply is a key risk. Significant effort is made to prevent such an incident occurring through staff adherence to Company processes and procedures. New staff are trained in these processes and procedures and their importance.

9 Availability of new finance. The bond markets are used extensively to fund new investment. The current economic climate has shown the volatility of these markets. Careful management of the relationship with both the ratings agencies and lenders has ensured that, to date, finance has always been available at affordable rates. The relationship with bond markets and rating agencies will be maintained and the Board will continue to ensure that the Company operates within prudent financial parameters.

10 Leakage. Failure to control leakage could breach a regulatory output and lead to loss of an important resource at times of drought and result in reputational damage with customers and stakeholders. The Company sets a tighter level of leakage than the official regulatory target.

Many other areas which would be expected as standard areas for consideration, such as fraud, have been assessed and determined to be risks which are well controlled with current mitigations.

Complacency is avoided through regular reviews and challenges within the Risk Group and Risk Management Committee. The internal audit programme includes a rolling review of principal mitigation measures with regular reports to the Audit Committee.

Wessex Water Enterprises Ltd

The company generated turnover of £19.4m (£17.0m 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, food waste treatment, solicitors' searches and sale of industrial cooling water.

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

We also reached an agreement with Triodos Renewables for the development of wind power at the Avonmouth, Bristol sewage treatment works where four turbines have been installed, producing 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 £8.8m (£8.5m last year). The principal subsidiary in Holland operates two sludge drying plants and has long term contracts with two major customers.

The strategic report was approved by the Board of Directors on 12 September 2014 and signed on its behalf by:

Mark Watts
Director

DIRECTORS' REPORT

The Directors present their Directors' Report and the financial statements for the year to 30 June 2014.

DIRECTORS

The Directors of the company during the year and subsequently were:

Colin Skellett
Mark Watts
Peng Koon Chin – alternate to Mark Seok Kah Yeoh
Choong Min Tan – alternate to Seok Hong Yeoh
Francis Sock Ping Yeoh *
Seok Hong Yeoh *
Seok Kian Yeoh *
Mark Seok Kah Yeoh *
Sock Siong Yeoh *
Tiong Lay Yeoh *
Sean Cater – appointed 31 March 2014
David Elliott – appointed 31 March 2014
Andy Pymer – appointed 31 March 2014

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

DIRECTORS' INTERESTS

During the year no Director was materially interested in any contract with the Company or with any of its subsidiaries.

DIRECTORS' EMOLUMENTS

	Salary £000	Bonus £000	Benefits £000	Total before pension contributions £000	Pension contributions £000	**Total 2013-14** **£000**	Total 2012-13 £000
Colin Skellett	422	172	28	622	-	**622**	611
Mark Watts	245	110	19	374	35	**409**	364
Sean Cater	297	110	17	424	31	**455**	-
David Elliott	182	90	16	288	24	**312**	-
Andy Pymer	162	90	17	269	22	**291**	-
Total	1,308	572	97	1,977	112	**2,089**	975

In addition Colin Skellett and Mark Watts received emoluments of £100k and £120k respectively for their services to the immediate parent company (see note 32). The emoluments of Sean Cater, David Elliott and Andy Pymer include emoluments as directors of Wessex Water Services Ltd up to 31st March 2014. No emoluments were paid to the other Directors.

DIRECTORS SHARE INTERESTS

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 2013	Exercise price RM	Date of grant	Expiry date	At 30 June 2014
Mark Watts	37,800	1.14	12/06/2008	11/06/2018	37,800
David Elliott	37,800	1.14	12/06/2008	11/06/2018	37,800

DIRECTORS' REPORT (continued)

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. The share price as at 30 June 2014 was RM1.47 or £0.27.

	At 30 June 2013	Exercise price RM	Date of grant	Exercise date	Expiry date	At 30 June 2014
Colin Skellett	87,000	1.65	01/06/2012	01/06/2015	31/03/2021	87,000
Colin Skellett	1,913,000	1.41	01/06/2012	01/06/2015	31/03/2021	1,913,000
Mark Watts	87,000	1.65	01/06/2012	01/06/2015	31/03/2021	87,000
Mark Watts	913,000	1.41	01/06/2012	01/06/2015	31/03/2021	913,000
Sean Cater	87,000	1.65	01/06/2012	01/06/2015	31/03/2021	87,000
Sean Cater	913,000	1.41	01/06/2012	01/06/2015	31/03/2021	913,000
David Elliott	87,000	1.65	01/06/2012	01/06/2015	31/03/2021	87,000
David Elliott	913,000	1.41	01/06/2012	01/06/2015	31/03/2021	913,000
Andy Pymer	87,000	1.65	01/06/2012	01/06/2015	31/03/2021	87,000
Andy Pymer	913,000	1.41	01/06/2012	01/06/2015	31/03/2021	913,000

Shares held

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

	At 30 June 2013	Share Distribution	At 30 June 2014
Mark Watts	333,553	16,677	350,230
David Elliott	81,253	4,062	85,315
Andy Pymer	51,253	2,562	53,815

YTL Power International Berhad announced a distribution of one share for every 20 ordinary shares held as at 13 March 2014. There were no other interests in shares of group companies that are disclosable in these accounts.

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.

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.

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.

DIRECTORS' REPORT (continued)

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 2014.

CHARITABLE AND POLITICAL DONATIONS

During the year £507,500 was donated to UK charities (2013 – £402,600). There were no political donations in either year.

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 2014 trade creditors represented approximately 34 days trade purchases (2013 – 31 days). The Group does not follow any specific external code or standard on payment policy.

CORPORATE GOVERNANCE

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

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.

RE-APPOINTMENT OF AUDITOR

During the year KPMG transitioned from KPMG Audit Plc to KPMG LLP and as such KPMG resigned and KPMG LLP were appointed. 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.

Andrew J Phillips

By order of the Board
A J Phillips
Company Secretary
Claverton Down
Bath BA2 7WW
12 September 2014

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

The Directors are responsible for preparing the Strategic Report, 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 Group and parent company 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 Group and parent company and of their profit or loss for that period. In preparing each of the group and parent company 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its 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 Group and to prevent and detect fraud and other irregularities.

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

We have audited the financial statements of Wessex Water Limited for the year ended 30 June 2014 set out on pages 19 to 39. 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 Directors' Responsibilities Statement set out on page 17, 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.

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 2014 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 Strategic Report and 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.

A Campbell

Andrew Campbell-Orde (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
100 Temple Street,
Bristol, BS1 6AG
12th September 2014

CONSOLIDATED PROFIT AND LOSS ACCOUNT
For the year to 30 June 2014

	NOTE	Year to 30.06.14 £m	Year to 30.06.13 £m
Turnover	2	**546.8**	516.7
Operating costs	3	**(307.9)**	(286.3)
Operating profit	2	**238.9**	230.4
Interest payable and similar charges	5	**(76.7)**	(84.7)
Interest receivable	5	**2.5**	3.7
Other finance charges	5	**(0.2)**	(2.3)
Profit on ordinary activities before taxation		**164.5**	147.1
Taxation on profit on ordinary activities	6	**4.1**	(12.2)
Profit for the financial year		**168.6**	134.9

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

The accompanying notes on pages 23 to 39 are an integral part of this profit and loss account.

BALANCE SHEETS
30 June 2014

	NOTE	Group 30.06.14 £m	Group 30.06.13 £m	Company 30.06.14 £m	Company 30.06.13 £m
Fixed assets					
Tangible assets	8	**2,291.0**	2,199.3	**-**	-
Investments	9	**-**	-	**82.5**	82.5
		2,291.0	2,199.3	**82.5**	82.5
Current assets					
Stock	10	**8.7**	7.8	**-**	-
Debtors	11	**248.1**	241.7	**129.5**	132.8
Cash at bank and in hand	12	**76.0**	144.7	**4.6**	3.6
		332.8	394.2	**134.1**	136.4
Creditors – amounts falling due within one year	13	**(188.9)**	(213.9)	**(28.1)**	(52.8)
Net current assets		**143.9**	180.3	**106.0**	83.6
Total assets less current liabilities		**2,434.9**	2,379.6	**188.5**	166.1
Creditors – amounts falling due after more than one year	14	**(1,897.5)**	(1,888.5)	**-**	-
Provisions for liabilities	15	**(89.3)**	(105.2)	**-**	-
Retirement benefit obligations	16	**(80.2)**	(88.9)	**-**	-
Deferred income	17	**(16.6)**	(17.1)	**-**	-
Net assets	2	**351.3**	279.9	**188.5**	166.1
Capital and reserves					
Called up equity share capital	18	**131.8**	131.8	**131.8**	131.8
Share premium account	19	**28.8**	28.8	**28.8**	28.8
Profit and loss account	20	**190.7**	119.3	**27.9**	5.5
Shareholders' funds		**351.3**	279.9	**188.5**	166.1

The notes on pages 23 to 39 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 12 September 2014 and signed on its behalf by:

Mark Watts
Director

CONSOLIDATED CASH FLOW STATEMENT
For the year to 30 June 2014

	NOTE	Year to 30.06.14 £m	Year to 30.06.13 £m
Net cash inflow from operating activities	21	**358.9**	344.8
Returns on investments and servicing of finance	22	**(73.8)**	(75.1)
Taxation		**(11.6)**	(28.0)
Capital expenditure and financial investment	23	**(224.9)**	(225.0)
Dividends paid		**(124.9)**	(123.1)
Cash flow before financing		**(76.3)**	(106.4)
Financing	24	**10.0**	78.5
Decrease in cash in the year		**(66.3)**	(27.9)

Reconciliation of cash movement to the movement in net debt

	NOTE	Year to 30.06.14 £m	Year to 30.06.13 £m
Decrease in cash in the year - above		**(66.3)**	(27.9)
Movement in loans and leases		**9.3**	(52.8)
Non cash items	25	**(19.3)**	(25.7)
Movement in net debt	25	**(76.3)**	(106.4)
Net debt at the start of the year	25	**(1,682.3)**	(1,575.9)
Net debt at the end of the year	25	**(1,758.6)**	(1,682.3)

The note on pages 23 to 39 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
For the year to 30 June 2014

	Group	Company	Group	Company
	Year to 30.06.14	**Year to 30.06.14**	Year to 30.06.13	Year to 30.06.13
	£m	**£m**	£m	£m
Profit for the financial year	**168.6**	**122.5**	134.9	123.9
Foreign currency adjustment	**-**	**-**	0.2	-
Actuarial gain in the pension scheme	**7.6**	**-**	16.5	-
Deferred tax arising on actuarial gain in the pension scheme	**(4.7)**	**-**	(5.1)	-
Total recognised gains and losses relating to the financial year	**171.5**	**122.5**	146.5	123.9

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS
For the year to 30 June 2014

	Group	Company	Group	Company
	Year to 30.06.14	**Year to 30.06.14**	Year to 30.06.13	Year to 30.06.13
	£m	**£m**	£m	£m
Opening shareholders' funds	**279.9**	**166.1**	257.0	165.8
Profit for the financial year	**168.6**	**122.5**	134.9	123.9
Dividends (note 7)	**(100.1)**	**(100.1)**	(123.6)	(123.6)
Foreign currency adjustment	**-**	**-**	0.2	-
Actuarial gain in the pension scheme	**7.6**	**-**	16.5	-
Deferred tax arising on actuarial gain in the pension scheme	**(4.7)**	**-**	(5.1)	-
Closing shareholders' funds	**351.3**	**188.5**	279.9	166.1

The note on pages 23 to 39 are an integral part of these financial statements.

NOTES TO THE ACCOUNTS
For the year to 30 June 2014

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 2014. 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.

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

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

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

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

e. Investments

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

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.

NOTES TO THE ACCOUNTS (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.

NOTES TO THE ACCOUNTS (continued)

	Year to 30.06.14 £m	Year to 30.06.13 £m
2 Segmental analysis		

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

	Year to 30.06.14 £m	Year to 30.06.13 £m
a. Turnover		
Regulated	**520.3**	492.5
Unregulated	**26.5**	24.2
	546.8	516.7
b. Operating profit		
Regulated	**234.8**	225.1
Unregulated	**4.1**	5.3
	238.9	230.4
c. Net assets		
Regulated	**247.9**	200.1
Unregulated	**103.4**	79.8
	351.3	279.9

3 Operating costs

	Year to 30.06.14 £m	Year to 30.06.13 £m
Manpower costs (note 4b)	**57.1**	55.2
Materials and consumables	**35.7**	29.2
Other operational costs	**83.9**	78.8
Depreciation of fixed assets	**130.5**	124.2
Amortisation of grants and contributions	**(0.7)**	(0.7)
Loss / (profit) on disposal of fixed assets	**1.4**	(0.4)
	307.9	286.3
Operating costs include:		
Operating leases for plant and machinery	**2.2**	1.6
Research and development	**0.1**	0.1
Directors' remuneration	**2.1**	1.0

	Year to 30.06.14 £000	Year to 30.06.13 £000
Auditor's remuneration:		
Audit of these financial statements	**96**	116
Audit of financial statements of subsidiaries pursuant to legislation	**149**	144
AMP6 price review services	**114**	-
Tax compliance services	**5**	14
Other tax advisory services	**23**	21
All other services	**70**	1
	457	296

NOTES TO THE ACCOUNTS (continued)

4 **Employment costs**

a. Total employment costs of the Group:

	Year to 30.06.14 £m	Year to 30.06.13 £m
Wages and salaries	**69.1**	64.7
Social security costs	**6.3**	5.9
Other pension costs	**10.6**	10.8
	86.0	81.4

b. Total employment costs are charged as follows:

Capital schemes	**23.3**	20.8
Infrastructure renewals expenditure	**5.6**	5.4
Manpower costs (note 3)	**57.1**	55.2
	86.0	81.4

c. Monthly average number of employees during the year:

	30.06.14 number	30.06.13 number
Wessex Water Services Ltd	**1,875**	1,806
Billing joint venture – Bristol Wessex Billing Services Ltd	**330**	332
Wessex Water Enterprises Ltd	**11**	10
Geneco Food Waste	**5**	3
SC Technology AG	**19**	19
Wessex Water Ltd	**4**	4
	2,244	2,174

d. Directors' remuneration

	Year to 30.06.14 £000	Year to 30.06.13 £000
Total remuneration (including benefits in kind)	**2,089**	975
Highest paid Director (including benefits in kind)	**622**	611

5 **Net interest payable**

	Year to 30.06.14 £m	Year to 30.06.13 £m
On bank loans	**77.8**	84.1
On finance leases	**(1.1)**	0.6
Total interest payable	**76.7**	84.7
Intercompany interest receivable	**(1.1)**	(1.3)
Interest receivable on short-term deposits	**(1.4)**	(2.4)
Total interest receivable	**(2.5)**	(3.7)
Other finance charges	**0.2**	2.3
Net interest payable	**74.4**	83.3

NOTES TO THE ACCOUNTS (continued)

		Year to 30.06.14 £m	Year to 30.06.13 £m
6	**Taxation**		
a.	Analysis of (credit) / charge in the year		
	Current year corporation tax:		
	UK corporation tax at 22.5% (2013 – 23.75%)	**28.8**	31.2
	Adjustments in respect of previous years	**(18.5)**	(1.4)
	Total corporation tax charge	**10.3**	29.8
	Deferred tax – current year:		
	Origination and reversal of timing differences	**(28.5)**	(7.9)
	Decrease / (increase) in discount	**11.9**	(10.3)
		(16.6)	(18.2)
	Deferred tax – prior year:		
	Origination and reversal of timing differences	**17.9**	1.0
	(Increase) in discount	**(15.7)**	(0.4)
		2.2	0.6
	Total deferred tax (credit)	**(14.4)**	(17.6)
	Taxation (credit) / charge on profit on ordinary activities	**(4.1)**	12.2
b.	Current tax reconciliation		
	Profit on ordinary activities before tax	**164.5**	147.1
	Current tax at 22.5% (2013 – 23.75%)	**37.0**	34.9
	Group relief for nil consideration	**(2.4)**	(2.8)
	Adjustments in respect of previous years	**(18.5)**	(1.4)
	Capital allowances for the year (greater) / less than depreciation	**(2.4)**	2.0
	Payment of lease creditor capital	**(1.5)**	(1.6)
	Subsidiary company profits	**-**	(0.1)
	Other timing differences	**(1.9)**	(1.2)
	Total corporation tax charge (note 6a)	**10.3**	29.8

c. Reductions in the UK corporation tax rate from 26% to 24% (effective from 1 April 2012) and to 23% (effective 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively. Further reductions to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. This will reduce the Company's future current tax charge accordingly. The deferred tax liability at 30 June 2014 has been calculated based on the 20% rate substantively enacted at the balance sheet date.

d. Deferred tax was calculated at 23% at 30 June 2013, which reduced to 20% at 30 June 2014 reducing the gross deferred tax liability by £36.2m.

		Year to 30.06.14 £m	Year to 30.06.13 £m
7	**Dividends**		
	Interim dividends	**81.1**	98.8
	Final dividend	**19.0**	24.8
		100.1	123.6

A dividend of £22.6m was declared and paid in July 2014.

NOTES TO THE ACCOUNTS (continued)

8 Tangible fixed assets

	Freehold land and buildings	Infra-structure assets	Plant machinery and vehicles	Other assets	Payments on account & assets in course of construction	Group Total
	£m	£m	£m	£m	£m	£m
Cost						
At 1 July 2013	706.7	1,349.2	1,295.9	115.4	128.6	3,595.8
Additions	3.5	82.2	71.3	5.2	68.6	230.8
Exchange differences	(0.1)	-	(0.9)	-	-	(1.0)
Transfers on commissioning	3.4	14.2	54.8	4.8	(77.2)	-
Disposals	(1.0)	-	(13.1)	-	-	(14.1)
Grants and contributions	-	(6.2)	-	-	-	(6.2)
At 30 June 2014	**712.5**	**1,439.4**	**1,408.0**	**125.4**	**120.0**	**3,805.3**
Depreciation						
At 1 July 2013	229.7	490.2	634.4	42.2	-	1,396.5
Charge for the year	14.1	47.4	62.2	6.8	-	130.5
Exchange differences	-	-	(0.7)	-	-	(0.7)
Disposals	(0.5)	-	(11.5)	-	-	(12.0)
At 30 June 2014	**243.3**	**537.6**	**684.4**	**49.0**	**-**	**1,514.3**
Net Book Value						
At 30 June 2014	**469.2**	**901.8**	**723.6**	**76.4**	**120.0**	**2,291.0**
At 1 July 2013	477.0	859.0	661.5	73.2	128.6	2,199.3

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

Other assets include furniture and fittings, laboratory and other equipment.

The net book value of assets held under finance leases is £34.8m (2013 - £38.7m).

The depreciation charge for the year on assets held under finance leases is £7.0m (2013 - £6.5m).

The net book value of infrastructure assets at 30 June 2014 is stated after the deduction of grants and contributions amounting to £139.5m (2013 - £133.3m) in order to give a true and fair view (see note 1f).

Included in the cost of infrastructure assets is £548.8m (2013 - £502.5m) of expenditure on maintaining the network, and £537.9m (2013 - £490.3m) of depreciation included in the profit and loss account.

Included in freehold land and buildings above is an amount of £11.5m (2013 - £11.4m) in respect of land which is not depreciated.

NOTES TO THE ACCOUNTS (continued)

9 Investments

Company	Subsidiary Companies £m
Cost	
At 1 July 2013	104.1
Additions	-
At 30 June 2014	104.1
Amounts written off	
At 1 July 2013	21.6
Written off in the year	-
At 30 June 2014	21.6
Carrying value at 30 June 2014	82.5
Carrying value at 1 July 2013	82.5

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

10 Stock

	Group	
	30.06.14 £m	30.06.13 £m
Raw materials and consumables	**3.6**	3.0
Work in progress	**5.1**	4.8
	8.7	7.8

11 Debtors

	Group		Company	
	30.06.14 £m	30.06.13 £m	**30.06.14 £m**	30.06.13 £m
Trade debtors	**67.3**	62.8	-	-
Amounts owed by subsidiary companies	-	-	**26.9**	29.6
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	-	-	**3.3**	2.8
Other debtors	**7.0**	7.4	**0.2**	0.7
Prepayments and accrued income	**84.3**	81.4	**9.6**	9.6
	248.1	241.7	**129.5**	132.8

A loan of £89.4m (2013 - £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	**76.0**	144.7	-	-
Cash at bank	-	-	**4.6**	3.6
	76.0	144.7	**4.6**	3.6

£29.0m of short-term bank deposits mature within 1 month, £10.0m within 3 months and £37.0m within 4 months. Interest receivable on short-term deposits is disclosed in note 5.

NOTES TO THE ACCOUNTS (continued)

13 Creditors - amounts falling due within one year

	Group		Company	
	30.06.14	30.06.13	**30.06.14**	30.06.13
	£m	£m	**£m**	£m
Bank overdraft repayable on demand	**12.3**	14.7	-	-
Short term bank loans	**3.0**	3.6	**3.0**	3.6
Loan from parent company	**3.3**	2.8	**3.3**	2.8
Obligations under finance leases	**8.4**	7.8	-	-
Trade creditors	**9.5**	9.6	-	-
Amounts owed to subsidiary company	-	-	**21.7**	21.2
Amounts owed to parent company	**0.6**	0.6	-	-
Amounts owed to associate companies	**0.1**	0.6	-	-
Dividend	-	24.8	-	24.8
Other creditors	**2.2**	2.5	-	-
Corporation tax	**16.5**	17.9	-	-
Other taxation and social security	**2.3**	2.1	-	-
Accruals and deferred income	**130.7**	126.9	**0.1**	0.4
	188.9	213.9	**28.1**	52.8

14 Creditors - amounts falling due after more than one year

	Group	
	30.06.14	30.06.13
	£m	£m
Loans repayable - in more than 1 year, but not more than 2 years	**100.0**	-
- in more than 2 years, but not more than 5 years	**140.0**	100.0
- in more than 5 years	**75.0**	215.0
	315.0	315.0
Finance lease repayable		
- in more than 1 year, but not more than 2 years	**9.2**	8.6
- in more than 2 years, but not more than 5 years	**24.3**	31.9
- in more than 5 years	-	2.8
	33.5	43.3
Bonds - in more than 5 years	**1,548.5**	1,529.2
Other creditors	**0.5**	1.0
	1,897.5	1,888.5

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

Bond at 5.375% repayable in March 2028	**198.5**	198.4
Bond at 5.75% repayable in October 2033	**346.5**	346.4
Bond at 4.0% repayable in September 2021	**304.8**	305.4
Index linked bond at 3.52% plus inflation repayable in July 2023	**71.5**	69.5
Index linked bond at 2.186% plus inflation repayable in June 2039	**59.5**	58.0
Index linked bond at 1.75% plus inflation repayable in July 2046	**96.2**	93.5
Index linked bond at 1.75% plus inflation repayable in July 2051	**96.2**	93.6
Index linked bond at 1.369% plus inflation repayable in July 2057	**96.2**	93.5
Index linked bond at 1.374% plus inflation repayable in July 2057	**96.2**	93.6
Index linked bond at 1.489% plus inflation repayable in November 2058	**61.0**	59.1
Index linked bond at 1.495% plus inflation repayable in November 2058	**61.0**	59.1
Index linked bond at 1.499% plus inflation repayable in November 2058	**60.9**	59.1
	1,548.5	1,529.2

NOTES TO THE ACCOUNTS (continued)

15 Provisions for liabilities

	Deferred tax £m	Restructuring costs £m	Group Total £m
At 1 July 2013	105.0	0.2	105.2
Utilised	-	(0.2)	(0.2)
Provided in year	-	0.4	0.4
Origination and reversal of timing differences	(12.3)	-	(12.3)
Increase in discount	(3.8)	-	(3.8)
At 30 June 2014	**88.9**	**0.4**	**89.3**

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

Deferred tax is provided as follows:	Group **30.06.14 £m**	30.06.13 £m
Accelerated capital allowances	**241.8**	254.0
Other timing differences	**(0.5)**	(0.4)
Undiscounted provision for deferred tax	**241.3**	253.6
Discount	**(152.4)**	(148.6)
Discounted provision for deferred tax	**88.9**	105.0

16 Pensions

FRS 17 pension liability (see note 16e)	**98.8**	113.9
FRS 17 deferred tax asset	**(19.8)**	(26.2)
Unfunded and compensatory added years pension	**1.2**	1.2
	80.2	88.9

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

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

b. The total pension cost for the year under FRS 17, including amounts set aside for early retirees and other finance income, was £10.8m (2013 - £13.1m). Actuarial gains and losses have been recognised in the period in which they occur through the Statement of Total Recognised Gains and Losses.

c. The latest actuarial valuation for WWPS was undertaken at 31 December 2010. The assumptions which have the most significant effect on the results of a valuation are those relating to the discount rate for scheme liabilities and the rate of increase in salaries and pensions. It was assumed that the pre retirement discount rate would be 6.3% and the post retirement discount rate 5.3%, that salary increases would be 3.5% per annum in year 1, 3.0% in years 2 and 3 and 4.3% thereafter and that present and future pensions would increase between 2.2% and 3.3% per annum. The market value of the WWPS assets as at 31 December 2010 was £345.3m which represented 81.2% of the actuarial value of the accrued benefits of £425.2m, a deficit of £79.9m. The next actuarial valuation was at 30 September 2013, results will be published by 31 December 2014.

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.

NOTES TO THE ACCOUNTS (continued)
16 Pensions (continued)

d. The actuarial valuation described above has been updated at 30 June 2014 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:

	30.06.14	30.06.13
Rate of increase in salaries – short term	**2.25% to 2.5%**	2.15% to 3.4%
Rate of increase in salaries – long term	**3.8%**	4.2%
Rate of increase in pensions in payment	**2.3% or 3.1%**	2.4% or 3.2%
Rate of increase in pensions in payment – reduced level members	**2.1%**	2.2%
Discount rate	**4.4%**	4.6%
Inflation assumption – RPI	**3.3%**	3.4%
Inflation assumption – CPI	**2.3%**	2.4%

The mortality assumptions are based upon the recent actual mortality experience of members within the scheme, and the assumptions also allow for future mortality improvements. The assumptions are that a member currently aged 60 will live, on average, for a further 27.0 years if they are male, and for a further 29.3 years if they are female. For a member who retires in 2034 at age 60 the assumptions are that they will live, on average, for a further 28.6 years after retirement if they are male, and a further 31.0 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 4.4% to 4.3% would increase the scheme liabilities by £9.5m from £566.5m to £576.0m, increasing the scheme deficit to £108.3m. An increase in the inflation assumption of 0.1% (from 2.3% to 2.4% for CPI and 3.3% to 3.4% for RPI) would increase the scheme liabilities by £8.8m from £566.5m to £575.3m, increasing the scheme deficit to £107.6m.

e. The value of the assets and liabilities at 30 June 2014 and the previous year was as follows:

	30.06.14	30.06.13
	£m	£m
Equities	**241.6**	188.8
Property	**21.9**	45.2
Government Bonds	**115.4**	108.8
Corporate Bonds	**88.0**	78.9
Other	**0.8**	0.4
Total fair value of the assets	**467.7**	422.1
Present value of defined benefit obligations	**(566.5)**	(536.0)
Deficit in the scheme	**(98.8)**	(113.9)

The expected rates of return were as follows:

	%	%
Equities	**7.5**	7.8
Property	**6.8**	7.2
Government Bonds	**3.3**	3.3
Corporate Bonds	**4.3**	4.2
Other	**0.9**	0.8
	5.8	5.9

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 2014.

NOTES TO THE ACCOUNTS (continued)

16 Pensions (continued)

f. Additional analysis:

	30.06.14 £m	30.06.13 £m
Analysis of profit and loss charge		
Current service cost	**10.4**	10.6
Past service cost	**0.2**	0.2
Interest cost	**24.5**	22.6
Expected return on scheme assets	**(24.3)**	(20.3)
Expense recognised in profit and loss account	**10.8**	13.1
Changes to the present value of defined benefit obligations during the year		
Opening present value of defined benefit obligations	**536.0**	516.6
Current service cost	**10.4**	10.6
Interest cost	**24.5**	22.6
Contributions by scheme participants	**0.2**	0.2
Actuarial losses on scheme liabilities	**12.9**	2.7
Net benefits paid out	**(17.7)**	(16.9)
Past service cost	**0.2**	0.2
Closing present value of defined benefit obligations	**566.5**	536.0
Changes to the fair value of scheme assets during the year		
Opening fair value of scheme assets	**422.1**	380.8
Expected return on scheme assets	**24.3**	20.3
Actuarial gains on scheme assets	**20.5**	19.2
Contributions by the employer	**18.3**	18.5
Contributions by scheme participants	**0.2**	0.2
Net benefits paid out	**(17.7)**	(16.9)
Closing fair value of scheme assets	**467.7**	422.1
Actual return on scheme assets		
Expected return on scheme assets	**24.3**	20.3
Actuarial gains on scheme assets	**20.5**	19.2
Actual return on scheme assets	**44.8**	39.5
Analysis of amounts recognised in Statement of Total Recognised Gains and Losses		
Total actuarial gains	**7.6**	16.5
Cumulative amount of (losses) recognised	**(140.8)**	(148.4)

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

	30.06.14 £m	30.06.13 £m	30.06.12 £m	30.06.11 £m	30.06.10 £m
Fair value of scheme assets	**467.7**	422.1	380.8	359.8	311.6
Present value of scheme liabilities	**(566.5)**	(536.0)	(516.6)	(431.6)	(411.4)
Deficit in the scheme	**(98.8)**	(113.9)	(135.8)	(71.8)	(99.8)
Experience gains / (losses) on scheme assets	**20.5**	19.2	(4.9)	24.7	10.8
Experience (losses) / gains on scheme liabilities	**(9.7)**	0.2	(3.1)	0.8	2.8

NOTES TO THE ACCOUNTS (continued)

17 Deferred income

	30.06.14	30.06.13
Grants and contributions:	**£m**	£m
At 1 July	**17.1**	17.7
Received in the year	**0.2**	0.1
Less amortisation	**(0.7)**	(0.7)
At 30 June	**16.6**	17.1

18 Called up equity share capital

	Group and Company	
	£m	£m
Authorised		
346,666,670 ordinary shares of 60p each	**208.0**	208.0
Allotted and fully paid		
219,585,986 ordinary shares of 60p each	**131.8**	131.8

19 Share premium account

	Group and Company	
	£m	£m
Share premium	**28.8**	28.8

20 Profit and loss account

Group		
At 1 July	**119.3**	96.4
Profit attributable to shareholders	**168.6**	134.9
Dividends (note 7)	**(100.1)**	(123.6)
Foreign currency adjustment	**-**	0.2
Actuarial gains net of taxation	**2.9**	11.4
At June 30	**190.7**	119.3
Company		
At 1 July	**5.5**	5.2
Profit attributable to shareholders	**122.5**	123.9
Dividends (note 7)	**(100.1)**	(123.6)
At 30 June	**27.9**	5.5

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 £122.5m (2013 - £123.9m) after dividends received from subsidiary companies of £122.7m (2013 - £123.6m).

NOTES TO THE ACCOUNTS (continued)

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

	Year to 30.06.14 £m	Year to 30.06.13 £m
Operating profit	**238.9**	230.4
Depreciation	**130.5**	124.2
Amortisation of grants and contributions	**(0.7)**	(0.7)
Provisions	**(7.5)**	(7.7)
Loss / (profit) on disposal of fixed assets	**1.4**	(0.4)
(Increase) in stocks	**(0.9)**	(0.2)
(Increase) in debtors	**(6.9)**	(7.1)
Increase in creditors	**4.1**	6.3
	358.9	344.8

22 Returns on investments and servicing of finance

Interest received	**3.1**	4.6
Interest paid	**(78.0)**	(79.1)
Interest element of finance lease rentals	**1.1**	(0.6)
	(73.8)	(75.1)

23 Capital expenditure and financial investment

Purchase of tangible fixed assets	**(232.0)**	(234.8)
Sale of tangible fixed assets	**0.6**	3.8
Connection charges, grants and deferred income	**6.5**	6.0
	(224.9)	(225.0)

24 Financing

Loans and finance leases received	**20.4**	137.7
Loans and finance leases repaid	**(10.4)**	(59.2)
	10.0	78.5

25 Movement in net debt

	1 July 2013 £m	Cash Flow £m	Non cash items £m	**30 June 2014 £m**
Short term cash investments	144.7	(68.7)	-	**76.0**
Bank overdraft	(14.7)	2.4	-	**(12.3)**
Short term loans	(3.6)	0.6	-	**(3.0)**
Loans repayable after one year	(315.0)	-	-	**(315.0)**
Loan from parent company	(2.8)	(0.5)	-	**(3.3)**
Amounts owed by parent company	89.4	-	-	**89.4**
Finance leases repayable within one year	(7.8)	(0.6)	-	**(8.4)**
Finance leases repayable after one year	(43.3)	9.8	-	**(33.5)**
Bonds repayable after one year	(1,529.2)	-	(19.3)	**(1,548.5)**
	(1,682.3)	(57.0)	(19.3)	**(1,758.6)**

NOTES TO THE ACCOUNTS (continued)

26 Financial instruments

Short term debtors and creditors have been excluded from the financial instrument disclosure other than £76.0m (2013 - £144.7m) of cash at bank and in hand, £27.0m (2013 - £28.9m) of short term borrowings and £89.4m (2013 - £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 2014 there were £100.0m of undrawn facilities (2013 - nil). There are no securities attributed to any of the borrowings.

a. Interest rate and currency exposure

	Fixed rate borrowings 2014 £m	**Floating rate borrowings 2014 £m**	**Total borrowings 2014 £m**	Fixed rate borrowings 2013 £m	Floating rate borrowings 2013 £m	Total borrowings 2013 £m
Sterling	**1,548.5**	**210.1**	**1,758.6**	1,529.2	153.1	1,682.3

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

	Interest rate % 2014	**Period years 2014**	Interest rate % 2013	Period years 2013
Sterling	**3.8**	**23.7**	3.8	24.9

Floating rate borrowings with interest rates moving in line with LIBOR comprise £27.0m (2013 - £28.9m) of short term borrowings, £348.5m (2013 - £358.3m) of long term borrowings less £89.4m (2013 - £89.4m) owed by immediate parent company and £76.0m (2013 - £144.7m) of cash at bank and in hand.

b. Fair values

	Book value £m 2014	**Fair value £m 2014**	Book value £m 2013	Fair value £m 2013
Borrowings less than 1 year	**(49.0)**	**(49.0)**	(115.8)	(115.8)
Amounts owed by immediate parent company	**(89.4)**	**(89.4)**	(89.4)	(89.4)
Floating rate borrowings over 1 year	**348.5**	**348.5**	358.3	358.3
Fixed rate borrowings over 1 year	**1,548.5**	**1,832.1**	1,529.2	1,791.6
	1,758.6	**2,042.2**	1,682.3	1,944.7

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 (2013 – £0.1m). There are no commitments under other operating leases.

b. Capital expenditure contracted but not provided at 30 June 2014 was £128.0m (2013 - £81.6m).

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.

NOTES TO THE ACCOUNTS (continued)

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	1.41	0.22
01/06/2012 Approved	01/06/2015	31/03/2021	1.65	0.16

Under FRS 20 equity settled share-based payments are measured at the fair value at the date of the grant, and the fair value is expensed on a straight line basis over the vesting period. 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 ave. share price at grant RM	Expected volatility %	Expected option life years	Risk free rate %	Dividend yield %
01/06/2012 Unapproved	1.63	21.2	3	3.14	5.6
01/06/2012 Approved	1.63	21.2	3	3.14	5.6

The following options were outstanding at 1 July 2013 and 30 June 2014.

Granted – Ordinary shares of RM0.50 each	Outstanding at 1 July 2013	Granted in year	Forfeited	Outstanding at 30 June 2014
01/06/2012 Unapproved	9,519,000	-	(78,000)	9,441,000
01/06/2012 Approved	41,099,000	-	(796,000)	40,303,000
TOTAL	50,618,000	-	(874,000)	49,744,000

The share price as at 30 June 2014 was RM1.47 or £0.27.

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 2014 was £0.3m (2013 - £0.3m).

30 Principal subsidiary companies and associated undertakings

a. Subsidiary companies

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

Wessex Water Ltd owns 100% of the issued ordinary share capital of each subsidiary company.
Other subsidiary companies are dormant or are not material to the group.
* 100% owned by Wessex Water Services Ltd ** 100% owned by Wessex Water Enterprises Ltd

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.

NOTES TO THE ACCOUNTS (continued)

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

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