

Wessex Water Limited

Annual Report And Financial Statements 30 June 2015

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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 WWSL 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.

The Company adopted International Financial Reporting Standards (IFRS) for the first time in these financial statements. The impact of adopting IFRS is shown in note 31 to the accounts with the accounting policies being found in note 1. In the first year of adoption the Company is required to restate the prior year under the IFRS accounting convention.

Financial performance

Profit after tax decreased by £31.0m from £171.4m to £140.4m, due to the factors shown below.

Turnover increased by £12.7m or 2.3% to £559.5m, mainly driven by the increase in the regulated turnover of WWSL.

Operational costs excluding depreciation increased by £5.5m from £201.2m to £206.7m. There were increases in business rates, increases due to the cost of new obligations, inflation and bad debts. Depreciation charges (including the disposal of assets) have increased by £3.2m from £99.7m to £102.9m.

Interest charges, including other finance charges, decreased by £2.1m from £78.0m to £75.9m, of which £0.9m was a reduction in the interest costs associated with pension accounting. The cost of debt rose from 3.9% to 4.0% and there was an increase in net debt of £27.4m from £1,846.8m to £1,874.2m.

The cash outflow of £27.4m comprised:

- cash flow from operating activities of £353.0m
- less interest payments of £60.3m
- less tax payments of £28.3m
- less net capital investment of £184.2m
- less dividend payments of £90.6m, plus a working capital and bond accrual outflow of £17.0m.

There was a tax charge in the year of £33.6m, an increase of £37.1m from a £3.5m credit last year, comprising:

- a corporation tax increase of £4.3m because of credits in the prior year. In the year there was a £14.3m credit arising from the first time adoption of IFRS relating to items of infrastructure income taxed in previous years now recognised as income and taxed in future years under IFRS. There was a large prior year credit, 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 22.5% to 20.75%.
- deferred tax moving from a £13.9m credit last year to a £18.9m charge this year. The principal reason for the credit last year was that the IBA agreement (that created a credit to corporation tax) produced an equal and opposite charge to deferred tax.

Dividends declared in the year amounted to £110.1m compared to £100.1m last year.

Under IAS 19 the pension scheme deficit of £98.8m at the start of the year has increased to £122.1m at 30 June 2015, the increase in the liabilities of £71.7m being more than the £48.4m increase in asset values.

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

Group operating profit as a percentage of turnover was 44.7% (2014 – 45.0%) as cost increases were proportionately more than the increase in turnover, and interest cover increased slightly to 3.3 times (2014 – 3.2 times) as net interest costs fell from the previous year.

STRATEGIC REPORT *(continued)*

Wessex Water Services Ltd - some indicators are measured for the regulatory year to 31 March 2015

OVERVIEW

The regulatory year covered by this report was the last in the five-year regulatory control period that began on 1 April 2010. These five years have been the most challenging since Wessex Water was privatised just over 25 years ago, driven by both the economic climate and the growing impact of the changing physical climate.

Our focus has been on understanding the changing needs of our customers and responding to the pressures that many have been under as a result of the recession. At the same time we have maintained the highest levels of environmental and quality compliance, continued to invest in creating greater resilience to climate change and supported economic growth across the Wessex Water region.

Throughout the period we have delivered first class customer service, with very high levels of customer satisfaction, enabling us to top the customer service league tables for water and sewerage companies for the seventh consecutive year.

We have continued to provide more choice to customers in the way they interact with us, including greater use of social media and text messaging, the introduction of online billing and a complete relaunch of our website. We also provide tailored assistance programmes for customers who struggle to pay their bills with more than 18,000 customers now benefiting from our social tariffs or restart programmes.

Average bills were frozen in real terms for 2014-15 and reduced by 5% from 1 April 2015.

Service standards remain high; it is 38 years since restrictions on water use were last imposed in the Wessex Water supply area.

For the reporting year our drinking water compliance was 99.97% and sewage treatment compliance was 99.7%. Whilst the varying weather patterns caused problems, we achieved a reduction in the total number of pollution incidents and halved the number of serious incidents. However, we know more needs to be done to deal with the changing rainfall patterns – longer dry periods and more intense rainfall – so we have committed to further major investments over the coming years.

Investing for customers

Through careful planning, innovative approaches and greater use of in-house resources we delivered our largest ever investment programme. We met all regulatory outputs, which included major customer focused programmes to reduce leakage and sewage flooding. Our overall investment programme was delivered under budget and the efficiency savings shared between customers and investors.

We are now more than halfway through the construction of our integrated water supply grid, which will improve resilience of supplies to customers and deliver improvements in the water environment. As part of this project we have developed an innovative system to optimise the supplies of water across the region, so minimising future operating costs. The whole grid project is on track for completion in 2018.

Innovation is a key element of our investment programme. We use industry leading no-dig techniques to replace and renew below ground assets, so minimising the impact on customers and communities. Many new ideas come from our employees; these are supplemented by trials of new technologies and our joint research programme with the University of Bath, as part of which we have developed a centre for water research and innovation based at the university.

We invest for the long term and take very seriously our role to maintain our assets for future generations. This was recognised by our regulator and all our assets achieved a stable serviceability rating throughout the last five years, a period that included the transfer to us of private sewers, which doubled the length of our sewer network. The transfer was completed without any additional funding and with no impact on services to customers.

Working in partnership

While we play a major part in the provision of essential services, we are not the only contributors. We recognise our place in the wider community and within the environment and have continued to work with stakeholders to develop partnership arrangements.

These include a multi-agency bathing water group set up to improve the bathing waters at Burnham, and working with local councils in developing surface water management plans, such as the 'super pond' constructed at Weston-super-Mare.

STRATEGIC REPORT – OVERVIEW *(continued)*

We have also introduced focused customer information campaigns to improve awareness of water and environmental issues. This has included our Be Smart Love Your Loo campaign to inform customers about the problems caused by non-flushable wipes.

We are passionate about sharing our know-how with young people and last year more than 24,000 students benefited from school visits and trips to our sites. We are also a science, technology, engineering and mathematics (STEM) ambassador and have helped run workshops to promote science and engineering to young learners.

Our Watermark award scheme has been operating for more than 20 years to support organisations with their environmental projects across the region. We also work closely with wildlife trusts and local nature partnerships on areas such as biodiversity.

We argued hard to remove the historical boom-bust investment cycle between five-year price review periods, which was both inefficient and a source of frustration for suppliers. We have implemented a programme which has allowed us to successfully smooth our investment and secure local jobs for the long term.

Not only has this programme helped our supply chain but, as a major regional employer, it has also allowed us to invest in more apprenticeship and trainee programmes.

The quality and dedication of our employees is key to our success. We are developing our future leaders to ensure we have the diverse, fully skilled and fulfilled employees we require to successfully provide on-going outstanding service to our customers, communities and environment.

We take our responsibilities to protect our staff, contractors and customers extremely seriously and continue to embed a strong health, safety and welfare culture in all our operations.

Planning for the future

The latest price review covering the five years from 1 April 2015 was extremely tough, reflecting the difficult economic climate. Bills for customers will come down in real terms, investment will be at the highest level ever and we will need to be even more innovative to deliver all the outputs, maintain our industry leading service standards and deliver satisfactory returns to investors.

Our customers were at the heart of the price review; over 24,000 customers and more than 90 organisations were consulted. Our customer liaison panels and the independent customer scrutiny group played major roles and I am grateful to all those involved.

Customers and partnerships will continue to be central to all we do over the next five years as we deliver the commitments we have made, prepare for the opening of a competitive retail market for business customers and tackle the challenges of upstream reform and ongoing climate change.

To prepare for the period ahead we have restructured our business and renewed our mission, aims and values. Providing customers with first-class affordable services remains our key aim. Wessex Water is in excellent shape and fully ready to take on the challenges of the next five years.

CUSTOMERS AND COMMUNITIES

We put customers and the communities we serve at the heart of everything we do.

We aim to deliver the highest levels of customer satisfaction and increase customer loyalty. We do this by providing what is important to our customers: excellent water and sewerage services, choice in the way they can communicate with us, a real person to answer the telephone, resolving problems quickly and first time, keeping them informed at all times, checking they are happy with the outcome if they have a problem and compensating where things go wrong.

It's often the little things that matter so we encourage our staff to go the extra mile whenever they can.

We remain the top performer in the water sector on customer service and our standards of service and package of customer guarantees are among the best in the industry. Day to day feedback shows customers are generally very satisfied with our service and see it as good value for money. But we know there is more to do, particularly as new channels of communication become more popular and customers increasingly compare us to the best service providers outside the utility sector.

We also need to recognise that any customer can become vulnerable and so we are committed to ensuring our services are accessible and inclusive for customers at all times. This commitment, combined with effective working partnerships with vulnerable customer organisations and our leading support for customers in financial difficulty, has helped us to build customer confidence and trust.

STRATEGIC REPORT – CUSTOMERS AND COMMUNITIES *(continued)*

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
- Topped the water and sewerage company league table in Ofwat's trials of the new look service incentive mechanism (SIM)
- Launched our new look website including a new interactive map detailing where we have projects in progress
- Used our online customer panels to seek their views on our Wessex Water Promise, free leak repair scheme, sewer misuse and water efficiency
- Worked with University of Bath on a behaviour change campaign in Salisbury encouraging customers to Be Smart Love your Loo
- Made great progress on our affordability action plan leading to a 25% increase in the number of low income customers receiving support with their bills
- Shortlisted for a national Money Matters award for improving financial literacy and money management
- Demonstrated our commitment to accessible and inclusive services for all by our attainment of the British Standard for Inclusive Services (BS 18477) and the award of the Louder than Words charter mark
- Ran our Sewage Week during which thousands of customers visited our sewage treatment works.

In detail

Drinking water quality

We are committed to ensuring that the highest quality drinking water remains at the forefront of all we do.

Our overall performance in 2014 was 99.97% – the same as in 2013 and achieved despite the tightening of the standard for lead that took effect at the end of 2013. Compliance has not fallen below 99.95% for the last 10 years.

We successfully completed mains rehabilitation work in Taunton during the year, resulting in significant improvements to local water quality. And we commissioned a multi-million pound refurbishment of Sutton Bingham water treatment works, which supplies Yeovil and the surrounding area.

Throughout 2014 customer contacts about water quality were in line with expectations with similar numbers received as previous years. Further reductions in the number of contacts we receive from our customers will be achieved through ongoing investment in our distribution system and improved ways of keeping customers informed.

Customer service

Last year Ofwat trialled its new look SIM and, once again, we emerged as the top water and sewerage company – a result supported by our own satisfaction and value for money surveys.

However, there is more to do and we need to meet customers' growing and more diverse expectations. So it is important that we listen to them and use their feedback to identify ways to improve our services, processes, training and communication, and deal better with those experiencing recurring problems.

To make sure we get this right, we are introducing measures that compare us to the best service providers outside the utility sector.

Alternative communication channels are becoming more and more popular and while we embrace these we do also remain committed to offering choice. So we have retained personal telephone answering, which customers really value, while at the same time expanding self-service opportunities, text messaging and Live Chat.

We continue to work even harder to keep customers better informed when we have problems either on our network, such as a burst water main, or when we are fixing a problem at their own home or premises. Text messaging has proved a great way to keep in touch and let customers know what the problem is, what we're doing to resolve it and by when.

We have also expanded our customer care team so we can give customers a key point of contact while we resolve their problem and can make sure they are happy with the outcome.

Our new look website features employees from across the company so customers can discover more about the people who are delivering high levels of service to them. The site features a new interactive map enabling customers to find details of local projects in progress.

Complaints fell again, this year by 5%. We are also resolving more complaints first time and have seen a reduction of 6% 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.

STRATEGIC REPORT – CUSTOMERS AND COMMUNITIES *(continued)*

To complement our Wessex Water Promise we have introduced Simply Thank You, a service enabling us to send bespoke gifts to customers where our service has fallen short of expectations.

We know that our customers have a wide range of needs, abilities and personal circumstances and that a customer can become vulnerable at any time.

Our commitment to accessible and inclusive services for all is demonstrated in our attainment of the British Standard for Inclusive Services (BS 18477), and the award of the Louder than Words charter mark.

And our staff worked with Wiltshire Mind on mental health awareness training and with the Money Advice Trust on how best to spot signs of financial difficulty.

Customer engagement

Through our online panels we asked customers what they thought about our Wessex Water Promise, free leak repair scheme and saving water.

We want to make sure our policies in these areas meet their needs and after each survey we sent a newsletter to participants explaining the findings and what we are doing as a result.

Affordability, tariffs and debt recovery

For the great majority of customers our bills are affordable but this is often not the case for those on the lowest incomes.

Through our assistance programme, tap, we are helping more than 18,000 vulnerable customers to pay ongoing charges and repay debt, while offering practical help to reduce water and energy bills.

Working closely with debt advisers we give each customer a tailored solution to meet their own financial circumstances. In 2014-15 we increased our work with organisations who offer customers telephone and online advice, such as StepChange and National Debtline.

Under the guidance of our expert affordability advisory group we have focused on delivering our affordability 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 and as a result we have increased uptake of our schemes by 25%.

We also made Money Matters awards to a further five organisations running community based financial literacy and money management projects involving young people and vulnerable customers.

Retail competition

We have long supported moves to extend customer choice in the sector and are in the process of preparing for full retail market opening for business customers.

During the year our joint venture billing and customer services provider, BWBSL, separated its business customer operations from its domestic customer operation so there is clear separation of costs. We have also formed a shadow board as we move to a greater level of separation.

We have been actively assisting Ofwat and others with the development of the future market rules and have applied to Market Operator Services Ltd which will procure the centralised systems that will allow the market to function smoothly.

Education and water saving

We help customers of all ages to conserve water and with their assistance we have continued to reduce leakage – our aim is to fix all visible leaks within one working day.

We offer free water saving devices through our online shop and a free water home check service and include information in our customer magazine and a range of other leaflets.

We continue to raise awareness of the causes behind sewer blockages and are encouraging people not to flush items such as wet wipes down the toilet. Last year alone we dealt with 13,000 blockages which cost £5m to clear. Our Be Smart Love Your Loo campaign aims to raise the alarm on this issue and asks customers to do their bit to prevent blockages.

We worked with the University of Bath on a behaviour change campaign in Salisbury to encourage customers not to flush wet wipes.

STRATEGIC REPORT – CUSTOMERS AND COMMUNITIES *(continued)*

During the last year more than 24,000 students across our region were among those to benefit from school visits and trips to water and sewage treatment works.

Our three education advisers, who cover Bristol, Bath, Somerset, Wiltshire, South Gloucestershire and Dorset, taught topics ranging from the water cycle to what happens to waste once it has been flushed down the toilet, to students of all ages and community groups.

We are also a STEM ambassador and help run workshops promoting science to young learners.

Watermark awards

For more than 20 years our Watermark award has supported organisations across our region with their environmental projects. Organisations that have benefited include the Butterfly Conservation's Munching Caterpillar education project.

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 water, land, the atmosphere and biodiversity.

In brief

- 100% compliance with abstraction licences
- 100% compliance with sewage discharge consents (sanitary standards) and 99.7% compliance with all standards
- No prosecutions
- Above average performer according to the Environment Agency's annual Environmental Performance Assessment.
- Lowest number of total pollution incidents
- Continuation of Frome and Piddle catchment initiative – a Defra sponsored collaborative project, to test the catchment based approach – and the launch of a similar initiative in the Bristol Avon
- Awards for our gas to grid and Bio-Bus projects (Rushlight Awards), for energy demand reduction at Chilton Trinity sewage treatment works and for energy data collection and analysis (The Energy Awards)
- Findings of earlier environmental investigations built into our business plan for investment during 2015-20.

In detail

Environmental performance

Following an increase in pollutions in 2013, we implemented a pollution action plan which has seen the number of pollutions reduce in 2014. In particular, the number of serious incidents halved from six to three. However, we know that more needs to be done to deal with changing rainfall patterns and we have committed to further major investments over the coming years.

We maintained industry leading effluent discharge consent compliance from our sewage treatment works at 99.7%.

Bathing waters

Once again all bathing waters in our region passed the EU's mandatory compliance standard.

The revised Bathing Water Directive takes effect in 2015 and means that our Coastwatch spill notifications to councils and beach managers are of increasing importance for compliance. We have worked with the Environment Agency (EA) and others to identify sites that will need further improvement between 2015 and 2020.

Planned work includes sewer improvements in Bridgwater and ultraviolet disinfection of storm spills at Highbridge, both of which will improve water quality at Burnham-on-Sea

We have approached the EA to explore the potential for cost and carbon saving by switching off ultraviolet plants at certain sewage treatment works during the winter – sites where treatment has been provided purely to achieve bathing water compliance but the bathing waters are not used.

If the agency agrees in principle, we will first need to prove minimal use outside the bathing season by surveying the relevant beaches – this is planned for winter 2015-16.

In February 2015 we launched a consultation to collect the views of a wide range of interested parties. We are targeting bathing waters on our north coast, eg, Minehead and Berrow.

STRATEGIC REPORT – ENVIRONMENT (continued)

Water resources

Groundwater levels were above average for most of the year, although a very dry September meant that the winter recovery was slightly delayed. Reservoir storage was particularly healthy, never dropping below 67% full.

Our water resources management plan was published in June 2014. It sets out how we will balance water supplies with water demands while protecting the environment for the next 25 years.

The plan included changing abstraction licence conditions for five sources by 31 March 2015 to ensure that continued abstraction from these sources is environmentally sustainable. These changes have been made and further abstraction licence changes will be made on completion of the grid scheme.

Catchment services

We have continued our catchment management work to try and solve the impact of nitrates and pesticides on drinking water quality by working with farmers rather than adopting the more traditional, but less sustainable and more expensive, approach of end-of-pipe treatment.

Following two very wet winters in 2012-13 and 2013-14 the last winter was a lot drier. This meant that we did not see the peak levels of nitrate in the water sources that we had seen during the wetter winters of previous years.

Our work to control the level of pesticides, and metaldehyde in particular, continues to be industry leading. The voluntary 'no use' approach that we have championed appears to be the only way to successfully avoid metaldehyde reaching rivers and reservoirs.

In AMP6 the catchment work will be expanded to a further six nitrate sites and an additional two sites for pesticides. We will also be working with farmers in the catchments of our reservoirs to reduce the nutrient (nitrogen and phosphorus) load entering the reservoir. These nutrients encourage the growth of algae which make the water much more difficult to treat.

Environmental investigations

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

We delivered 27 environmental investigations covering a number of sites, river reaches and aquifers during AMP5, providing data and evidence to ensure that environmental investment decisions have been based on sound science.

The results of this work have informed our AMP6 business plan, providing the following innovative solutions and delivering the best environmental outcomes at the lowest cost to customers.

- The first catchment permitting trial in the UK.

In the Bristol Avon catchment we will be piloting a catchment scale permitting trial to limit phosphorus discharges from our assets. This is £25m cheaper than traditional solutions but delivers the same level of Water Framework Directive compliance

- The first nitrogen offsetting trial in the UK. In the Poole Harbour catchment we will be working with farmers to reduce nitrate runoff and leaching into the River Frome. This helps to reduce contributions at source rather than constructing a £6m nitrogen removal end-of-pipe treatment plant at Dorchester sewage works

- Trialling different compensation flow releases at our reservoir sites to provide more naturalised river flows, enabling ecological potential in downstream waterbodies to be achieved.

Wildlife and conservation

We have extensively surveyed our key conservation sites over the last five 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, and improvements to the ancient hillfort
- 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.

In addition we have improved access to our Bleadon Levels nature reserve, adjacent to Weston-super-Mare sewage works. On this site, we manage nearly 19 hectares of saltmarsh and tidal creek habitat as well as a further eight hectares of grassland, reedbed and open freshwater lagoons. This year we have improved the footpaths, signage and displays and erected two new bird hides.

STRATEGIC REPORT – ENVIRONMENT *(continued)*

Our management of nearly 300 hectares of land designated as a SSSI 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 five 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.

We will be supporting the following projects between 2015 and 2020:

- South Wiltshire Farmland Bird Project – Cranborne Chase AONB
- Dorset Wild Rivers – Dorset Wildlife Trust
- Wessex Chalk Streams Project – Wiltshire Wildlife Trust
- Restoring coastal and floodplain grazing marsh in the North Somerset Levels – Avon Wildlife Trust.

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.

Nearly three quarters of our carbon footprint is due to electricity use, which increased steadily between the early 1990s and 2010 due to tighter sewage treatment standards. Through our energy management group we continue to work on improving energy efficiency and identifying unnecessary power use.

Much of this work involves close investigation of electricity consumption data to pinpoint sites using more power than we would expect, allowing focused maintenance and improvements to be carried out.

Our energy data hub initiative received an award at The Energy Awards 2014 for its success in gathering data from 2,500 sites and providing clear and accurate energy use information to managers and operators alike.

Our energy use is also closely linked to the weather. Dry conditions such as those experienced in 2011-12 result in less use of energy for pumping, while the very wet weather of 2012-13 and winter 2013-14 saw the opposite, with a lot of additional pumping needed to maintain a good sewerage service to our customers.

With rainfall close to the long-term average during 2014-15, the benefits of our energy efficiency work have been more evident, rather than being cancelled out by adverse weather conditions as in previous years.

We installed a 50 kW solar photovoltaic array on the roof of our refurbished water treatment works at Sutton Bingham in Somerset. We also completed a facility for exporting biomethane from Bristol sewage treatment works, operated by our subsidiary business GENeco, to the local gas grid.

The exported biomethane, produced from the biogas that originates in anaerobic digesters at the site, equates to the gas use of 8,300 homes. The biomethane is also being used to power a bus being operated by First West in Bristol, that is capable of running for 300km on a single full tank.

EMPLOYEES

Wessex Water is proud of its people, their professionalism and their exceptional commitment. The efforts, skills and goodwill of our employees are central to our success and to maintaining our reputation as a leading and trusted employer.

We take pride in equipping our employees with the skills and expertise they need to be successful in everything they do. We ensure they have the technical, legal, regulatory, leadership and management skills they require to provide an outstanding service to our customers, the company and each other.

STRATEGIC REPORT – EMPLOYEES *(continued)*

We have continued to focus on attracting existing and new skills into the business with a commitment to developing staff to their full potential through a range of development programmes. Our Institute of Leadership and Management level 5 and Chartered Management Institute level 7 strategic programmes have been an outstanding success this year.

Our apprenticeship programmes continue to be a key focus and this year we had the first intake of our engineering apprenticeship scheme.

We continue to develop new apprenticeship programmes with the objective of providing young people with career and skill development opportunities and building a strong and skilled workforce for the future.

Promoting diversity and inclusion in our workplace has been important again this year with the development of a diversity strategy, action plan and diversity scorecard.

We take pride in looking after the wellbeing of our employees and providing them with a variety of employee benefits.

Protecting the health, safety and welfare of our staff, contractors and customers remains vital with new programmes planned for next year.

In brief

- A strong and engaging culture
- Leadership development programmes – two intakes studying Institute of Leadership and Management level 5 programme and one intake of the Chartered Management Institute level 7 extended diploma in strategic leadership
- An average of three days' development training for all staff
- 99% retention rate of apprentices
- Development of a diversity strategy, three-year action plan and diversity scorecard
- Good safety performance with a renewed focus on behavioural safety and near miss reporting
- A revised health, safety and welfare strategy ensuring we deliver continuous improvement and best practice over the next five years
- We received health and safety awards from the British Safety Council (international safety award merit) and the Royal Society for the Prevention of Accidents (gold safety award)
- Continued focus on supporting employees with professional development through a range of professional and chartered institutes.

In detail

Training

We are committed to offering all our staff the training and development they need to do their jobs to the highest standards. We encourage progression through learning and ensure that all those looking to build a career with us have the opportunity to do so at a level and pace that suits both them and the company.

Current and future management and leadership remains a priority for us and along with our accredited level 5 and level 7 management and leadership programmes, we run a range of management development schemes aimed at supporting our leaders from new manager to senior management level.

On average we deliver a ratio of three days' training for each member of staff per year. The majority of our training schemes are health and safety, technical and craft programmes ensuring our people are highly skilled and competent, keeping themselves, their colleagues and our customers safe at all times.

Our apprenticeship schemes continue to flourish across the business and we continuously monitor and update our schemes in order to ensure young people are given the best training possible.

Our apprenticeship retention rate is 99%, supporting our mission to recruit, develop and retain competent people in order to build a strong and skilled workforce for the future.

We continue to actively support staff to complete professional development through a range of accredited professional development bodies relevant to our industry. We currently have 30 employees undertaking study to achieve professional qualifications.

Diversity

We value the differences that a diverse workforce brings and are committed to creating an inclusive workplace for all employees and others who work with the company as suppliers, contractors, consultants or customers.

This year a diversity taskforce of senior managers finalised a diversity policy and action plan aimed at ensuring there is continued and improving equality, diversity and inclusion in our workplace.

STRATEGIC REPORT – EMPLOYEES *(continued)*

We have published our diversity and inclusion policy and action plan, introduced shared parental leave, reviewed maternity and paternity leave policies and developed a diversity scorecard and monitoring system.

The diversity and inclusion scorecard will be reported to our board's corporate responsibility committee on a six-monthly basis and will be published on our intranet. The diversity scorecard records our progress in achieving the goal of strengthening our position as a diverse and inclusive company.

Culture

We have a strong, friendly and positive culture and staff enjoy working for the company and with each other. Our employees are highly engaged, with 87% of staff rating Wessex Water a good place to work.

This year, we reviewed our company mission, aims and values. Our mission is to be the best water and environmental services company.

Our aims are to provide customers with excellent affordable services, protect and improve the environment, be a great place to work in which all employees can reach their full potential, and give our investors a good return.

Our values are:

- behaviours – we respect and value everyone's contribution and always operate with integrity and openness
- excellence – we aspire to excellence in everything we do
- service – serving customers is at the heart of our business and we always go the extra mile
- teamwork – we are one team working together to deliver our mission.

We are launching a programme aimed at further strengthening and improving our culture and embedding and measuring our behaviours, ensuring we act as one team and keep customers' interests at the heart of everything we do.

Health and safety

Protecting the health, safety and welfare of our staff, contractors and customers remains an established and shared responsibility that is essential to our reputation as a leading and trusted employer.

We continue to develop and embed a strong health, safety and welfare culture in our day-to-day operations, based around Safety, Quality, Time and Cost, that targets zero accidents. We acknowledge that this does not mean there won't be another accident, but we aim to work for as long as possible without an injury.

In 2014 we saw an increase in the number of incidents that were reportable to the Health and Safety Executive, particularly in the period September to December 2014.

This is disappointing given that we have established controls to reduce levels of risk and injury. To ensure we learn from each of these incidents, all significant injuries or incidents with the potential to cause serious injury are investigated and root cause analysis is completed to allow areas of concern to be identified and to assist in developing our overall safety culture.

In 2014 the principal areas of concern were:

- risk perception and inattention of workers
- risk management and safe systems of work.

A number of safety initiatives have been put in place to improve these areas and include:

- near miss reporting in operations
- Make it right – a behavioural safety campaign in engineering and construction
- Check 5 – a dynamic risk assessment that provides an opportunity for everyone to challenge themselves and others to ensure safety comes first.

As we enter a new asset management plan period we have revised our health, safety and welfare strategy to ensure that we deliver continuous improvement. The strategy will further enhance our safety culture and be based around four integrated themes.

Progress against targets to deliver these four themes will be monitored and reviewed by our health and safety management group, who will be responsible for reporting performance to our Board of Directors.

STRATEGIC REPORT – (continued)

INFRASTRUCTURE

We aim to manage and maintain our assets by ensuring they operate efficiently and effectively, providing high quality services to our customers and the environment. We fully integrate sustainability principles and practice into the delivery of our capital programme and selection of solutions.

In brief

- £208.0m 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.

The last year saw the conclusion of the five-year investment programme that we began in 2010. Over the five years we have:

- met all our regulatory outputs
- progressed our water supply grid, a key component of our 25-year water resource plan
- completed our mains rehabilitation programme, including work in Taunton to improve the appearance of the water
- invested to reduce sewer flooding and worked in partnership with councils to reduce flood risk
- renovated more than 50km of water mains and 20km of sewers
- completed a major investment scheme at our Weston-super-Mare sewage treatment works (STW) to help improve the bathing water quality. Invested in additional treatment at seven STWs to remove nutrient (phosphorus) and a further six STWs to improve river water quality
- completed a major investment scheme at Trowbridge sludge treatment centre to provide a new advanced digestion plant and at Berry Hill and Taunton to extend and improve the existing conventional digestion.

In detail

Leakage

We met our leakage target for the year despite the long hot summer of 2014 causing challenges because of ground shrinkage. We deployed extra detection and repair resources through the winter to achieve a satisfactory position by year end.

Sewage flooding

Last winter saw typical levels of rainfall which provided a respite from the two wettest winters of 2013 and 2014. We have produced emergency plans so that in future we are better prepared to deal with emergency flooding conditions caused by groundwater inundation.

We are delivering a prioritised programme of infiltration reduction plans at catchments that have suffered, although 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 (EA).

Work continues with unitary and local councils in developing surface water management plans and flood management strategies. This included a scheme in Weston-super-Mare where we worked with North Somerset Council and the EA on the construction of a 'super pond' to make space for flood water.

We have invested more than £9m to reduce the probability of flooding at 129 properties and external areas in the past year. Our £40m AMP5 flooding programme successfully achieved our regulatory commitment of removing more than 527 properties and areas from the flooding risk.

Asset management

Our asset management framework has helped us develop a more integrated approach to risk and investment decision making. We have maintained our certification to the new international standard for asset management, 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.

For the eighth consecutive year serviceability was assessed as stable using Ofwat's criteria. We have retained two of the underground asset condition indicators (mains bursts and sewer collapses) as part of our performance commitments for the next five years.

STRATEGIC REPORT – INFRASTRUCTURE *(continued)*

Infrastructure improvements

In Taunton we completed our £16m investment to modernise ageing water mains. The work has both improved the appearance of the water and provided increased security of supply. This completes our AMP5 mains rehabilitation programme.

We continue to use no-dig techniques to replace water mains, thus minimising the impact on customers and businesses during construction. In total over the past five years we have replaced more than 250km km of our underground water mains.

Implementation of our water supply grid has passed the half-way point. During the year we completed construction of four new service reservoirs in Dorset and pumping stations at Monkton Deverill and Sturminster Marshall are well advanced.

Large sections of the transfer pipeline have been laid, including a crossing over the River Stour. We completed four schemes to eliminate the standalone nature of some of our sources and the overall project is scheduled to be completed by 2018.

With respect to our sewerage networks, in 2014-15 we completed 11km of structural renovation and a further 9km of sewer sealing to make our sewers watertight against groundwater inundation. In total over the past five years we have completed 75 km of proactive sewer improvements.

We have completed our AMP5 combined sewer overflow (CSO) improvements in Bristol. This £30m programme improved 63 CSOs in the period 2010-2015. In 2014-15 we invested almost £5m to improve 12 CSOs including an innovative solution using real-time control.

We completed schemes at sewage treatment works in Glastonbury and Wells, to reduce levels of phosphorus discharged into rivers on the Somerset Levels.

We also installed phosphorus removal at Paulton STW to further protect the River Avon. At Taunton, Mere and Iwerne Minster sewage works we completed major schemes to improve the quality of the effluent discharged to the rivers from these works.

We also completed construction of major extensions to Christchurch sewage works to provide additional treatment capacity.

At Wimbleball dam in Exmoor we successfully completed a complex project to replace the grout curtain under a 50 metre high concrete dam. Leakage under the dam is now at its lowest level since its construction in the late 1970s. This work was undertaken in conjunction with South West Water.

Innovation

Innovation is a central theme across our business. Many of the most promising innovations come via our employees, through their work to improve the efficiency of our operations and the decisions taken for asset investment. Our Eureka! programme directly rewards staff who have implemented projects that save money, improve service to customers, reduce risk and improve our working methods in general.

The most successful ideas in 2014-15 involved new gear boxes in the mixers at Maundown water treatment works; a method for improving the efficiency of the methanol dosing system at Poole sewage treatment works and an upgrade to the pumping system at Tucking Mill to avoid importing higher cost water from Bristol Water.

We also carry out trials of new technology that are being introduced by other companies. Trials in the last year or planned for the year ahead include remote methods for chemical dosing at sewage treatment works (using programmable pumps and temperature sensors); units that measure the uptake of oxygen within activated sludge chambers in order to optimise aeration; a 'double-packer' that allows sewer rehabilitation work to continue during wet weather when there are high flows of rainwater in the sewer; and a solar powered unit that emits ultrasound waves to inhibit the growth of algal blooms in water supply reservoirs.

One trial in 2014-15 has been recognised as a world first. This involves a waste water meter developed in conjunction with Dynamic Flow Technologies Limited and Elster Water Metering. This uses non-invasive microwave technology to measure trickle flows as low as 0.02 litres per second, up to virtually full bore flows. If successful, this innovation would greatly assist customers who would prefer to pay for sewerage services based on measured volumes of waste water that they generate, instead of estimates.

STRATEGIC REPORT – INFRASTRUCTURE *(continued)*

Our joint research programme with the University of Bath continued during 2014-15. The five main themes are:

- low energy nutrient recovery from sewage
- methods for increasing biogas from sewage sludge digesters
- emerging pollutants in waste water
- customer engagement to discourage disposal of inappropriate items in toilets
- and improved techniques for comparing the whole life costs of physical assets and catchment management.

This year also saw the launch of a water innovation and research centre at the university. This will enable further research into water technologies and resource management, contributing to future water policy and the development of innovative sustainable water treatment systems.

LOOKING AHEAD TO 2020

Our business plan was submitted to the water regulator Ofwat in June 2014 following an in-depth customer consultation exercise which involved obtaining the views of more than 24,000 customers and 90 organisations such as Which? and Citizens Advice – our biggest ever consultation with customers.

The plan set out how we expect to perform against nine long-term promises that we developed in consultation with customers. This consultation was overseen by an independent customer scrutiny group which submitted its views on the plan.

Ofwat published its final decision in December 2014 explaining the levels of bills and the service levels it required between 2015 and 2020.

A new business model

The business model developed at privatisation has been effective over the past 25 years and has brought significant benefits for customers and the environment.

Now is the time for a change to a new business model and the industry needs a new sustainable direction.

In the period up to 2020 we will:

- deliver higher levels of service alongside environmental improvements through a £1.2bn investment programme
- meet or exceed all our statutory obligations while keeping investment as low as possible through innovation.

Benefits for customers

We will:

- keep average bill rises below inflation for the next five years
- continue to provide the highest levels of satisfaction and service in the industry
- extend tap – the most extensive range of affordability measures in the UK
- give customers more choice in the way they deal with us and further extend our interactive digital communications
- complete our water grid and provide greater security of supply together with the opportunity to trade water
- improve the resilience of services, halving the number of properties fed from one source, solving flooding problems
- reduce leakage further and aim to fix reported leaks within a day
- replace customers' leaky and lead pipes free of charge
- maintain and operate pumping stations previously owned by customers
- provide more on-site services and tariff choices for business customers
- introduce an independently chaired customer advisory panel made up of consumer organisations to hold us to account.

Benefits for the environment

We will:

- reduce water abstracted from sources affecting rivers with low flows by 25Ml/day
- remove more than 250 tonnes of unwanted nutrients from rivers in our region
- aim to have no significant pollution incidents from our assets
- extend our innovative catchment services to achieve environmental improvements in a less costly and more effective way
- improve bathing waters
- ensure greater biodiversity in our landholdings
- reduce our carbon footprint by 20%
- continue to target 100% compliance with our environmental permits
- introduce an independently chaired catchment panel to monitor our environmental performance and encourage catchment based solutions.

STRATEGIC REPORT – LOOKING AHEAD TO 2020 (continued)

Impact on our investors

Returns to our shareholder through dividends will be reduced and our shareholder is accepting greater risks in the implementation of our plan.

How we are delivering our plan

As well as sharing with customers the efficiencies we have delivered in the last five-year period we are taking further steps as part of a new business model, including:

- meeting tough efficiency targets
- using innovative catchment services approaches to achieve environmental improvements in a less costly way, supported by improved incentives to encourage customers to save water
- taking opportunities to programme improvements over a longer timescale, completing them post 2020 in some cases so we invest based on good scientific evidence and deliver greater value
- further targeting our asset maintenance plans by finding more efficient ways to maintain services and by monitoring our network in real-time.

With an expected total expenditure plan of £1.8bn we have a programme of works to deliver major investments to:

- complete our integrated water grid
- begin our north Bristol sewerage programme
- make improvement works to help the water quality at Burnham Jetty bathing water.

Detailed case studies of our major investments and details of our work programmes near you are available from our website.

RISK REVIEW

The management of risk is of fundamental importance to the Group, 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. In WWSL the policy on risk identification and management is subject to annual review by the Board.

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

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. A Risk Group meets twice a year and submits the current corporate risk register and summary report to an Executive Group, again meeting twice a year.

The Executive Group 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 Chief Executive of WWSL 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).

The nine principal risks identified and agreed by the WWSL 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. In particular risks related to the preparation for retail market opening are being kept under review. 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. *Digital security.* The Security Service has identified the growing threat of cyber-attack or industrial espionage as a high risk to both businesses and utilities. This is particularly important for WWSL assets that are considered part of critical national infrastructure. The Company also holds and processes large quantities of data which are considered sensitive within the meaning of the Data Protection Act. Failure to process and protect the data in the prescribed manner is an offence. Additionally the Information Commissioner can take enforcement action which would require the Company to take prescribed actions for improvements in the future. A quarterly Information Security Forum has been setup to maintain the focus on mitigating this risk.

STRATEGIC REPORT – RISK REVIEW (continued)

3. *IS business resilience.* Most activities undertaken by the business are reliant on the availability of IT services and facilities, and the Company continues to examine ways in which IT resilience can be maintained and where appropriate improved. In particular, the IS team are currently implementing a technology enhancement programme enabling real time site to site data replication that will vastly improve the current system recovery times in the event of a disaster situation.

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. DBS checks are undertaken for all new permanent and fixed term staff.

5. *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. Local Emergency Plans are in place to protect the local environment at key installations.

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

7. *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.

8. *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.

9. *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.

Wessex Water Enterprises Ltd

The company and subsidiaries generated turnover of £23.0m (2014 - £19.4m), 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.

This year we commissioned a gas to grid plant at Avonmouth, Bristol sewage treatment works, allowing gas generated on site to be sent direct to the grid, a more efficient process than using the gas to generate electricity and then sending the electricity to the grid.

We acquired new food waste contracts that are operated by the 100% subsidiary GENeco (South West) Ltd.

We also started an industrial laundry business in our 100% subsidiary Enterprise Laundry Services Ltd that is providing laundry services in the Bath area.

SC Technology GmbH

Trading under the name Swiss Combi the turnover of the company for the year was £9.8m (2014 - £8.8m). 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 30 September 2015 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 2015.

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 * - resigned 25 September 2014
 Tiong Lay Yeoh *
 Sean Cater – resigned 31 March 2015
 David Elliott
 Andy Pymmer

* 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 2014-15 £000	Total 2013-14 £000
Colin Skellett	433	175	30	638	-	638	622
Mark Watts	256	120	21	397	36	433	409
Sean Cater	220	-	13	233	-	233	455
David Elliott	179	100	16	295	-	295	312
Andy Pymmer	171	110	18	299	-	299	291
Total	1,259	505	98	1,862	36	1,898	2,089

In addition Colin Skellett and Mark Watts received emoluments of £140k and £122k respectively for their services to the group companies. The emoluments of Sean Cater are for the period to 31st March 2015. 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 2014	Exercise price RM	Date of grant	Expiry date	Exercised	At 30 June 2015
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 2015 was RM1.60 or £0.26.

	At 30 June 2014	Exercise price RM	Date of grant	Exercise date	Expiry date	At 30 June 2015
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
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 2014	Warrants exercised	At 30 June 2015
Mark Watts	350,230	37,800	388,030
David Elliott	85,315	-	85,315
Andy Pymer	53,815	-	53,815

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 2015.

CHARITABLE AND POLITICAL DONATIONS

During the year £387,000 was donated to UK charities (2014 – £507,500). 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 2015 trade creditors represented approximately 37 days trade purchases (2014 – 34 days). The Group does not follow any specific external code or standard on payment policy.

CORPORATE GOVERNANCE

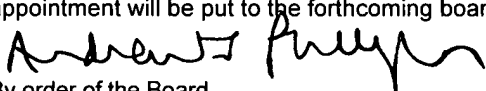
WWSL is required, under Condition F of its Instrument of Appointment as a water and sewerage undertaker, to take account of the principles of good governance in the UK Corporate Governance Code as approved for the purposes of the Listings Rules of the Financial Services Authority. Details of compliance 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

The Board has decided to put KPMG LLP forward to be appointed as auditor and a resolution concerning their appointment will be put to the forthcoming board meeting.


By order of the Board
A J Phillips
Company Secretary
Wessex Water Operations Centre
Claverton Down Road
Claverton Down
Bath BA2 7WW
30 September 2015

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 Group and parent company financial statements for each financial year. Under that law they have elected to prepare both the Group and the parent company financial statements in accordance with IFRSs as adopted by the EU and applicable law.

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 they have been prepared in accordance with IFRSs as adopted by the EU; and
- 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 2015 set out on pages 22 to 63. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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 20, 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 2015 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements 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.



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

30 September 2015

Consolidated Income Statement

For the year ended 30 June 2015

	<i>Note</i>	2015 £m	2014 £m
Revenue	2	559.5	546.8
Raw materials and consumables used		(36.0)	(35.7)
Staff costs		(63.0)	(57.7)
Depreciation and amortisation		(103.1)	(99.7)
Other expenses		(107.5)	(107.8)
Total expenses	3	(309.6)	(300.9)
Operating profit	2	249.9	245.9
Financial income	6	1.7	2.5
Financial expenses	6	(77.6)	(80.5)
Net financing expense		(75.9)	(78.0)
Profit before tax		174.0	167.9
Taxation	7	(33.6)	3.5
Profit for the year		140.4	171.4

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2015

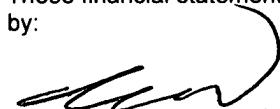
	2015 £m	2014 £m
Profit for the year	140.4	171.4
Other comprehensive income		
<i>Items that will not be reclassified to profit or loss:</i>		
Re-measurements of defined benefit liability	(25.2)	13.1
Income tax on items that will not be reclassified to profit or loss	5.0	(6.0)
	(20.2)	7.1
<i>Items that are or may be reclassified subsequently to profit or loss:</i>		
Foreign currency translation differences – foreign operations	0.1	-
	0.1	-
Other comprehensive income for the year, net of income tax	(20.1)	7.1
Total comprehensive income for the year	120.3	178.5

Balance Sheets

At 30 June 2015

	Note	Group	Group	Company	Company
		2015	2014	2015	2014
		£m	£m	£m	£m
Non-current assets					
Property, plant and equipment	9	3,278.7	3,176.9	-	-
Intangible assets	10	4.2	-	-	-
Investments in subsidiaries	11	-	-	82.5	82.5
		3,282.9	3,176.9	82.5	82.5
Current assets					
Inventories	12	11.4	8.7	-	-
Trade and other receivables	13	255.7	248.1	124.3	129.5
Cash and cash equivalents	14	88.1	82.3	6.0	4.6
Assets classified as held for sale	15	1.2	-	-	-
		356.4	339.1	130.3	134.1
Total assets		3,639.3	3,516.0	212.8	216.6
Current liabilities					
Bank overdraft	16	(14.3)	(18.6)	-	-
Other interest-bearing loans and borrowings	16	(8.7)	(14.7)	(4.1)	(6.3)
Trade and other payables	17	(172.6)	(162.9)	(42.8)	(21.8)
		(195.6)	(196.2)	(46.9)	(28.1)
Non-current liabilities					
Other interest-bearing loans and borrowings	16	(1,939.3)	(1,895.8)	-	-
Other payables	17	(0.4)	(0.5)	-	-
Employee benefits	18	(123.3)	(100.0)	-	-
Deferred income	19	(218.1)	(186.3)	-	-
Provisions	20	(1.7)	(0.4)	-	-
Deferred tax liabilities	21	(385.4)	(371.5)	-	-
		(2,668.2)	(2,554.5)	-	-
Total liabilities		(2,863.8)	(2,750.7)	(46.9)	(28.1)
Net assets	2	775.5	765.3	165.9	188.5
Equity					
Share capital	22	160.6	160.6	160.6	160.6
Retained earnings		614.9	604.7	5.3	27.9
Total equity		775.5	765.3	165.9	188.5

These financial statements were approved by the Board of Directors on 30 September 2015 and were signed on its behalf by:



Mark Watts
Director

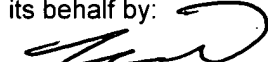
Company registered number: 2366633

Balance Sheet

At 30 June 2015

	Note	2015 £m	Group restated 2014 £m	restated 2013 £m
Non-current assets				
Property, plant and equipment	9	3,278.7	3,176.9	3,046.1
Intangible assets	10	4.2	-	-
Investments	11	-	-	-
		3,282.9	3,176.9	3,046.1
Current assets				
Inventories	12	11.4	8.7	7.8
Trade and other receivables	13	255.7	248.1	241.7
Cash and cash equivalents	14	88.1	82.3	149.8
Assets classified as held for sale	15	1.2	-	-
		356.4	339.1	399.3
Total assets		3,639.3	3,516.0	3,445.4
Current liabilities				
Bank overdraft	16	(14.3)	(18.6)	(19.8)
Other interest-bearing loans and borrowings	16	(8.7)	(14.7)	(14.2)
Trade and other payables	17	(172.6)	(162.9)	(185.8)
		(195.6)	(196.2)	(219.8)
Non-current liabilities				
Other interest-bearing loans and borrowings	16	(1,939.3)	(1,895.8)	(1,886.3)
Other payables	17	(0.4)	(0.5)	(1.0)
Employee benefits	18	(123.3)	(100.0)	(115.1)
Deferred income	19	(218.1)	(186.3)	(156.7)
Provisions	20	(1.7)	(0.4)	(0.2)
Deferred tax liabilities	21	(385.4)	(371.5)	(379.4)
		(2,668.2)	(2,554.5)	(2,538.7)
Total liabilities		(2,863.8)	(2,750.7)	(2,758.5)
Net assets	2	775.5	765.3	686.9
Equity				
Share capital	22	160.6	160.6	160.6
Retained earnings		614.9	604.7	526.3
Total equity		775.5	765.3	686.9

These financial statements were approved by the Board of Directors on 30 September 2015 and were signed on its behalf by:



Mark Watts
Director

Company registered number: 2366633

Statement of Changes in Equity

For the year ended 30 June 2015

Group

	Note	Share capital £m	Retained earnings £m	Total equity £m
Balance at 1 July 2013		160.6	526.3	686.9
Effect of change in accounting policy		-	-	-
Balance at 1 July 2013 restated		160.6	526.3	686.9
Total comprehensive income for the year				
Profit for the year		-	171.4	171.4
Other comprehensive income		-	7.1	7.1
Total comprehensive income for the year		-	178.5	178.5
Transactions with owners, recorded directly in equity				
Dividends	8	-	(100.1)	(100.1)
Total contributions by and distributions to owners		-	(100.1)	(100.1)
Balance at 30 June 2014		160.6	604.7	765.3
Balance at 1 July 2014		160.6	604.7	765.3
Total comprehensive income for the year				
Profit for the year		-	140.4	140.4
Other comprehensive income		-	(20.1)	(20.1)
Total comprehensive income for the year		-	120.3	120.3
Transactions with owners, recorded directly in equity				
Dividends	8	-	(110.1)	(110.1)
Total contributions by and distributions to owners		-	(110.1)	(110.1)
Balance at 30 June 2015		160.6	614.9	775.5

Included in retained earnings are £552.5m of un-distributable reserves (2014 - £557.6m and 2013 - £562.8m) created on first time adoption of IFRS when restating infrastructure assets to fair value (see note 22).

Statement of Changes in Equity

For the year ended 30 June 2015

Company

	<i>Note</i>	Share capital £m	Retained earnings £m	Total equity £m
Balance at 1 July 2013		160.6	5.5	166.1
Effect of change in accounting policy		-	-	-
Balance at 1 July 2013 restated		<u>160.6</u>	<u>5.5</u>	<u>166.1</u>
Total comprehensive income for the year				
Profit for the year		-	122.5	122.5
Other comprehensive income		-	-	-
Total comprehensive income for the year		<u>-</u>	<u>122.5</u>	<u>122.5</u>
Transactions with owners, recorded directly in equity				
Dividends	8	<u>-</u>	<u>(100.1)</u>	<u>(100.1)</u>
Total contributions by and distributions to owners		<u>-</u>	<u>(100.1)</u>	<u>(100.1)</u>
Balance at 30 June 2014		<u>160.6</u>	<u>27.9</u>	<u>188.5</u>
Balance at 1 July 2014		<u>160.6</u>	<u>27.9</u>	<u>188.5</u>
Total comprehensive income for the year				
Profit for the year		-	87.5	87.5
Other comprehensive income		-	-	-
Total comprehensive income for the year		<u>-</u>	<u>87.5</u>	<u>87.5</u>
Transactions with owners, recorded directly in equity				
Dividends	8	<u>-</u>	<u>(110.1)</u>	<u>(110.1)</u>
Total contributions by and distributions to owners		<u>-</u>	<u>(110.1)</u>	<u>(110.1)</u>
Balance at 30 June 2015		<u>160.6</u>	<u>5.3</u>	<u>165.9</u>

Cash Flow Statements

For year ended 30 June 2015

	Note	Group 2015 £m	Group 2014 £m	Company 2015 £m	Company 2014 £m
Cash flows from operating activities					
Profit for the year		140.4	171.4	87.5	122.5
<i>Adjustments for:</i>					
Depreciation, amortisation and impairment		103.1	99.7	-	-
Financial income		(1.7)	(2.5)	(1.3)	(1.1)
Financial expense		77.6	80.5	0.1	0.1
Taxation		33.6	(3.5)	-	-
		353.0	345.6	86.3	121.5
(Increase) / decrease in trade and other receivables		(4.3)	(6.9)	5.0	3.3
(Increase) in inventories		(2.7)	(0.9)	-	-
Increase in trade and other payables		10.1	4.1	1.5	0.2
(Decrease) in provisions and employee benefits		(4.9)	(7.0)	-	-
		(1.8)	(10.7)	6.5	3.5
Tax paid		(28.3)	(11.6)	-	-
Net cash from operating activities		322.9	323.3	92.8	125.0
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		1.0	0.6	-	-
Interest received		1.8	3.1	1.4	1.2
Acquisition of property, plant and equipment		(189.3)	(208.1)	-	-
Proceeds from infrastructure charges and capital contributions		6.7	6.5	-	-
Acquisition of other intangible assets		(4.4)	-	-	-
Net cash from investing activities		(184.2)	(197.9)	1.4	1.2
Cash flows from financing activities					
Proceeds from new loan		150.0	0.5	-	0.4
Interest paid		(60.3)	(57.5)	(0.1)	(0.1)
Repayment of borrowings		(102.1)	(0.6)	(2.1)	(0.6)
Payment of finance lease liabilities		(25.6)	(9.2)	-	-
Dividends paid		(90.6)	(124.9)	(90.6)	(124.9)
Net cash from financing activities		(128.6)	(191.7)	(92.8)	(125.2)
Increase / (decrease) in cash and cash equivalents		10.1	(66.3)	1.4	1.0
Cash and cash equivalents at 1 July		63.7	130.0	4.6	3.6
Cash and cash equivalents at 30 June	14,16	73.8	63.7	6.0	4.6

Notes to the financial statements

1 Accounting policies

1.1 Basis of preparation

Wessex Water Ltd is a company incorporated and domiciled in the UK.

The group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group") and equity account the Group's interest in associates and jointly controlled entities. The parent company financial statements present information about the Company as a separate entity and not about its group.

Both the parent company financial statements and the group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"). On publishing the parent company financial statements here together with the group financial statements, the Company is taking advantage of the exemption in s408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these approved financial statements.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these consolidated financial statements and in preparing an opening IFRS balance sheet at 1 July 2013 for the purposes of the transition to Adopted IFRSs.

Judgements made by the Directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 30.

1.2 Transition to adopted IFRSs

The Company is preparing its financial statements in accordance with Adopted IFRSs for the first time and consequently has applied IFRS 1. An explanation of how the transition to Adopted IFRSs has affected the reported financial position and financial performance of the Company is provided in note 31.

IFRS 1 grants certain exemptions from the full requirements of Adopted IFRSs in the transition period.

In the preparation of these financial statements the Company used the exemption in respect of deemed cost to arrive at the fair value on adoption of IFRS, and the exemption on transfers of assets to customers in respect of the treatment of sewer adoptions.

1.3 Measurement convention

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

1.4 Going concern

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

1.5 Foreign currency

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

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

Notes to the financial statements - Accounting policies (continued)

1.6 Financial instruments

Investments

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

Cash and cash equivalents

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

Interest-bearing borrowings

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

1.7 Property, plant and equipment

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

Infrastructure assets have been revalued to fair value on 1 July 2013, the date of transition to Adopted IFRSs, and are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

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

Leases in which the Company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Where land and buildings are held under leases the accounting treatment of the land is considered separately from that of the buildings. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and less accumulated impairment losses.

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

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

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

Infrastructure assets comprise 8 components whose weighted average life is 108 years:

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

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

Notes to the financial statements - Accounting policies (continued)

1.8 Intangible assets and goodwill

Goodwill

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment.

Research and development

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

Other intangible assets

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and less accumulated impairment losses.

Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use.

1.9 Investment property

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

1.10 Inventories

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

1.11 Impairment excluding inventories and deferred tax assets

Financial assets (including receivables)

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

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

Non-financial assets

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

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

Notes to the financial statements - Accounting policies (continued)

1.12 Employee benefits

Defined benefit plans

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

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

Defined contribution plans

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

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

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

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

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

Short-term benefits

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

Share-based payment transactions

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

1.13 Provisions

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

1.14 Revenue

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

Notes to the financial statements - Accounting policies (continued)

1.15 Deferred income

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

Grants and contributions relating to infrastructure assets are amortised over 108 years.

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

1.16 Bad debt policy

Debt is written off for one of four reasons;

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

The policy for calculating the bad debt provision is to analyse the outstanding debt between payment categories and to make provision according to the historical non collection rate for that payment category. The categories selected are direct debit, instalments, standing orders, DSS, bankruptcy and all other. The profile of provision differs between categories, but for all categories debt that is 4 years old is fully provided.

1.17 Expenses

Operating lease payments

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

Finance lease payments

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

Financing income and expenses

Financing expenses comprise interest payable, finance charges on shares classified as liabilities and finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the income statement (see foreign currency accounting policy). Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use, are capitalised as part of the cost of that asset. Financing income comprises interest receivable on funds invested, dividend income, and net foreign exchange gains.

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

Notes to the financial statements - Accounting policies (continued)

1.18 Taxation

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

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

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

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

1.19 Non-current assets held for sale and discontinued operations

A non-current asset or a group of assets containing a non-current asset (a disposal group) is classified as held for sale if its carrying amount will be recovered principally through sale rather than through continuing use, it is available for immediate sale and sale is highly probable within one year.

On initial classification as held for sale, non-current assets and disposal groups are measured at the lower of previous carrying amount and fair value less costs to sell with any adjustments taken to profit or loss.

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative income statement is restated as if the operation has been discontinued from the start of the comparative period.

1.20 Dividends

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

1.21 Adopted IFRS not yet applied

The following Adopted IFRSs have been issued but have not been applied in these financial statements:

- IFRS 9 Financial Instruments (Mandatory for years commencing on or after 1 January 2018)
- IFRS 14 Regulatory Deferral Accounts (Mandatory for years commencing on or after 1 January 2016)
- IFRS 15 Revenue from Contracts with Customers (Mandatory for years commencing on or after 1 January 2017)
- Amendments to IAS 16 and IAS 28 Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendment to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations.

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

Notes to the financial statements - Accounting policies (continued)

1.22 Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Jointly controlled entities

Jointly controlled entities are those entities over whose activities the Group has joint control, established by contractual agreement and requiring the venturers' unanimous consent for strategic financial and operating decisions. The consolidated financial statements include the Group's proportionate share of the entities' assets, liabilities, revenue and expenses with items of a similar nature on a line by line basis, after adjustments to align the accounting policies with those of the Group, from the date that joint control commences until the date that joint control ceases.

1.23 Construction contract debtors

Construction contract debtors represent the gross unbilled amount for contract work performed to date. They are measured at cost plus profit recognised to date less a provision for foreseeable losses and less progress billings. Variations are included in contract revenue when they are reliably measurable and it is probable that the customer will approve the variation itself and the revenue arising from the variation. Claims are included in contract revenue only when they are reliably measurable and negotiations have reached an advanced stage such that it is probable that the customer will accept the claim. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity.

Construction contract debtors are presented as part of trade and other receivables in the balance sheet. If payments received from customers exceed the income recognised, then the difference is presented as deferred income in the balance sheet.

Notes to the financial statements *(continued)*

2 Segmental analysis

	2015 £m	2014 £m
<i>Turnover</i>		
Regulated	529.2	520.3
Unregulated	30.3	26.5
	<u>559.5</u>	<u>546.8</u>
 <i>Operating profit</i>		
Regulated	245.4	242.0
Unregulated	4.5	3.9
	<u>249.9</u>	<u>245.9</u>
 <i>Net assets</i>		
Regulated	694.8	662.2
Unregulated	80.7	103.1
	<u>775.5</u>	<u>765.3</u>

3 Expenses and audit fee information

Included in profit are the following:

Impairment loss on other trade receivables and prepayments	12.0	11.4
Research and development expensed as incurred	0.1	0.1

	2015 £'000	2014 £'000
<i>Auditor's remuneration:</i>		
Audit of these financial statements	109	96
Audit of financial statements of subsidiaries pursuant to legislation	155	149
Taxation compliance services	10	5
Other tax advisory services	13	23
AMP6 price review services	18	114
Other costs	187	70
	<u>492</u>	<u>457</u>

Notes to the financial statements *(continued)*

4 Staff numbers and costs

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

	Number of employees	
	2015	2014
Wessex Water Services Ltd	1,920	1,875
Billing joint venture – Bristol Wessex Billing Services Ltd	335	330
Wessex Water Enterprises Ltd	10	11
Geneco Food Waste	5	5
Enterprise Laundry	7	-
SC Technology AG	19	19
Wessex Water Ltd	4	4
	<hr/>	<hr/>
Average number of employees	2,300	2,244
	<hr/> <hr/>	<hr/> <hr/>

The aggregate payroll costs of these employees was:

	2015	2014
	£m	£m
Wages and salaries	75.4	69.7
Social security costs	6.7	6.3
Pension costs	10.6	10.6
	<hr/>	<hr/>
	92.7	86.6
	<hr/> <hr/>	<hr/> <hr/>

These costs were allocated as follows:

Capital schemes	29.7	28.9
Operating expenses	63.0	57.7
	<hr/>	<hr/>
	92.7	86.6
	<hr/> <hr/>	<hr/> <hr/>

5 Directors' remuneration

	2015	2014
	£'000	£'000
Total Directors' remuneration including benefits in kind	1,898	2,089
	<hr/>	<hr/>
Remuneration of highest paid Director	638	622
	<hr/> <hr/>	<hr/> <hr/>

Details of Directors' remuneration can be found in the Directors' Report. Directors' remuneration is in respect of five Executive Directors and six YTL appointed Directors (2014 - five Executive Directors and six YTL appointed Directors).

Notes to the financial statements *(continued)*

6 Finance income and expense

Recognised in the income statement

	2015	2014
	£m	£m
<i>Finance income</i>		
Interest receivable on short-term bank deposits	1.7	2.5
Total finance income	<u>1.7</u>	<u>2.5</u>
<i>Finance expense</i>		
To fellow subsidiary undertakings	-	-
Net interest on net defined benefit pension plan liability	(4.3)	(5.2)
On bank loans and leases	<u>(73.3)</u>	<u>(75.3)</u>
Total finance expense	<u>(77.6)</u>	<u>(80.5)</u>
Net interest payable	<u>(75.9)</u>	<u>(78.0)</u>

In accordance with IAS 23 borrowing costs of £2.2m (2014 - £1.3m) associated with the funding of eligible capital projects have been capitalised at an interest rate of 4.0% (2014 - 4.2%).

7 Taxation

Recognised in the income statement

	2015	2014
	£m	£m
<i>Current tax expense</i>		
Current year	16.6	28.9
Adjustments for prior years	<u>(1.9)</u>	<u>(18.5)</u>
Current tax expense	<u>14.7</u>	<u>10.4</u>
<i>Deferred tax expense</i>		
Origination and reversal of temporary differences	18.3	4.5
Reduction in tax rate	-	(36.3)
Adjustments for prior years	<u>0.6</u>	<u>17.9</u>
Deferred tax expense / (credit)	<u>18.9</u>	<u>(13.9)</u>
Tax expense in income statement (excluding tax on discontinued operation)	<u>33.6</u>	<u>(3.5)</u>
Tax from discontinued operation (excluding gain on sale)	-	-

Recognised in other comprehensive income

	2015	2014
	£m	£m
Re-measurements of defined benefit liability	5.0	(6.0)
Change in tax rate	-	-
Tax credit / (debit)	<u>5.0</u>	<u>(6.0)</u>

Notes to the financial statements *(continued)*

7 Taxation (continued)

Reconciliation of effective tax rate

	2015 £m	2014 £m
Profit for the year	140.4	171.4
Total tax expense / (credit)	<u>33.6</u>	<u>(3.5)</u>
Profit excluding taxation:	174.0	167.9
Tax using the UK corporation tax rate of 20.75% (2014 - 22.5%)	36.1	37.8
Reduction of tax rate on deferred tax balances	-	(36.2)
Non-deductible expenses	0.4	0.3
(Over) provided in prior years	(1.3)	(0.6)
Group relief for nil consideration	(2.3)	(2.4)
Other	<u>0.7</u>	<u>(2.4)</u>
Total tax expense / (credit)	<u>33.6</u>	<u>(3.5)</u>

Reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. In the Budget on 8 July 2015, the Chancellor announced additional planned reductions to 18% by 2020. This will reduce the company's future current tax charge accordingly. The deferred tax liability at 30 June 2015 has been calculated based on the rate of 20% substantively enacted at the balance sheet date.

8 Dividends

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

	2015 £m	2014 £m
Dividends for the current year	90.6	81.1
Final dividend	<u>19.5</u>	<u>19.0</u>
	<u>110.1</u>	<u>100.1</u>

Notes to the financial statements (continued)**9 Property, plant and equipment – Group**

	Land & buildings £m	Infra-structure assets £m	Plant, equipment & vehicles £m	Office & IT equipment £m	Total £m
Cost					
Balance at 1 July 2013	822.5	1,732.8	1,368.6	28.2	3,952.1
Additions	11.0	104.1	116.4	1.8	233.3
Disposals	(0.9)	(1.5)	(13.1)	-	(15.5)
Foreign exchange movements	(0.1)	-	(0.9)	-	(1.0)
Balance at 30 June 2014	832.5	1,835.4	1,471.0	30.0	4,168.9
Balance at 1 July 2014	832.5	1,835.4	1,471.0	30.0	4,168.9
Additions	21.7	95.5	87.8	3.0	208.0
Disposals	(0.5)	(1.5)	(25.6)	(8.0)	(35.6)
Foreign exchange movements	-	-	0.5	-	0.5
Balance at 30 June 2015	853.7	1,929.4	1,533.7	25.0	4,341.8
Depreciation and impairment					
Balance at 1 July 2013	(230.2)	0.3	(659.6)	(16.5)	(906.0)
Depreciation charge for the year	(14.3)	(15.6)	(65.9)	(2.9)	(98.7)
Impairment losses	-	-	-	-	-
Disposals	0.5	-	11.5	-	12.0
Foreign exchange movements	-	-	0.7	-	0.7
Balance at 30 June 2014	(244.0)	(15.3)	(713.3)	(19.4)	(992.0)
Balance at 1 July 2014	(244.0)	(15.3)	(713.3)	(19.4)	(992.0)
Depreciation charge for the year	(14.3)	(16.6)	(71.0)	(1.0)	(102.9)
Impairment losses	-	-	-	-	-
Disposals	0.3	-	23.9	8.0	32.2
Foreign exchange movements	-	-	(0.4)	-	(0.4)
Balance at 30 June 2015	(258.0)	(31.9)	(760.8)	(12.4)	(1,063.1)
Net Book Value					
At 1 July 2013	592.3	1,733.1	709.0	11.7	3,046.1
At 30 June 2014	588.5	1,820.1	757.7	10.6	3,176.9
At 30 June 2015	595.7	1,897.5	772.9	12.6	3,278.7

Notes to the financial statements (continued)

9 Property, plant and equipment – Group (continued)

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

Included in infrastructure assets at 1 July 2013 is £703.5m fair value adjustment on first time adoption of IFRS.

There is no impairment loss recognised in these financial statements.

At 30 June 2015 the net carrying amount of leased plant and machinery was £17.4m (2014 - £34.8m). The leased equipment secures lease obligations (see note 14).

Assets under construction included in the values above were £113.4m (2014 - £120.0m).

Cumulative borrowing costs capitalised and included above were £3.5m (2014 - £1.3m).

Included in freehold land and buildings above is an amount of £12.2m (2014 - £11.5m) in respect of land which is not depreciated.

10 Intangible assets – Group

In November 2014 a subsidiary company of the Group purchased the trading rights to various waste service contracts with Bath and Bristol City councils. The contracts have a fixed term varying from 4 to 15 years.

	Contractual trading rights	
	2015	2014
	£m	£m
Cost		
Balance at 1 July 2014 (2013)	-	-
Acquisitions through business combinations	-	-
Other acquisitions – externally purchased	4.4	-
Balance at 30 June 2015 (2014)	<u>4.4</u>	<u>-</u>
Amortisation and impairment		
Balance at 1 July 2014 (2013)	-	-
Amortisation for the year	(0.2)	-
Reversal of impairment losses	-	-
Balance at 30 June 2015 (2014)	<u>(0.2)</u>	<u>-</u>
Net book value		
At 1 July 2014 (2013)	<u>-</u>	<u>-</u>
At 30 June 2015 (2014)	<u>4.2</u>	<u>-</u>

Amortisation and impairment charge

The amortisation and impairment charge is recognised in the depreciation and amortisation line in the income statement. There is no impairment loss recognised in these financial statements.

Notes to the financial statements (continued)**11 Investments in subsidiaries and jointly controlled entities**

The Group and Company have the following investments in subsidiaries and jointly controlled entities.

	Country	Number	Principal activity	Shares held	2015 %	2014 %
Company - subsidiary						
SC Technology GmbH	Switzerland	-	Waste treatment processes	CHF ordinary	100	100
Water 2 Business Ltd	United Kingdom	8518831	Dormant	£1 ordinary	100	100
Wessex Engineering & Construction Services Ltd	United Kingdom	3652435	Engineering services	£1 ordinary	100	100
Wessex Logistics Ltd	United Kingdom	2306465	Dormant	£1 ordinary	100	100
Wessex Promotions Ltd	United Kingdom	5421311	Dormant	£1 ordinary	100	100
Wessex Property Services Ltd	United Kingdom	2277590	Dormant	£1 ordinary	100	100
Wessex Spring Water Ltd	United Kingdom	2881033	Dormant	£1 ordinary	100	100
Wessex Water Commercial Ltd	United Kingdom	2372795	Dormant	£1 ordinary	100	100
Wessex Water Engineering Services Ltd	United Kingdom	2286860	Dormant	£1 ordinary	100	100
Wessex Water Enterprises Ltd	United Kingdom	2279151	Water supply and waste water services	£1 ordinary	100	100
Wessex Water Pension Scheme Trustee Ltd	United Kingdom	3913589	Dormant	£1 ordinary	100	100
Wessex Water Services Ltd	United Kingdom	2366648	Water supply and waste water services	£1 ordinary	100	100
Wessex Water Trustee Company Ltd	United Kingdom	2278257	Dormant	£1 ordinary	100	100
YTL Engineering Ltd	United Kingdom	3696600	Dormant	£1 ordinary	100	100
YTL Services Ltd	United Kingdom	2277608	Dormant	£1 ordinary	100	100
Company - joint venture						
Bristol Wessex Billing Services Ltd	United Kingdom	4143955	Billing services	£1 A ordinary	50	50
Group - subsidiary						
Enterprise Laundry Services Ltd	United Kingdom	8488681	Laundry services	£1 ordinary	100	100
GENeco Ltd	United Kingdom	06842738	Waste water services	£1 ordinary	100	100
GENeco South West Ltd	United Kingdom	09326393	Waste water services	£1 ordinary	100	100
SC Technology Nederlands BV	Netherlands	-	Waste treatment	Euro ordinary	100	100
SC Technology Deutschland GmbH	Germany	-	Waste treatment	Euro ordinary	100	100
Wessex Electricity Utilities Ltd	United Kingdom	06718971	Dormant	£1 ordinary	100	100
Wessex Utility Solutions Ltd	United Kingdom	06718997	Dormant	£1 ordinary	100	100
Wessex Water Services Finance PLC	United Kingdom	3704265	Issue of bonds	£1 ordinary	100	100
Group - joint venture						
Searchlight Collections Ltd	United Kingdom	07940022	Billing services	£1 ordinary	50	50

Bristol Wessex Billing Services Ltd is considered a Jointly Controlled Entity because Wessex Water Ltd and Bristol Water Holdings Ltd each hold 50% of the equity share capital and voting rights of the company and as a result, it has no single controlling party.

Searchlight Collections Ltd is considered a Jointly Controlled Entity because it is a 100% owned subsidiary of Bristol Wessex Billing Services Ltd.

Summary aggregated financial information on jointly controlled entity

	2015 £000	2014 £000
Bristol Wessex Billing Services Ltd		
Assets	2,343	903
Liabilities	(2,343)	(903)
Profit / (loss)		

Notes to the financial statements (continued)

11 Investments in subsidiaries and jointly controlled entities (continued)

Investment in Subsidiaries - Company

	2015	2014
	£m	£m
Carrying value at 1 July	82.5	82.5
Additions	-	-
Written off in the year	-	-
Carrying value at 30 June	<u>82.5</u>	<u>82.5</u>

12 Inventories

	Group		Company	
	2015	2014	2015	2014
	£m	£m	£m	£m
Raw materials and consumables	4.1	3.6	-	-
Work in progress	7.3	5.1	-	-
	<u>11.4</u>	<u>8.7</u>	<u>-</u>	<u>-</u>

Raw materials, consumables and work in progress recognised as cost of sales in the year amounted to £4.3m (2014 - £2.8m). There was no write-down of inventories to net realisable value in either year.

13 Trade and other receivables

	Group		Company	
	2015	2014	2015	2014
	£m	£m	£m	£m
Trade receivables	71.0	67.4	-	-
Owed by subsidiary companies	-	-	24.3	30.2
Owed by other group companies	0.2	0.1	2.3	2.3
Owed by parent company	89.4	89.4	89.5	89.5
Prepayments and accrued income	88.1	84.2	7.3	7.3
Other debtors	7.0	7.0	0.9	0.2
	<u>255.7</u>	<u>248.1</u>	<u>124.3</u>	<u>129.5</u>

14 Cash and cash equivalents

	Group		Company	
	2015	2014	2015	2014
	£m	£m	£m	£m
Short-term bank deposits	71.6	76.0	-	-
Cash at bank	16.5	6.3	6.0	4.6
	<u>88.1</u>	<u>82.3</u>	<u>6.0</u>	<u>4.6</u>

Notes to the financial statements *(continued)*

15 Current assets held for sale

Assets held for sale

A subsidiary company GENeco acquired land at Avonmouth, Bristol along with waste service contracts. The land is in the process of being sold and has therefore been classified as held for sale.

	Group 2015 £m	Group 2014 £m
Assets classified as held for sale		
Land	1.2	-
	<u>1.2</u>	<u>-</u>

16 Other interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group and Company's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group and Company's exposure to interest rate and foreign currency risk, see note 23.

	Group 2015 £m	2014 £m	Company 2015 £m	2014 £m
Non-current liabilities				
Bank loans	365.0	315.0	-	-
Finance lease liabilities	11.9	33.6	-	-
Inter-company loans	1,562.4	1,547.2	-	-
	<u>1,939.3</u>	<u>1,895.8</u>	<u>-</u>	<u>-</u>
Current liabilities				
Bank overdraft	14.3	18.6	-	-
Short term bank borrowing	0.9	3.0	0.8	3.0
Current portion of finance lease liabilities	4.5	8.4	-	-
Loan from parent company	3.3	3.3	3.3	3.3
	<u>23.0</u>	<u>33.3</u>	<u>4.1</u>	<u>6.3</u>

Notes to the financial statements (continued)**16 Other interest-bearing loans and borrowings (continued)***Terms and debt repayment schedule*

	Currency	Nominal interest rate	Year of maturity	Face value 2015 £m	Carrying amount 2015 £m	Face value 2014 £m	Carrying amount 2014 £m
Bank loans	Sterling		2018-2024	365.0	365.0	315.0	315.0
<i>Inter-company loans</i>							
Bond	Sterling	5.375%	2028	198.6	198.3	198.5	198.2
Bond	Sterling	5.75%	2033	346.7	345.7	346.5	345.5
Bond	Sterling	4.00%	2021	198.3	198.3	198.1	198.1
Bond	Sterling	4.00%	2021	105.8	105.8	106.7	106.7
Index Linked Bond	Sterling	3.52%	2023	73.2	73.2	71.5	71.5
Index Linked Bond	Sterling	2.186%	2039	60.0	60.0	59.5	59.5
Index Linked Bond	Sterling	1.75%	2046	98.5	98.5	96.2	96.2
Index Linked Bond	Sterling	1.75%	2051	98.5	98.5	96.2	96.2
Index Linked Bond	Sterling	1.369%	2057	98.5	98.5	96.2	96.2
Index Linked Bond	Sterling	1.374%	2057	98.4	98.4	96.2	96.2
Index Linked Bond	Sterling	1.489%	2058	62.4	62.4	61.0	61.0
Index Linked Bond	Sterling	1.495%	2058	62.4	62.4	61.0	61.0
Index Linked Bond	Sterling	1.499%	2058	62.4	62.4	60.9	60.9
				1,928.7	1,927.4	1,863.5	1,862.2

Finance lease liabilities

Finance lease liabilities are payable as follows:

	Minimum lease payments 2015 £m	Interest 2015 £m	Principal 2015 £m	Minimum lease payments 2014 £m	Interest 2014 £m	Principal 2014 £m
Less than one year	5.2	(0.7)	4.5	10.3	(1.9)	8.4
Between one and five years	12.8	(0.9)	11.9	37.0	(3.5)	33.5
More than five years	-	-	-	-	-	-
	18.0	(1.6)	16.4	47.3	(5.4)	41.9

Notes to the financial statements (continued)

17 Trade and other payables

	Group 2015 £m	2014 £m	Company 2015 £m	2014 £m
Current				
Amounts payable to parent company	0.6	0.6	-	-
Amounts payable to subsidiary companies	-	-	23.2	21.7
Amounts owed to associate companies	-	0.1	-	-
Trade payables	17.9	9.5	-	-
Dividend	19.5	-	19.5	-
Other creditors	2.7	2.2	-	-
Corporation tax	3.6	16.5	-	-
Taxation and social security	2.2	2.3	-	-
Accruals and deferred income	<u>126.1</u>	<u>131.7</u>	<u>0.1</u>	<u>0.1</u>
	<u>172.6</u>	<u>162.9</u>	<u>42.8</u>	<u>21.8</u>
Non-current				
Other payables	<u>0.4</u>	<u>0.5</u>	<u>-</u>	<u>-</u>
	<u>173.0</u>	<u>163.4</u>	<u>42.8</u>	<u>21.8</u>

18 Employee benefits

Pension plans

	2015 £m	2014 £m
Fair value of scheme assets	516.1	467.7
Present value of defined benefit obligations	<u>(638.2)</u>	<u>(566.5)</u>
Net (liability) for defined benefit obligations	(122.1)	(98.8)
Unfunded and compensatory added years pension	<u>(1.2)</u>	<u>(1.2)</u>
Total employee benefits	<u>(123.3)</u>	<u>(100.0)</u>

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

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

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

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

Notes to the financial statements – Employee benefits (continued)

b. Profile of the Scheme

The defined benefit obligation includes benefits for current employees, former employees and current pensioners. Broadly, about 36% of the liabilities are attributable to current employees, 16% to former employees and 48% to current pensioners.

The Scheme duration is an indicator of the weighted-average time until benefit payments are made. For the Scheme as a whole, the duration is around 18 years reflecting the approximate split of the defined benefit obligation between current employees (duration of 25 years), deferred members (duration of 25 years) and current pensioners (duration of 12 years).

c. Funding requirements

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

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

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

The next funding valuation is due no later than 30 September 2016 at which progress towards full-funding will be reviewed.

The Company also pays contributions of 18.2% of pensionable salaries in respect of current accrual and non-investment related expenses, with active members paying a further 7.3% of pensionable salaries on average. A contribution of £7.6m is expected to be paid by the Company during the year ending on 30 June 2016.

d. Risks associated with the Scheme

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

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

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

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

The Trustees insure certain benefits payable on death before retirement.

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

Notes to the financial statements – Employee benefits *(continued)*

e. Reporting at 30 June 2015

The results of the latest funding valuation at 30 September 2013 have been adjusted to the balance sheet date taking account of experience over the period since 30 September 2013, changes in market conditions, and differences in the financial and demographic assumptions. The present value of the defined benefit obligation, and the related current service cost, were measured using the Projected Unit Cost Method.

The principal assumptions used to calculate the liabilities under IAS 19 are set out below. The actuarial valuation described above has been updated at 30 June 2015 by a qualified actuary using revised assumptions that are consistent with the requirements of IAS 19. Investments have been valued, for this purpose, at fair value. The major assumptions used by the actuary were:

	30.06.15	30.06.14
Rate of increase in salaries – year 1	0.75%	2.25%
Rate of increase in salaries – year 2	2.50%	2.25%
Rate of increase in salaries – years 3 to 4 (2014 years 3 to 5)	2.50%	2.50%
Rate of increase in salaries – long term	3.70%	3.80%
Rate of increase in pensions in payment	2.2% or 3.1%	2.3% or 3.1%
Rate of increase in pensions in payment - reduced level members	2.3%	2.1%
Discount rate	3.8%	4.4%
Inflation assumption – RPI	3.2%	3.3%
Inflation assumption – CPI	2.2%	2.3%

The mortality assumptions are based upon the recent actual mortality experience of members within the scheme, and the assumptions also allow for future mortality improvements. The assumptions are that a member currently aged 60 will live, on average, for a further 27.2 years (2014 – 27.1 years) if they are male, and for a further 29.5 years (2014 – 29.4 years) if they are female. For a member who retires in 2035 at age 60 the assumptions are that they will live, on average, for a further 28.8 years (2014 – 28.7 years) after retirement if they are male, and a further 31.1 years (2014 – 31.1 years) after retirement if they are female.

The mortality table adopted is based upon 95% of standard tables S1P(M/F)A adjusted to allow for individual years of birth. Future improvements are assumed to be in line with the CMI 2013 core projection, with a long term improvement rate of 1.0% p.a. for all members.

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 3.8% to 3.7% would increase the scheme liabilities by £11.9m from £638.2m to £650.1m, increasing the scheme deficit to £134.0m.

An increase in the inflation assumption of 0.1% (from 2.2% to 2.3% for CPI and 3.2% to 3.3% for RPI) would increase the scheme liabilities by £9.7m from £638.2m to £647.9m, increasing the scheme deficit to £131.8m.

An increase in life expectancy of 1 year would increase the scheme liabilities by £22.5m from £638.2m to £660.7m, increasing the scheme deficit to £144.6m.

f. The value of the assets as follows:

	2015	2014
	£m	£m
Equities	261.2	241.6
Property	27.0	21.9
Government Bonds	129.4	115.4
Corporate Bonds	98.3	88.0
Other	0.2	0.8
	<u>516.1</u>	<u>467.7</u>

Notes to the financial statements – Employee benefits *(continued)*

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

	2015 £m	2014 £m
Operating cost – service cost		
Current service cost	10.1	10.4
Administration expenses	0.4	0.5
Past service cost	1.2	0.2
Financing cost		
Interest on net benefit liability	4.3	5.2
Pension cost recognised in profit and loss	<u>16.0</u>	<u>16.3</u>
Re-measurements in Other Comprehensive Income (OCI)		
Return on plan assets (in excess of) that recognised in net interest	(30.1)	(26.0)
Actuarial losses due to changes in financial assumptions	62.2	2.8
Actuarial losses due to changes in demographic assumptions	-	0.4
Actuarial (gains) / losses due to liability experience	(6.9)	9.7
Pension cost / (gain) recognised in OCI	<u>25.2</u>	<u>(13.1)</u>
Total amount recognised in profit and loss and OCI	<u><u>41.2</u></u>	<u><u>3.2</u></u>

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

	2015 £m	2014 £m
Opening defined benefit obligation	566.5	536.0
Current service cost	10.1	10.4
Interest expense on defined benefit obligation	24.8	24.5
Contributions by scheme participants	0.2	0.2
Actuarial losses due to changes in demographic assumptions	-	0.4
Actuarial losses due to changes in financial assumptions	62.2	2.8
Actuarial (gains) / losses due to liability experience	(6.9)	9.7
Net benefits paid out	(19.9)	(17.7)
Past service cost	1.2	0.2
Closing defined benefit obligation	<u><u>638.2</u></u>	<u><u>566.5</u></u>

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

	2015 £m	2014 £m
Opening fair value of scheme assets	467.7	422.1
Interest income on scheme assets	20.4	19.3
Re-measurement gains on scheme assets	30.1	26.0
Contributions by employer	18.0	18.3
Contributions by scheme participants	0.2	0.2
Net benefits paid out	(19.9)	(17.7)
Administration costs incurred	(0.4)	(0.5)
Closing fair value of scheme assets	<u><u>516.1</u></u>	<u><u>467.7</u></u>

Notes to the financial statements – Employee benefits (continued)

j. Additional analysis:

Actual return on scheme assets		
Interest income on scheme assets	20.4	19.3
Re-measurement gains on scheme assets	30.1	26.0
Actual return on scheme assets	<u>50.5</u>	<u>45.3</u>
Analysis of amounts recognised in Other Comprehensive Income		
Total re-measurement (losses) / gains	(25.2)	13.1
Total (loss) / gain	<u>(25.2)</u>	<u>13.1</u>

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

	30.06.15	30.06.14	30.06.13	30.06.12	30.06.11
	£m	£m	£m	£m	£m
Fair value of scheme assets	516.1	467.7	422.1	380.8	359.8
Defined benefit obligation	(638.2)	(566.5)	(536.0)	(516.6)	(431.6)
(Deficit) in the scheme	<u>(122.1)</u>	<u>(98.8)</u>	<u>(113.9)</u>	<u>(135.8)</u>	<u>(71.8)</u>
Experience gains on scheme assets	30.1	26.0	23.1		
Experience gains / (losses) on scheme liabilities	6.9	(9.7)	0.2		

Defined contribution plans

The Group also operates a defined contribution pension plan.

The total expense relating to this plan in the current year was £1.8m (2014 - £1.1m).

Share-based payments

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

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

2011 UK Plan

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

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

Notes to the financial statements – Employee benefits (continued)

Under IFRS 2 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 £0.5m was recognised in the profit and loss account for IFRS 2. The key assumptions were as follows:

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 30 June 2014 and 30 June 2015.

Granted – Ordinary shares of RM0.50 each	Outstanding at 30 June 2014	Granted	Forfeited	Exercised	Outstanding at 30 June 2015
01/06/2012 Unapproved	9,441,000	-	(1,494,000)	-	7,947,000
01/06/2012 Approved	40,303,000	-	(1,262,000)	-	39,041,000
TOTAL	49,744,000	-	(2,756,000)	-	46,988,000

The share price at 30 June 2015 was RM1.60 or £0.26.

19 Deferred income

	Above ground grants £m	Below ground grants £m	Sewer adoptions £m	Total £m
Balance at 1 July 2013	8.3	142.1	6.3	156.7
Received during the year	0.1	6.3	25.1	31.5
Amortisation	(0.3)	(1.4)	(0.2)	(1.9)
Balance at 30 June 2014	8.1	147.0	31.2	186.3
Balance at 1 July 2014	8.1	147.0	31.2	186.3
Received during the year	0.5	8.0	25.5	34.0
Amortisation	(0.3)	(1.4)	(0.5)	(2.2)
Balance at 30 June 2015	8.3	153.6	56.2	218.1

Notes to the financial statements (continued)

20 Provisions

Group	Restructuring costs £m	Total £m
Balance at 1 July 2014	0.4	0.4
Provisions made during the year	2.2	2.2
Provisions used during the year	(0.9)	(0.9)
Balance at 30 June 2015	1.7	1.7
Non-current	-	-
Current	1.7	1.7
	1.7	1.7

The restructuring provision is in respect of a reorganisation announced before the year-end, delivering efficiencies in the first year of the AMP 6 price review period. Full consultation has taken place and termination dates are in the first quarter of the new financial year.

21 Deferred tax assets and liabilities – Group

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Liabilities		Assets		Net	
	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m
Property, plant and equipment	572.3	546.7	(162.1)	(155.0)	410.2	391.7
Employee benefits	-	-	(24.7)	(20.0)	(24.7)	(20.0)
Provisions	(0.1)	(0.2)	-	-	(0.1)	(0.2)
Other	-	(0.2)	-	0.2	-	-
Tax liabilities / (assets)	572.2	546.3	(186.8)	(174.8)	385.4	371.5
Net of tax liabilities / (assets)	-	-	-	-	-	-
Net tax liabilities / (assets)	572.2	546.3	(186.8)	(174.8)	385.4	371.5

Movement in deferred tax during the year

	1 July 2014 £m	Recognised in income £m	Recognised in equity £m	30 June 2015 £m
Property, plant and equipment	391.7	18.5	-	410.2
Employee benefits	(20.0)	0.3	(5.0)	(24.7)
Provisions	(0.2)	0.1	-	(0.1)
Other	-	-	-	-
	371.5	18.9	(5.0)	385.4

Notes to the financial statements – Provisions (continued)

Movement in deferred tax during the prior year

	1 July 2013 £m	Recognised in income £m	Recognised in equity £m	30 June 2014 £m
Property, plant and equipment	406.0	(14.3)	-	391.7
Employee benefits	(26.4)	0.4	6.0	(20.0)
Provisions	(0.2)	-	-	(0.2)
Other	-	-	-	-
	<u>379.4</u>	<u>(13.9)</u>	<u>6.0</u>	<u>371.5</u>

22 Capital and reserves

Share capital – Group and Company

Ordinary shares

	2015 £m	2014 £m
<i>Authorised</i>		
346,666,670 ordinary shares at £0.60 each	<u>208.0</u>	<u>208.0</u>
	<u>208.0</u>	<u>208.0</u>

	2015 £m	2014 £m
<i>Allotted, called up and fully paid</i>		
219,585,986 ordinary shares of £0.60 each	<u>131.8</u>	<u>131.8</u>
Shares classified in shareholders' funds	<u>131.8</u>	<u>131.8</u>

Share premium – Group and Company

	2015 £m	2014 £m
Share premium	<u>28.8</u>	<u>28.8</u>
	<u>28.8</u>	<u>28.8</u>

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

Total share capital and share premium	<u><u>160.6</u></u>	<u><u>160.6</u></u>
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Notes to the financial statements – Capital and reserves *(continued)*

Retained earnings

Included in retained earnings on first time adoption of IFRS (by Wessex Water Services Ltd at 31 March 2013) a reserve arose on restating infrastructure assets to fair value. The gross reserve was £705.1m and net of deferred tax at 20% was £564.1m. The calculation of the £705.1m on first time adoption of IFRS is shown below:

	£m	£m
March 2013 Regulatory Capital Value		2,733.0
Adjust for:		
Stock	(7.0)	
Debtors	(162.6)	
Creditors less than one year	170.0	
	<u>0.4</u>	0.4
Creditors more than one year	1.0	
Deferred income	17.2	
Provisions	0.1	
Pension liability	119.3	
Unfunded pension liability	1.2	
	<u>138.8</u>	<u>138.8</u>
Value attributed to fixed assets		<u>2,872.2</u>
Less: Tangible fixed assets at UK GAAP cost at date of transition		<u>(2,167.1)</u>
Fair value uplift		<u><u>705.1</u></u>

The calculation was reviewed at 30 June 2013 and the values adjusted to £703.5m gross and £562.8m net of deferred tax. The reduction is based on amortisation of the fair value amount over a period of approximately 108 years.

23 Financial instruments

(a) Fair values of financial instruments

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

The fair value of long term fixed rate inter-company loans are classified as level 1 in the IFRS 13 fair value hierarchy and have a carrying value of £1,562.4m and a fair value of £1,840.9m. Short term and floating rate borrowings have a carrying value and fair value of £399.9m.

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

Notes to the financial statements – Financial instruments (continued)

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

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

	Carrying amount 2015 £m	Fair Value 2015 £m	Level 1 2015 £m	Carrying amount 2014 £m	Fair Value 2014 £m	Level 1 2014 £m
Loans and receivables						
Cash and cash equivalents (note 14)	(88.1)	(88.1)	(88.1)	(82.3)	(82.3)	(82.3)
Total financial assets	<u>(88.1)</u>	<u>(88.1)</u>	<u>(88.1)</u>	<u>(82.3)</u>	<u>(82.3)</u>	<u>(82.3)</u>
Bank overdraft (note 16)	14.3	14.3	14.3	18.6	18.6	18.6
Other interest-bearing loans and borrowings (note 16 current)	8.7	8.7	8.7	14.7	14.7	14.7
Other interest-bearing loans and borrowings (note 16 non-current)	1,939.3	2,217.8	2,217.8	1,895.8	2,179.4	2,179.4
Total financial liabilities	<u>1,962.3</u>	<u>2,240.8</u>	<u>2,240.8</u>	<u>1,929.1</u>	<u>2,212.7</u>	<u>2,212.7</u>
Total financial instruments	<u>1,874.2</u>	<u>2,152.7</u>	<u>2,152.7</u>	<u>1,846.8</u>	<u>2,130.4</u>	<u>2,130.4</u>

(b) Credit risk

Financial risk management

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

Cash and cash equivalents are short term deposits with counterparties that have a credit rating of A1+/P1 or A1/P1, and hence there is no exposure to credit risk for these values.

	2015 £m	2014 £m
Cash and cash equivalents	<u>88.1</u>	<u>82.3</u>
	<u>88.1</u>	<u>82.3</u>

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

	2015 £m	2014 £m
South West England	<u>71.0</u>	<u>67.4</u>
	<u>71.0</u>	<u>67.4</u>

Trade receivables are from domestic and business customers. No individual customer or industrial sector has a material balance outstanding at either year end.

Notes to the financial statements – Financial instruments (continued)

The aging of trade receivables at the balance sheet date was:

	Gross 2015 £m	Impairment 2015 £m	Gross 2014 £m	Impairment 2014 £m
Less than 1 year	49.6	(6.8)	46.8	(5.3)
1 to 2 years	20.8	(6.6)	20.1	(7.0)
2 to 3 years	15.5	(6.5)	14.8	(6.5)
3 to 4 years	12.4	(7.4)	11.6	(7.1)
More than 4 years	16.8	(16.8)	11.2	(11.2)
	<u>115.1</u>	<u>(44.1)</u>	<u>104.5</u>	<u>(37.1)</u>

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

	2015 £m	2014 £m
Balance at 1 July	(37.1)	(38.0)
Written off	5.0	12.3
Charge to profit and loss	<u>(12.0)</u>	<u>(11.4)</u>
Balance at 30 June	<u>(44.1)</u>	<u>(37.1)</u>

The bad debt policy is shown in the accounting policies (note 1).

(c) Cash flow hedges

The Company does not have any cash flow hedges.

(d) Liquidity risk

Financial risk management

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

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

Notes to the financial statements – Financial instruments (continued)

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

	Carrying amount	Contractual cash flows	Year 1	Years 2 to 5	Over 5 years
	2015	2015	2015	2015	2015
	£m	£m	£m	£m	£m
Non derivative financial instruments					
Short-term borrowing	0.9	0.9	0.9	-	-
Bank overdraft	14.3	14.3	14.3	-	-
Finance lease liabilities	16.4	18.1	5.3	12.8	-
Secured bank loans	365.0	397.5	4.8	157.1	235.6
Inter-company loans	1,565.7	3,298.2	56.1	226.5	3,015.6
Total financial instruments	1,962.3	3,729.0	81.4	396.4	3,251.2

	Carrying amount	Contractual cash flows	Year 1	Years 2 to 5	Over 5 years
	2014	2014	2014	2014	2014
	£m	£m	£m	£m	£m
Non derivative financial instruments					
Short-term borrowing	3.0	3.0	3.0	-	-
Bank overdraft	18.6	18.6	18.6	-	-
Finance lease liabilities	42.0	47.4	10.3	37.1	-
Secured bank loans	315.0	327.3	2.8	247.8	76.7
Inter-company loans	1,550.5	4,050.2	56.0	227.4	3,766.8
Total financial instruments	1,929.1	4,446.5	90.7	512.3	3,843.5

(e) Market risk

There is no exposure to equity or foreign currency risk, the interest rate risk is shown below.

Interest rate risk

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

	2015	2014
	£m	£m
Fixed rate instruments	948.1	848.6
Floating rate instruments	299.9	381.7
Index linked instruments	714.3	698.8
	1,962.3	1,929.1

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

Sensitivity

The floating rate instruments are sensitive to interest rate movements. If there was a 1% increase in interest rates on those floating rate instruments at the balance sheet date, there would be an additional interest charge to the income statement of £2.8m.

Notes to the financial statements *(continued)*

24 Operating leases

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

During the year £1.9m was recognised as an expense in the income statement in respect of operating leases (2014 - £2.2m).

During the year £0.9m (2014 - £0.9m) was recognised as rental income by the Group.

25 Commitments

Capital commitments

Group

Capital expenditure contracted but not provided at 30 June 2015 was £152.3m (2014 - £128.0m).

The Company has guaranteed Bonds of £1,562.4m (2014 - £1,547.2m) issued by its wholly owned subsidiary company Wessex Water Services Finance Plc.

Wessex Water Ltd provided performance guarantees on behalf of subsidiary companies of £0.8m (2014 - £0.3m).

26 Contingencies

Group and Company

There are no material contingent liabilities at 30 June 2015 for which provision has not been made in these accounts.

27 Related parties

There were no transactions with key management personnel.

Directors' emoluments have been disclosed in the Directors' Report.

There have been no transactions with pre-penultimate, penultimate and ultimate holding companies described in note 28, with the exception of the share based payment charge disclosed in note 18.

28 Ultimate parent company and parent company of larger group

The company is 100% owned by YTL Utilities (UK) Limited, a company incorporated in the United Kingdom whose registered address is Wessex Water Operations Centre, Claverton Down Road, Bath, BA2 7WW.

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

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

29 Subsequent events

There are no subsequent events requiring disclosure in these financial statements. The final dividend for the year was declared in June 2015 and paid in July 2015.

Notes to the financial statements *(continued)*

30 Accounting estimates and judgements

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

a) Defined benefit pension scheme deficit

In recognising the deficit on the balance sheet there are a number of assumptions concerning inflation, rate of increase of salaries and pensions, mortality rates and interest rates that can have a significant effect on the deficit recorded. These assumptions are discussed with independent qualified actuaries and disclosed in note 18 to the financial statements.

b) Bad debt provision

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

c) Fair value of assets

On first time adoption of IFRS the Company recognised a fair value uplift to fixed assets (see note 22).

d) Classification of capital expenditure

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

31 Explanation of transition to Adopted IFRSs

As stated in note 1, these are the Group's first consolidated financial statements prepared in accordance with Adopted IFRSs.

The accounting policies set out in note 1 have been applied in preparing the financial statements for the year ended 30 June 2015 and the comparative information presented in these financial statements for the year ended 30 June 2014 and in the preparation of an opening IFRS balance sheet at 1 July 2013 (the Group's date of transition).

In preparing its opening IFRS balance sheet, the Group has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (UK GAAP). An explanation of how the transition from UK GAAP to Adopted IFRSs has affected the Group's financial position and financial performance is set out in the following tables and the notes that accompany the tables.

Notes to the financial statements - Explanation of transition to Adopted IFRSs (continued)

Reconciliation of equity

		01 July 2013			30 June 2014		
	Note	UK GAAP £m	Effect of transition £m	Adopted IFRSs £m	UK GAAP £m	Effect of transition £m	Adopted IFRSs £m
Non-current assets							
Property, plant and equipment	a	2,199.3	846.8	3,046.1	2,291.0	885.9	3,176.9
Intangible assets		-	-	-	-	-	-
Investments in associates		-	-	-	-	-	-
		<u>2,199.3</u>	<u>846.8</u>	<u>3,046.1</u>	<u>2,291.0</u>	<u>885.9</u>	<u>3,176.9</u>
Current assets							
Inventories		7.8	-	7.8	8.7	-	8.7
Trade and other receivables		241.7	-	241.7	248.1	-	248.1
Cash and cash equivalents	b	144.7	5.1	149.8	76.0	6.3	82.3
		<u>394.2</u>	<u>5.1</u>	<u>399.3</u>	<u>332.8</u>	<u>6.3</u>	<u>339.1</u>
Total assets		<u>2,593.5</u>	<u>851.9</u>	<u>3,445.4</u>	<u>2,623.8</u>	<u>892.2</u>	<u>3,516.0</u>
Current liabilities							
Bank overdraft	b	(14.7)	(5.1)	(19.8)	(12.3)	(6.3)	(18.6)
Other interest-bearing loans and borrowings		(14.2)	-	(14.2)	(14.7)	-	(14.7)
Trade and other payables	c	(185.0)	(0.8)	(185.8)	(161.9)	(1.0)	(162.9)
		<u>(213.9)</u>	<u>(5.9)</u>	<u>(219.8)</u>	<u>(188.9)</u>	<u>(7.3)</u>	<u>(196.2)</u>
Non-current liabilities							
Other interest-bearing loans and borrowings	d	(1,887.5)	1.2	(1,886.3)	(1,897.0)	1.2	(1,895.8)
Trade and other payables		(1.0)	-	(1.0)	(0.5)	-	(0.5)
Employee benefits	e	(88.9)	(26.2)	(115.1)	(80.2)	(19.8)	(100.0)
Deferred income	f	(17.1)	(139.6)	(156.7)	(16.6)	(169.7)	(186.3)
Provisions		(0.2)	-	(0.2)	(0.4)	-	(0.4)
Deferred tax liabilities	g	(105.0)	(274.4)	(379.4)	(88.9)	(282.6)	(371.5)
		<u>(2,099.7)</u>	<u>(439.0)</u>	<u>(2,538.7)</u>	<u>(2,083.6)</u>	<u>(470.9)</u>	<u>(2,554.5)</u>
Total liabilities		<u>(2,313.6)</u>	<u>(444.9)</u>	<u>(2,758.5)</u>	<u>(2,272.5)</u>	<u>(478.2)</u>	<u>(2,750.7)</u>
Net assets		<u>279.9</u>	<u>407.0</u>	<u>686.9</u>	<u>351.3</u>	<u>414.0</u>	<u>765.3</u>
Equity							
Share capital		131.8	-	131.8	131.8	-	131.8
Share premium		28.8	-	28.8	28.8	-	28.8
Retained earnings - fair value	h	-	562.8	562.8	-	557.6	557.6
Retained earnings	i	119.3	(155.8)	(36.5)	190.7	(143.6)	47.1
Total equity		<u>279.9</u>	<u>407.0</u>	<u>686.9</u>	<u>351.3</u>	<u>414.0</u>	<u>765.3</u>

Notes to the financial statements - Explanation of transition to Adopted IFRSs

(continued)

Notes to the reconciliation of equity – 1 July 2013

a) Property, plant and equipment

Property, plant and equipment are increased by the £703.5m fair value adjustment as described in note 22. The fair value adjustment is allocated to the infrastructure assets which have previously been accounted under infrastructure renewals accounting as prescribed by the industry regulator.

Property, plant and equipment are also increased by £139.6m as grants and contributions are no longer allowed to be deducted from fixed assets but are shown on the balance sheet as deferred income.

Depreciation on infrastructure assets amounted to a reduction of £2.5m.

An increase of £6.2m due to the estimated value of sewers adopted under s.104 of the Water Act (1991).

b) Cash and cash equivalents / Bank overdraft

In UK GAAP cash balances are disclosed net of any overdrafts. This presentation is not allowed under IFRS and the bank overdrafts of £5.1m were moved to the bank overdraft line on the balance sheet.

c) Trade and other payables

Trade and other payables are increased by £0.8m for the recognition of a liability under IAS 37 for holiday pay due to but not taken by employees at the balance sheet date. Employees have a holiday pay year determined by their date of birth rather than by the financial year end.

d) Other interest-bearing loans and borrowings

Bonds issued by the subsidiary company include fees which are deducted from the proceeds of the bond on issue. These bond fees are expensed over the life of the bond and added back to the carrying value. Under IFRS the add back is on an accretive method and in early years is lower than under UK GAAP which is a straight line basis, and hence £1.2m is a deduction to the carrying value of the bonds.

e) Employee benefits

In UK GAAP the pension liability is disclosed net of the associated deferred tax asset. This presentation is not allowed under IFRS and the deferred tax asset of £26.2m was moved to the deferred tax line on the balance sheet.

f) Deferred income

Grants and contributions are increased by £139.6m as they are no longer allowed to be deducted from fixed assets but are shown on the balance sheet as deferred income.

g) Deferred tax liabilities

The Company had previously elected to apply discounting to its deferred tax liability but under IAS 12 Income Taxes deferred tax discounting is not allowed, increasing the liability by £148.6m.

A deferred tax liability of £140.7m has been set up as 20% of the fair value adjustment of £703.5m as under IFRS all temporary timing difference between assets or liabilities in the balance sheet and the associated tax base must be provided for.

The deferred tax liability is reduced by £26.2m the deferred tax asset on the IAS 19 pension liability.

A deferred tax liability of £9.7m has been set up for the difference between the tax base and book value of assets qualifying for Industrial Buildings Allowances.

A deferred tax liability of £0.2m and deferred tax asset of £0.2m are set on recognition of the holiday pay and bond fees adjustments under IFRS shown above.

Notes to the financial statements - Explanation of transition to Adopted IFRSs (continued)

A deferred tax liability of £0.7m is recognised on the capital gains tax liability rolled forward as under IFRS all temporary timing difference between assets or liabilities in the balance sheet and the associated tax base must be provided for.

Other deferred tax liabilities relating to the depreciation of infrastructure assets amount to £0.9m.

h) Fair value

Included within retained earnings is an un-distributable reserve for the fair value uplift on adoption of IFRS of £703.5m less the deferred tax liability of £140.7m.

i) Retained earnings

Included within distributable retained earnings are the remaining fair value adjustments on adoption of IFRS, net of deferred tax where appropriate.

- £148.6m charge for the ending of deferred tax discounting
- £9.7m charge for deferred tax recognised on Industrial Buildings Allowances
- £0.8m charge on holiday pay accrual
- £0.7m charge on deferred tax recognised on capital gains tax rollover
- £1.2m credit on accounting for bond fees
- £2.8m credit on elimination of FRS 17 pension difference brought forward.

Reconciliation of profit for year 2014

	Note	UK GAAP £m	2014 Effect of transition to Adopted IFRSs £m	Adopted IFRSs £m
Revenue		546.8	-	546.8
Raw materials and consumables used		(35.7)	-	(35.7)
Staff costs		(57.1)	(0.6)	(57.7)
Depreciation and amortisation		(131.2)	31.5	(99.7)
Other expenses		(83.9)	(23.9)	(107.8)
Total expenses	<i>j</i>	(307.9)	7.0	(300.9)
Operating profit		238.9	7.0	245.9
Financial income		2.5	-	2.5
Financial expenses		(76.9)	(3.6)	(80.5)
Net financing expense	<i>k</i>	(74.4)	(3.6)	(78.0)
Profit before tax		164.5	3.4	167.9
Taxation	<i>l</i>	4.1	(0.6)	3.5
Profit for the year		168.6	2.8	171.4

Notes to the financial statements - Explanation of transition to Adopted IFRSs *(continued)*

Notes to the reconciliation of profit

j) Expenses

£23.9m charge for repairs following the end of infrastructure renewals accounting.

£31.5m net credit to depreciation being £47.4m credit for the removal of the infrastructure renewals charge and £15.9m depreciation charge on infrastructure assets under IAS 16.

£0.6m charge for pension accounting under IAS 19.

k) Financing expense

£5.0m charge for interest under IAS 19 pension accounting disclosed in income statement rather than direct to retained earnings.

£1.3m credit for the capitalisation of interest, which is allowed under IAS 23.

£0.1m interest credit for a different treatment of bond fees under IAS 39.

l) Taxation

£3.8m deferred tax charge for IAS 12 not permitting the discounting of deferred tax liabilities.

£4.0m deferred tax credit for the impact in the year of the difference between the tax base and book value of assets qualifying for Industrial Buildings Allowances.

£0.8m charge for the impact on deferred tax of all other IFRS adjustments including the ending of infrastructure renewals accounting.