

# Wessex Water Limited

Annual Report And Financial  
Statements  
30 June 2016

Registered in England & Wales No. 2366633



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## Strategic Report

### A. 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.

All subsidiary companies are listed in note 11.

### B. Financial performance

Profit after tax increased by £34.2m from £140.4m to £174.6m, due to the factors shown below.

Turnover decreased by £12.0m or 2.1% to £547.5m, mainly driven by the decrease in the regulated turnover of WWSL.

Operational costs excluding depreciation fell by £1.3m from £206.5m to £205.2m. There were savings in WWSL from staff costs, EA charges and bad debts which were greater than the cost of new obligations and inflation. Depreciation charges (including the disposal of assets) have increased by £1.5m from £103.1m to £104.6m.

Interest charges, including other finance charges, decreased by £3.6m from £75.9m to £72.3m, despite a £0.3m increase in the interest costs associated with pension accounting. The cost of debt fell from 4.0% to 3.6%, but there was an increase in net debt of £13.6m from £1,874.2m to £1,887.8m.

The cash outflow of £13.6m comprised:

- cash flow from operating activities of 342.3m
- less interest payments of £58.5m
- less tax payments of £14.2m
- less net capital investment of £168.6m
- less dividend payments of £103.0m, less a working capital and bond accrual outflow of £11.6m.

There was a tax credit in the year of £9.2m, a movement of £42.8m from a £33.6m charge last year, comprising:

- an increase in the corporation tax charge of £10.0m because of credits in the prior year. In the year there was a £14.0m 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 also a fall in the corporation tax rate from 20.75% to 20.0%.
- deferred tax moving from a £18.9m charge last year to a £33.9m credit this year. There is a deferred tax credit this year because the rate at which deferred tax is calculated has fallen from 20% at June 2015 to 18% at June 2016. This 2% reduction on the opening deferred tax liability is a credit of £38.3m.

Dividends declared in the year amounted to £107.2m compared to £110.1m last year.

Under IAS 19 the pension scheme deficit of £122.1m at the start of the year has increased to £158.7m at 30 June 2016, the increase in the liabilities of £64.6m being more than the £28.0m increase in asset values.

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

Group operating profit as a percentage of turnover was 43.4% (2015 – 44.7%), the fall due to turnover reductions in WWSL imposed by the industry regulator, and interest cover remained steady at 3.3 times (2015 – 3.3 times) as net interest costs and operating profit fell from the previous year.

## STRATEGIC REPORT (continued)

### C. Wessex Water Services Ltd - some indicators are measured for the regulatory year to 31 March 2016

#### INTRODUCTION

##### Overall performance

Last year was the first of the new five-year price control period. It brought the introduction of a more risk-based framework with a focus on the outcomes that our customers and local communities want.

We have performed well against our performance commitments and achieved industry leading customer service and environmental performance.

Average bills reduced by 5% from April 2015 and through our assistance programme **tap**, we continued to support customers who are financially vulnerable and have difficulty in paying. We are now helping more than 21,000 customers to pay ongoing charges and repay debt, as well as offering additional practical help to reduce water and energy bills.

This year, with the guidance of our expert affordability advisory group, we have introduced a discount of around 20% for pensioners on the lowest incomes who often suffer hardship in silence instead of asking for help.

We are committed to providing the highest quality drinking water to our customers and overall compliance in 2015 was 99.96%. The number of customer contacts we received about acceptability of water reduced significantly, largely because of the beneficial effect of the major mains rehabilitation work we completed in Taunton last year.

Our water supply grid project is making excellent progress and once complete will ensure future demand is met and improve the resilience of supplies to our customers.

##### Customer excellence

We are a customer centred organisation and believe in putting customers and the communities we serve at the heart of everything we do – our aim is always to achieve the best outcome for them.

We focus on understanding customers' changing needs and responding to the pressures that many continue to be under in these challenging economic times. We are committed to providing help when and where it's needed most because anyone can find themselves vulnerable at any time through illness, unemployment or simply a change in circumstances like a bereavement or divorce.

When we have problems on our network, such as a burst water main, we are using proactive phone calls and text messages to let customers know what the problem is, what we're doing to resolve it and by when, and this is helping improve satisfaction levels.

Our staff need the right skills, confidence and awareness to deal with often quite complex situations, so we make sure we provide specialist training so they can offer the very best support to customers they talk to or meet in their work.

##### Investing in the community

As a community business and the largest infrastructure investor in the region, we create more than 1,000 jobs directly in constructing new assets and in the regional supply chain. We continue to invest in greater resilience to climate change and supporting economic growth across our region.

We have made good progress on a £39m programme of work to improve bathing water quality at Burnham-on-Sea and we are investing in a number of very innovative projects, some of which are industry firsts. In the Poole Harbour catchment we are working with farmers to reduce nitrate runoff and leaching into the River Frome in the first nitrogen offsetting trial in the UK.

Management of nearly 300 hectares of land designated as Sites of Special Scientific Interest (SSSIs) means that the condition of these vital habitats exceeded government targets. 99.5% of SSSIs were assessed as being in favourable or recovering status.

##### Innovation and resilience

We must adopt new ways of working and technologies that help improve the services we provide, reduce costs and manage risk. Our employee suggestion scheme, **Eureka!**, rewards ideas that have been put into practice and is also a way of identifying improvements that can be scaled up.

We run a joint research programme with the University of Bath with whom we've launched a water innovation and research centre based at the university. We have continued to push improvements in efficiency and resource use with more than 95% of the waste we generate diverted from landfill and increasing the value recovery.

## **STRATEGIC REPORT (continued)**

We are tackling the reduction of our carbon footprint. In 2015-16 we completed installation of advanced anaerobic digestion and electricity generation at Trowbridge sewage treatment works and installed a large solar photovoltaic array on the roof of our operations centre in Bath.

The responsibility for flooding is often complex and we are encouraging partnership working including three partnership schemes to reduce flooding in Somerset at Cannington, Brent Knoll and Wrington.

### **Working in partnership**

This year we have established a new format for our stakeholder liaison through the Wessex Water Partnership, independently chaired by former Water Minister Dan Rogerson.

The Partnership will ensure we deliver the commitments in our current five-year plan and provide advice on customer engagement, customer service, affordability and tariffs in preparation for the next business plan.

Our partnerships with debt advice organisations continue to thrive and we remain convinced that holistic advice is needed to help customers to get back on track and into sustainable payment. In 2013 we set up an affordability action plan and this year the take-up of our schemes and low rate tariffs has increased by 19%.

A focus of the past year has been our work in partnership with our supply chain to remove the very variable investment programme that results from a five-year regulatory cycle. This was assisted by Ofwat's 'early start' programme. As a result, the first year of the current AMP (asset management plan) cycle, from April 2015 to March 2016, has achieved a stable capital programme with expenditure for the year at £200.8m compared to £198.4m for the last year of the previous AMP cycle.

### **A responsible employer**

We can only deliver excellent service to our customers and communities and value to our investors, through the knowledge and skills of our employees and the quality of the assets that we manage and operate.

We are focused on retaining existing and attracting new skills into the business with a commitment to develop staff to their full potential – through leadership and management development, apprenticeship programmes and promotion of diversity and inclusion.

This year we continue to develop our apprenticeship programmes to provide young people with career and skill development opportunities, and to build a strong and skilled workforce for the future – we now have some 51 apprentices and trainees within the business.

We have a strong health, safety and welfare culture embedded in our day-to-day activities that targets zero accidents and supports our aim to be a great place to work in which all employees can work safely and reach their full potential.

### **Planning for the future**

The water industry is approaching fundamental change with moves to greater competition and more use of markets. We support these changes and are at the forefront of helping shape their delivery. The key to their success will be what they deliver for customers.

Our customer service vision is very simple – we aim to deliver the highest levels of customer satisfaction, make it easy for customers to deal with us and to build trust and loyalty.

We are always looking for improvements and have launched a customer excellence programme which includes improved customer systems, community projects, improved communication and shortened response times.

We take pride in being the best company in the water sector, but that is not enough – we aim to be seen by our customers as the best service provider that they deal with and we are committed to driving the investment, skills and culture that enable us to achieve this ambitious aim.

## **CUSTOMERS AND COMMUNITIES**

### **Introduction**

We achieve our customer service vision by delivering what customers say is really important to them:

- excellent and reliable water and sewerage services at a price they can afford
- choice in the way they can communicate and interact 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
- compensating where things go wrong.

## **STRATEGIC REPORT (continued)**

We encourage our staff to go the extra mile (GEM) whenever they can.

We remain the top performer in the water sector for customer service. In the first year of the new look service incentive mechanism (SIM) we have come top of all water and sewerage companies in the satisfaction surveys, showing that however customer service is measured, we continue to be the best.

But we can't stand still. Customer expectations continue to rise and we know that young people today, who will be our customers of tomorrow, will want a very different and increasingly digital customer service experience.

Similarly, we recognise that customers can very often find themselves in vulnerable circumstances for a short or long period of time, so we need increasingly to tailor our service so that we always meet their needs.

Although we take pride in being top of the water sector, our ambition is to be the 'best of the best' and to become a household name for excellent customer service.

To do this we are embarking on a customer excellence programme which includes more than 20 individual projects, ranging from improved customer systems, signage and community projects, to improved communication and shortened response times.

To make sure we get this right we have introduced measures, like net promoter score, that compare us to the best service providers outside the utility sector. And we've become a member of the Institute of Customer Service so we can benchmark ourselves against the UK Customer Service Index.

### **Reduced leakage**

Our leakage strategy has successfully reduced leakage to 68 MI/d, below the Ofwat target of 69.3MI/d.

We plan to operate below target in normal years to maintain a buffer in case severe winter weather causes additional leakage. This year we have planned an enhanced metering programme and a pressure management optimisation project, with the aim of further leakage reduction so we can meet our ambitious target by 2020.

Our target to fix significant leaks on the network reported to us by customers has been met, mainly by improving existing processes and procedures.

### **Highest quality drinking water**

We are committed to providing the highest quality drinking water to our customers.

Our overall compliance with drinking water standards in 2015 was 99.96%. This was marginally below our long-term performance. This is based on the mean zonal compliance for 39 parameters out of approximately 37,000 tests carried out across 88 zones. The calculation is very sensitive to individual failures. In 2015 there were 15 failures of which only two were related to the Company's operation; from a cast iron water main and a tap at a treatment unit that was not representative of the water supplied.

The other 13 can be attributed to domestic plumbing and service pipe issues such as lead service pipes, nickel in taps and taste due to water softeners.

There was a significant reduction in the number of customer contacts about acceptability of water received during the year, largely related to the beneficial effect of the major mains rehabilitation works we completed in Taunton.

We are seeing a downward trend in the number of contacts received and we expect this to continue as we invest in our assets and find new ways of communicating with customers.

During the year we have made significant investment at service reservoirs and treatment works which will improve water quality and protect supplies.

### **Sewage flooding minimised**

Sewer flooding is rare but when it does occur it can be devastating so tackling it remains a key objective. We have introduced a new measure which expands the flood register to include internal and external flooding and lowers the likelihood of it happening.

This year we have invested £8m to reduce the risk of flooding at 91 properties or locations. Due to a third party delay one of our projects will finish early in 2016/17, so while we narrowly missed the target for the year, we remain on track to achieve the target in future years.

With regard to internal flooding due to blockages in public sewers, the position for the year is better than our performance commitment at 1.36 incidents per 10,000 properties. This is the result of continued operational improvements and the generally benign weather conditions in the region last winter.

## STRATEGIC REPORT (continued)

The responsibility for flooding is often complex and we work with local authorities as they produce surface water management plans and strategies to review flood management. There has been a significant change in the number and frequency of liaison meetings and, together with the planning authorities responsible for approving sustainable solutions, we are being consulted more than before. We have contributed towards three partnership schemes to reduce flooding in Somerset at Cannington, Brent Knoll and Wrington.

We are preparing to receive the transfer of private pumping stations to us in October 2016, undertaking sample surveys of these assets and looking to adopt some early where they are causing problems. The latest assessment is that almost 400 pumping stations will be transferred.

### Resilient services

Our asset management framework continues to help us develop a more integrated approach to risk and investment decision making. We are certified to the international standard for asset management, ISO55001:2014.

We began work on our major integrated supply grid project in 2010 and it is due to be completed in 2018. Delivery of the project continues and continues to make excellent progress and once complete, will enable us to:

- reduce abstractions from sensitive groundwater sources as agreed with the Environment Agency
- move water more effectively around our region
- ensure future demand is met
- improve the resilience of supplies to customers.

Key sections of the project commissioned and put into service during 2015-16 include:

- new storage tanks at Summerslade (near Warminster) and Littledown (Shaftesbury) and the pumping station at Monkton Deverill (near Warminster), together with all the interconnecting pipelines
- Sturminster Marshall (east Dorset) pumping station and the new storage tank at Snowsdown (Blandford) and the pipelines between the sites.

Together with other related schemes this work has enabled us to meet our commitment to reduce the number of properties supplied by a single source by 28,000.

Mechanical and electrical installation is well under way at Codford and substantial progress has been made on the schemes around Salisbury and in Dorset.

The overarching control system for the grid, called the Optimiser, has been successfully proved on sections of the project that went live this year. The project is on track for completion in 2018.

Good progress has been made with our infiltration reduction plans to reduce the risk of groundwater entering public and private sewers and drains. We inspected more than 107 km of sewers and permanently sealed 4.2 km of them in 2015-16.

### Customer service

This was the first year of the new look service incentive mechanism and, once again, we topped the water and sewerage companies' league table for satisfaction surveys.

Complaints also fell again this year, by 19%, and in September the Consumer Council for Water confirmed that we continue to have the lowest number of complaints in the water industry.

We give customers the opportunity to feed-back on our service using whatever communication channel they choose and encourage them to identify staff who have 'gone the extra mile'. Under the guidance of our customer experience group we use this feedback for continuous improvement of policies, processes and training.

The feedback shows that 96% of our customers rate our service as very good or good. This is slightly below the long-term average and we continue to work hard to improve the services received by our customers. Both value for money and customer effort scores have improved with 78% of customers rating our service as very good or good value for money and 81% saying it takes little or no effort to resolve their query.

It's important that we continue to evolve and improve our service offering so day to day we are widening our use of alternative communication channels while remaining committed to offering personal telephone answering and, most importantly, choice for our customers. We are seeing a growing number opting for self-service, text messaging and Live Chat and are providing more opportunities for them to send us information using media such as photographs.

Keeping customers informed when we have problems on our network, such as a burst water main, or when we are fixing a problem at their own home or premises, remains one of our key challenges.

## **STRATEGIC REPORT (continued)**

Proactive phone calls or text messages from our dedicated customer care team have proved an effective way to let customers know what the problem is, what we're doing to resolve it and by when, and they are helping to drive our satisfaction levels up. The team oversees the whole customer journey and keeps it on track.

This year we re-launched both our Wessex Water Promise and our household leakage policy following feedback from our online customer panel, Have your say. Both are now closer to customers' expectations and easier to understand.

We've also redesigned both our bills and the information we provide with our bills, removing unnecessary duplication and making them easier to follow, because it's essential that customers understand what they are paying for.

Our customer relations staff have been through a new training programme, called Conversation on a page, designed to make our replies to queries and complaints simpler, easier to understand, more personalised and overall more engaging.

We retained our government Customer Service Excellence award for our approach to customer service and have the best overall package of customer guarantees in the industry. We continue to hold the best practice mark of distinction from the Keep me Posted campaign.

### **Customer engagement**

We engage extensively with our customers and stakeholders, both in our day to day business and for specific programmes of work, such as preparation of our five-yearly business plan.

For the business plan covering the five years from April 2015 to March 2020, we consulted more than 24,000 customers and 90 other stakeholders. At the centre of this was the customer scrutiny group which brought together a range of stakeholders to scrutinise our business plan proposals and ensure they truly reflected customers' aspirations for service improvements and ability to pay.

In the last year we have established a new format for our stakeholder liaison for the next five years and in preparation for the 2020-2025 business plan.

The Wessex Water Partnership, independently chaired by Dan Rogerson who was previously Water Minister under the coalition government, is the successor body to the customer scrutiny group.

It held its inaugural meeting in January 2016 and will meet three to four times each year. It will be supported by our new, independently chaired, catchment and futures panels.

We have already developed an engagement strategy for the next business plan – called Your Say, Your Future. We intend to maximise the use of our everyday or continuous engagement with customers, and to carry out specific research projects at key points in the business plan timetable. For instance, developing and testing acceptability of our 25-year vision, currently under way, and our five-year business plan.

We continue to use our Have your say panel to improve our service offering and this year sought its views on:

- the way we communicate with customers if they have a billing query
- our wider information provision and communication channels
- our new home water and energy check service.

We follow up each survey with a newsletter to participants explaining the findings and what we are doing as a result.

### **Customers in vulnerable circumstances**

In February this year Ofwat published its vulnerability focus report and practitioners pack for water companies. We featured heavily in the report for offering best practice in this area.

Anyone can find themselves vulnerable at any time due to, illness, unemployment or simply a change in circumstances like a bereavement or divorce. Because our customers are our priority, we are committed to providing help when and where it's most needed.

We pride ourselves on treating customers as individuals and tailoring our customer care and customer service to their needs, making sure we are inclusive and accessible to all. This commitment is demonstrated in our retention of the British Standard for Inclusive Services Provisions (BS 18477) and the Louder than Words charter mark.

We have made sure staff have the right skills, confidence and awareness to deal with often quite complex situations and strengthened this with specialist training, such as GEM and mental health awareness, so they can offer appropriate support to customers they talk to or meet in their work.



## **STRATEGIC REPORT (continued)**

We hold registers of customers with longer term disabilities or additional needs and, as they are likely to need the same support from their energy provider, we are doing all we can to signpost customers to other utilities.

Through our assistance programme, **tap**, we continue to support those who are financially vulnerable. We are now helping more than 21,000 customers to pay ongoing charges and repay debt, while offering practical help to reduce water and energy bills.

Around 10,000 customers are in receipt of our main social tariff, **Assist**, which offers discounts of up to 90% off water charges for those in the greatest financial hardship.

And we're not standing still – this year, under the guidance of our expert affordability advisory group, we've introduced a discount of around 20% for pensioners on the lowest incomes who will often suffer hardship in silence instead of asking for help.

Our partnerships with the debt advice community continue to thrive and we remain strongly of the view that holistic advice is vital to help customers to get back on track and into sustainable payment. It's never just about water debt.

Our affordability action plan has been in place since autumn 2013 and we continue to see an increase in the take-up of our schemes and low rate tariffs. The numbers have increased by 19% over this year.

We are liaising with a growing number of community based organisations outside the debt advice arena to help us engage with customers who are traditionally much harder to reach and likely to be some of the most vulnerable.

Using geographical mapping of deprivation levels and social tariff penetration we've been able to better target our promotional work on areas of most need.

We have also launched two new projects, one with the Department for Work and Pensions and the other with Wiltshire Council. In both cases the organisations will be contacting customers on means tested benefits on our behalf to promote our **tap** programme.

We continue to support financial capability and money management projects in our communities, funding a further four this year through our Money Matters awards. The four projects involve offenders due to leave prison, the over 60s, secondary school children and under 30s, including young families and those with mental health issues.

### **Preparing for retail market opening**

From April 2017 all non-household customers will be able to choose their retailer for water services.

This is a new challenge for the sector and a new opportunity for us, and we need to be ready to operate effectively and compliantly in this new market.

We are in a good starting place with our retail unit costs among the lowest in the industry and our levels of service among the highest, achieved in large part through Water2Business, our joint venture with Bristol Water. We have made good progress and are on course to operate in the shadow market that is due to begin in October 2016.

Water2Business's preparations are focused on ensuring that we meet customers' retail service needs in and out of our existing area of supply so that we can maximise the opportunities to grow our business.

Our wholesale readiness programme is being delivered emphasising that we expect to fully comply with our market obligations through the provision of excellent services to both water consumers and to retailers.

### **Education and water saving**

We help customers of all ages to conserve water and prevent blockages in sewers.

Over the last year we have taken our Be Smart love your loo campaign to shows and festivals across our region, including Bristol Harbour Festival.

And our Be Smart save water campaign went to the Royal Bath and West Show at Shepton Mallet and Yeovilton Air Day.

We included information in our bi-annual customer magazine and a range of other leaflets about free water saving devices from our online shop and tips for saving water in the home and garden.

Our three education advisers continued their comprehensive coverage of Bristol, Bath, Somerset, Wiltshire, South Gloucestershire and Dorset. This year they visited schools, teaching 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. They also welcomed students to the eight education centres across our region.

## **STRATEGIC REPORT (continued)**

During the last year almost 29,500 students benefited from school visits and trips to water and sewage treatment works.

The education advisers also complement our apprenticeship programmes through their interaction and engagement with schools, supporting our mission to highlight career choices. This year we introduced a new initiative with schools to provide a water efficiency audit and help them reduce any waste that was identified. This has saved 80,000 litres of water a day.

### **Watermark awards**

Our Watermark awards continue to support organisations across our region with their environmental projects.

Organisations receiving an award over the last year include the Greater Bedminster Front Garden awards in Bristol.

We provided a grant so organisers can promote sustainable gardening by sharing ways to save water and to use drought tolerant plants.

## **ENVIRONMENT**

We aim to provide high quality, sustainable water and environmental services, while protecting and improving the environment.

### **Improved bathing waters**

Prior to the revised Bathing Water Directive taking effect in 2015, we had identified Burnham Jetty as the only bathing water within our region that would fail to meet the 'satisfactory' standard due to the directive's change of classification and tightening of standards.

The failure at Burnham Jetty as a result of this tightening, rather than any underlying deterioration in water quality, is why our performance commitment for beaches passing EU bathing standards is reported as 98% against our target of 100%.

Outputs from the National Environmental Programme, which we completed during the year thereby achieving 100% performance against target to deliver agreed schemes, include:

- screening an overflow at East Quay in Bridgwater
- installation of 77 event duration monitors
- building an ultraviolet disinfection plant to treat overflows from our storm tanks at Highbridge.

We are active participants in a multi-agency group comprising the Environment Agency, local authority, internal drainage board, catchment sensitive farming team and others to ensure all parties are co-ordinated to deliver water quality improvements.

We are supporting a coastal engagement officer who is working with communities in Burnham to raise awareness of water quality and increase ownership of their beach. This includes campaigns on sewer misuse, dog fouling and beach litter.

### **Rivers, lakes and estuaries protected**

Our programme for this asset management plan period (AMP6) includes the reduction of phosphorus concentration in discharges at 47 sewage treatment works.

During the year our in-house engineering team completed outline design on the first group of these schemes – a standardised, modular approach will be adopted, wherever practicable, to ensure procurement and construction is as efficient as possible.

We have been working with the Environment Agency to develop a catchment wide permitting system for phosphorus at our sewage treatment works in the Bristol Avon river catchment. This is an innovative form of permitting which, by assessing the performance of a group of sewage treatment works as a whole, enables a different approach to risk, and delivers greater environmental improvement at a lower overall cost.

During the year we agreed the form of this permit and associated regulatory position statements with the Environment Agency. Work has started on monitoring the 64 sewage treatment works involved.

The agency's National Environment Programme also includes a series of phosphorus technology trials designed to test the performance of new processes to meet future, more stringent concentrations required by the EU Water Framework Directive.

## **STRATEGIC REPORT (continued)**

We have completed construction and commissioning of four full-scale trials, including a magnetite assisted settlement process (BioMag), absorptive media (steel slag reed beds) and stretching existing chemical dosing performance on tertiary sand filters and activated sludge plants.

Under this programme we are working with the University of Bath to develop a high-rate algal pond for the removal of phosphorus from sewage effluent. In addition, design work has begun on eight sewage treatment works which require improved ammonia removal.

### **Water resources**

During 2015-16 the weather was relatively average overall, with 106% of average rainfall across the region. However, there was a distinct seasonal pattern with above average rainfall between January and March and drier than average conditions in the spring and autumn. As a result, groundwater levels were lower than average for most of the year.

This rainfall pattern was also reflected in river flows, with the timing for the start of stream support and flow-led licence restrictions coming earlier in the year than is typical and lasting late into the autumn.

Reservoir storage remained high throughout the year with storage, excluding Wimbleball reservoir, hitting 67% at its lowest point, similar to 2014-15.

A number of minor licence changes came into effect on 1 April 2015; more significant changes will be applied from 1 April 2018 in Warminster and Salisbury zones, and our water supply grid project is on track to assist with meeting demands in these areas.

The implementation of our performance measure to limit abstractions at our Mere source has already seen significant reductions in output. The site has only been used as a backup when other sites have been unavailable and where it would be non-cost beneficial to go to another supply. For the year we used 172MI against a target of 100MI. We anticipate this performance improving later in the AMP once the supply grid is commissioned.

### **Catchment services**

Catchment services have continued in 15 high groundwater catchments and five surface reservoirs to tackle pesticide and nutrient issues. The task is to improve raw water quality without having to install additional treatment.

Our experience is that farmers remain willing to engage with our advisers in the majority of cases and the advisers' reputation within the wider agricultural community remains very high. We are currently working with 51 different farmers covering a total of approximately 40,000 hectares.

Nitrate concentrations rose last winter and, at our highest risk sites, Deans Farm and Fonthill Bishop, blending was needed to maintain compliance. However, nitrate concentrations were not as high as previous winters and improvements in nitrate trends at many sites have continued.

There were no pesticide failures at any of our high risk reservoirs and catchment work continues to secure and maintain these improvements. Our work to control pesticides, metaldehyde in particular, remains 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.

Catchment management in the Poole Harbour catchment, with the aim of offsetting the need for nitrogen removal at Dorchester sewage treatment works, has successfully reduced nitrogen across the target area by approximately 20 tonnes against a 2020 target of 40 tonnes.

A new trading platform, EnTrade, will be trialled later in 2016 as an innovative alternative to directly approaching farmers for the funding of cover crops to manage soil quality and fertiliser calibrations.

This is intended to provide an online, reverse auction platform that farmers can bid into for growing cover crops this coming winter. Once 'proof of concept' trials are complete, we will roll this out to a wider set of parameters and issues.

### **Environmental investigations**

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

In AMP6, we will be delivering 40 environmental investigations covering a range of issues including:

- the occurrence and removal of hazardous and emerging substances from sewage effluent
- trialling new, sustainable treatment solutions for phosphorus removal
- understanding the ecological impact of our reservoirs and abstractions
- understanding the impact of our sewage treatment works on the nutrient levels within rivers, compared to other sources, at a catchment scale.

## STRATEGIC REPORT (continued)

We have started our investigation programme for AMP6 and are including a number of leading edge projects, some of which are industry firsts. These projects will support our proposals for AMP7 to deliver the most cost effective and sustainable solutions for our customers with the best environmental results.

### Wildlife and conservation

We have surveyed our key conservation sites extensively over the last five years, making changes to their management for biodiversity. So far, most of our holdings above 10 hectares have been surveyed, amounting to just over 60% of our land area, achieving our performance commitment for the year.

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. In 2015, we appointed a part-time conservation, access and recreation (CAR) officer to help improve these elements of our landholding for the public. The role is to oversee and co-ordinate CAR projects at some of our largest and most visited sites, and those of greatest importance for wildlife and heritage.

To date this has included:

- an assessment and improvement plan for the children's play area at Sutton Bingham
- investigating alternative public rights of way at Tucking Mill reservoir
- improvements to the bird hide at Bleadon Levels nature reserve
- evaluating a number of further projects for delivery over the next four years.

We will continue to support wildlife projects funded by our Biodiversity Action Plan Partners Programme up to £80,000 per year and 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 – AvonWildlife Trust.

### Reduced carbon footprint

As one of our performance commitments our net greenhouse gas emissions fell to 138 kilotonnes carbon dioxide equivalent in 2015-16 – our lowest since 1999-2000 but still higher than our target of 133. Our emissions are highly sensitive to the carbon intensity of grid electricity; if the carbon intensity had remained at the level forecast in the business plan, our emissions would be better than the target for the year. This reflects the combined effect of the work set out below and the lower carbon dioxide intensity of UK grid electricity compared with 2014-15.

One of our long-term sustainability goals is to be carbon neutral in our operations. To do this we need to avoid energy use where possible, improve efficiency and increase renewable energy generation.

While electricity use increased between 1990 and 2010, mainly due to tighter sewage treatment standards, we have now halted this trend, largely through concerted energy efficiency work. This is supported by detailed consumption information, analysed through our energy data hub, that reveals sites using too much electricity and in turn helps focus corrective measures.

This year we trialled Open Energi's dynamic demand system at Ham sewage treatment works; this involves instantaneous, temporary adjustment of the site's energy use to maintain a balance on the local electricity grid. Water management measures such as leakage reductions and catchment management also help avoid unnecessary energy use.

During 2015-16 we completed the installation of advanced anaerobic digestion and associated electricity generation at Trowbridge sewage treatment works. This facility is expected to generate just under seven gigawatt hours of renewable electricity per annum.

Meanwhile, we have installed a 250 kilowatt solar photovoltaic array on the roof of our Bath operations centre which is forecast to supply around 12% of the building's annual electricity demand. Overall we achieved the target of 21% of our energy provided by self-generation.

Our operating division GENeco was a category winner in several awards during the year for schemes such as food waste digestion, gas to grid and the Bio-bus.

These included the Guardian Sustainable Business awards, the UK AD and Biogas Industry awards, the National Recycling awards, the Energy awards, the Low Carbon Vehicle Champion awards, the National Sustainable City awards, the CIWM awards, and the South West Built Environment awards.

## STRATEGIC REPORT (continued)

### Reducing demand for water

In 2015-16 we narrowly missed our performance commitment daily consumption of water per person per day. Consumption was maintained at 138 l/p/day (same as 2014-15) against a target for this year of 135. We attributed being higher than target this year to better than average summer weather, falling water and other utility prices and a return to growth in real incomes.

Ofwat recognises the potential impact of these external factors and actual performance is well within the range that Ofwat have allowed for this. We will continue with our initiatives to promote water efficiency with customers where this year we have exceeded the performance commitment target agreed with Ofwat.

### Innovation

It is essential that we are able to adopt new ways of working and technologies that help improve the services we provide, reduce costs and manage risk.

Environmental investigations are carried out to ensure that future capital investment is well-focused. Some of the investigations employ innovative methods and examples from 2015-16 include the following:

- using a biological tracer to establish whether final effluent from Wick St Lawrence sewage treatment works can be found at Sand Bay and Clevedon bathing waters in Somerset
- installing an observation borehole at Compton Durville, Somerset, with vibrating wire piezometers to obtain better detail about groundwater flows
- using magnetite (inert iron oxide) at Bowerhill, Wiltshire, to improve settlement and increase phosphorus removal
- with the University of Bath, trialling high-rate algal ponds at Beckington near Frome – also for phosphorus removal
- controlled release of spate flows downstream of Durleigh, Somerset, reservoir to remobilise phytoplankton that were having an adverse ecological effect in the stream
- monitoring the success of catchment permitting in the Bristol Avon.

Our Eureka! programme rewards staff who have designed projects that save money, improve service to customers, reduce risk and improve our working methods in general.

The most successful ideas in 2015-16 included:

- a central database which documents faults or symptoms and gives possible solutions
- insulation of chemical storage tanks to maintain the life of the chemicals and reduce the run-time of pumps
- installation of variable speed drives for blowers at a sewage treatment works
- a novel reworking of a spindle on a valve to improve the ease and safety of maintenance.

We also carry out trials of new products and technology developed by other companies and in the last year these have included:

- waxed hibernation epoxy resin liners which can be used in larger diameter sewers
- manhole sealing in Minehead with polymer modified grouts to prevent saltwater infiltration into sewers
- use of ultrasound to prevent the growth of cyanobacteria in Luxhay reservoir in Somerset
- on-site calibration of water pressure gauges and monitors, reducing the journeys previously involved in bringing them to a single location for recalibration.

Our joint research programme with the University of Bath continued during 2015-16. The main themes are low energy nutrient recovery from sewage; methods for increasing biogas from sewage sludge digesters; emerging pollutants in waste water; and improved techniques for understanding and comparing the whole life costs of water management.

The university's Water Innovation Research Centre, formed in 2014-15 with our assistance, appointed a director and a lecturer in water science and engineering.

And we continue to host one-year industrial placement students from the university who have assisted with energy management, drinking water compliance monitoring and assessment of techniques to lower phosphorus levels in sewage effluent.

## EMPLOYEES

We seek to provide opportunities for our employees to develop, both personally and professionally, equipping them with the skills and expertise they need to be successful in everything they do. In return, they provide an outstanding level of service and performance to our customers, the company and to each other.

This year we have focused heavily on developing our apprenticeship programmes to provide young people with career and skill development opportunities and to build a strong and skilled workforce for the future. Appointing apprentices and expanding our programmes ensure that talent is retained, and secures our stability.

## **STRATEGIC REPORT (continued)**

This year there has been a significant expansion in our apprenticeship programmes. There are currently 41 apprenticeship vacancies and we will shortly recruit our 100th modern apprentice. Eleven apprentices have graduated from training and secured permanent positions within the business.

New apprenticeship schemes have been created in finance, information services and property searches, with a water systems apprentice on a brand new training programme. These apprentices complement existing ones in engineering and construction, our laboratory, customer service and operations. We also launched our first ever higher level apprenticeship in engineering and construction.

Promoting diversity and inclusion in our workplace has been a key focus again this year. We recognise that differences in personal characteristics bring richness to our work environment and believe that attracting, developing and retaining employees who reflect the diversity of our customers is essential to our continued success.

We have put in place a range of diversity initiatives including those focused around flexible working, flexible retirement and job share contracts. We have joined the business disability forum to continue our focus on providing all our employees, including those with disabilities, with career development opportunities.

Protecting the health, safety and welfare of our staff, contractors and customers remains the highest priority.

### **Training**

We pride ourselves on the standard and level of learning and development opportunities provided to staff to ensure they have the skills they need to perform their jobs to the highest standards. We promote and encourage progression 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 continues to be a priority and along with our accredited level five and level seven management and leadership programmes, we ran a range of management development schemes aimed at supporting our leaders from new manager to senior management level.

We have again held two-day development centres for nominated high potential employees, providing them with routes to further their career development. On average we delivered a ratio of 2.5 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.

### **Apprentices**

Developing a long-term apprenticeship strategy to secure quality apprenticeship training is fundamental to our recruitment and development processes.

In March 2016, to coincide with National Apprenticeship Week, we held our successful inaugural apprenticeship open day. It was our biggest ever apprenticeship drive. More than 120 potential apprentices visited our operations centre accompanied by guests and parents. Feedback from young people, parents and staff was overwhelmingly positive.

"I just wanted to email you to say you were brilliant on Saturday, my children were very impressed and my 12-year-old daughter now wants to be a civil engineer!! The day did exactly what I wanted it to do for them, which was to open their minds up to all the possibilities that are out there."

Complementing our apprenticeship programmes is our education team. Interacting and engaging with schools supports our mission to highlight career choices and encourage non-traditional employment routes.

We work closely with our leading apprenticeship providers to support local women into engineering and construction campaigns, and ensure our vacancies are promoted to all types of young people across our entire region.

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. Appointing apprentices and expanding our programmes ensures that talent is retained and secures business stability.

We continue to 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.

## STRATEGIC REPORT (continued)

Promoting diversity and inclusion has been a key focus again this year. We have implemented a range of diversity initiatives including the promotion of flexible working policies, the introduction of job-share contracts and flexible retirement for those wishing to ease their way into it.

We have developed and piloted a new aspiring leaders' development programme aimed at building confidence in potential leaders of the future. This year, we became a member of the Business Disability Forum and we continue to progress issues for our employees with disabilities.

### Diversity scorecard

At March 2016 WWSL had 2,144 employees, of whom 477 were women and 1,667 were men. There were 11 directors, of whom eight were men and three were women, and 40 senior managers of whom eight were women and 32 were men.

### Culture

We have a strong, friendly and positive culture and staff enjoy working for the company and with each other. We held a staff survey this year and our employees are highly engaged, with 83% rating Wessex Water a good place to work.

We have launched a new employee appraisal scheme which measures both the performance outcomes that have been achieved and the behaviours that have been demonstrated. Behaviours are assessed against our BEST values of behaviours, excellence, service and teamwork in the way we work and behave with each other, our customers and all our stakeholders.

### Health and safety

The potential hazards faced by our industry require the highest standards of health and safety and we are committed to protecting our staff and everyone affected by our operations.

As a responsible employer it is clear to us that the management of health and safety is critical to our success, particularly as we seek to adopt even better ways of delivering services to our customers.

No activity can be totally without risk and we must ensure that our operations are carried out in such a manner as to remove unnecessary risk, and control and manage any residual risk to prevent injury or harm. Where risk cannot be managed and safety assured then work must stop until a safe solution can be found.

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 that targets zero accidents and supports our aim to be a great place to work in which all employees can work safely and reach their full potential.

We monitor all accidents and incidents reported by employees and, in particular, attention is paid to:

- the annual numbers of total and reportable incidents
- the areas of the company from which these arise
- the proportion of these that fall under each RIDDOR (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations) accident category
- days lost as a result of reportable incidents.

This information is used to evaluate where resources should be allocated to effectively address any problem areas.

Position for the 12 months to 31 December 2015:

- 461 incidents reported
- no fatalities or life changing (permanently disabling) injuries
- no reportable diseases or dangerous occurrences
- seven incidents were notifiable to the Health and Safety Executive
  - five in operations (one specified and four over seven-day injuries)
  - two in engineering and construction (two over seven-day injuries).
- 381 working days lost through notifiable incidents
- two notifiable incidents involving contractors working for us
- no enforcement action from the Health and Safety Executive.

### Health and safety awards

Operations were awarded the British Safety Council International Safety award with distinction at the 2016 awards for performance during 2015. Our submission scored 59/60 and it is the sixth year that we've been recognised by the council for demonstrating our commitment to preventing workplace injuries and ill health.

## STRATEGIC REPORT (continued)

The top submissions in each sector are shortlisted for sector awards and we have again been shortlisted for the power and utilities sector award, one we have won for the last two years.

Engineering and construction have been entering the Royal Society for the Protection of Accidents (RoSPA) annual occupational health and safety awards since 2008 and hold a series of gold and silver awards. In the 2015 awards we were commended in the construction and engineering industry sector awards.

Entrants must be able to demonstrate a robust and high quality safety management system together with a minimum of four years' consistently excellent or continuously improving health and safety performance.

RoSPA recognised our commitment to accident and ill health prevention through Make It Right, endorsing our campaign to promote health, safety and wellbeing as an integral part of our safety culture.

## FINANCE

The UK group ownership structure has remained the same since 2002 with the WWSL wholly owned by the Company which in turn is wholly owned by YTL Utilities (UK) Limited. Virtually all of the debt raised for the UK group sits within WWSL and all borrowings are at market rates provided by financial third parties.

Gearing in WWSL, as measured by net debt to RCV, stood at 66% at March 2016. On a pensions-adjusted basis this figure rises to slightly over 70% which the WWSL Board still finds an acceptable level. During the year the WWSL Board has continued to pay particular attention to the projected level of the gearing ratio with a view, when declaring dividends, to protect the existing credit ratings.

The next actuarial valuation of the Group's pension scheme is on 30 September 2016. At each triennial valuation the Group agrees with the scheme's trustees a payment recovery plan in respect of any deficit. The Group is committed to honouring any special contribution obligations that it signs up to.

The Company continues to have a healthy liquidity position comprising cash and cash equivalents held on the balance sheet along with undrawn bank facilities giving the Company instant access to funding if needed.

### Taxation strategy

The Group adopts a prudent approach to its tax affairs, but claims the tax relief to which it is entitled. An independent expert is used to ensure that the correct capital allowances are claimed. The current year corporation tax charge of £27.8m is 16.8% of the profit before tax figure of £165.4m. This is less than the 20% effective tax rate because of the capital allowances the Group is allowed to claim.

We do not engage in complicated tax schemes, because we do not believe it is the right thing to do, and because it could endanger the relationship with HMRC. We avoid structuring transactions for tax purposes that would give a tax result inconsistent with the underlying economic result.

The Group promotes an open and transparent relationship with HMRC, engaging in an early dialogue with them where there is any uncertainty as to the correct tax treatment of any significant transaction. It thereby ensures that issues are resolved before tax returns are filed, where possible.

HMRC are kept informed as to the structure of the business and in the last year the Group's low risk status with HMRC has been renewed for a further three years.

### Capital investment

In the year to 31 March 2016 WWSL delivered gross capital expenditure for the first year of the AMP6 programme of £200.8m, which is £2.4m higher than the £198.4m delivered in the previous year.

With the combination of the on-going overlap water supply grid programme, which started in AMP5 and focused early start investment in 2014-15 to mobilise for project delivery in 2015-16, we have achieved a stable transition between the AMPs. Because we deliver a large portion of our investment with our own staff, it is both important to us and our supply chain that we provide this continuity of work.

We have delivered all the regulatory outputs for the year and are well placed to deliver the programme in future. We have also initiated major technology and business change programmes in preparation for non-household retail market opening, customer excellence and digital transformation.

Our risk-based totex investment planning has resulted in appropriate and timely delivery focusing on those areas that are important to our customers and in particular delivering improvements against our outcomes, such as sewer flooding, river improvements and interruptions to supply.



## STRATEGIC REPORT (continued)

### D. PRINCIPAL RISKS

Despite the challenging economic conditions and growing impact of the changing physical climate we have maintained industry leading customer and environmental performance. This has been achieved through a focus on understanding the risks we face and using innovative approaches to mitigate risks and create opportunities to improve the services we provide.

The company's 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 Wessex Water Services Limited 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 service or 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 a Risk Management Advisory Group made up of Executive Directors and senior managers.

The Risk Management Advisory Group scrutinises and challenges the risks included in 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 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 (NRR) and the National Resilience Planning Assumptions (NRPAs).

The Board agreed the addition of one principal risk relating to the industry's preparedness for retail non-household market opening, and one change replacing leakage as a principal risk with a wider outcome delivery incentive failure risk which includes leakage. Risk scores have remained static as mitigation works have balanced out a general increasing trend of risk.

The 10 current principal risks agreed at the Board are:

1. Government/regulatory action. Changes to legislation or other regulatory action can adversely affect the way in which the business operates and its profitability. The national audit office and public accounts committee have reported negatively on the sector and tight public finances mean heightened risk of government action on utility taxation, including interest deductibility. Relationships with politicians and regulators are maintained so that the Company's views about the impact of any proposed legislative changes on the Company and its customers are heard.
2. Market opening industry preparedness. A new principal risk reflecting the potential impact if all parties across the industry are not prepared in time for full market opening in April 2017. While our preparations are well advanced there remains the risk that either other companies or Market Operator Services Ltd (MOSL) will not be able to deliver to the very tight programme. This could result in additional cost and general reputational damage across the sector.
3. Major pollution incident. Control of the escape of polluting matter to the environment is central to the Company's business. Recent fines in the industry are now exceeding £1m per incident. 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.
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 and for agency staff working in sensitive areas of the business.
5. 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. With delivery of a large portion of our investment programme through in-house teams, health and safety is of paramount importance. We do expect to see an increase in fines following the Sentencing Guidelines Council review, just as we experienced on environmental pollutions.

## STRATEGIC REPORT – PRINCIPAL RISKS (continued)

6. 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. This annual review includes our first published long-term viability statement which includes modelling the main financial risks, and the outcome provides additional confidence in our risk mitigation.
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. We have completed a major exercise in documenting and updating our methodology for drinking water safety plans in liaison with the Drinking Water Inspectorate. Risk assessments are now being formally reviewed at the monthly water risk meeting and issues escalated to the Risk Group.
8. Outcome delivery incentive failure. A new principal risk incorporating leakage. As part of the risk-based regulation Ofwat has introduced performance commitments for AMP6. Many of these measures are company specific but some are cross-company measures with stretch targets. As well as reputational risk there are also financial penalties and rewards that can be incurred which will apply in AMP7. This process is new and there are a number of new and trial measures which heighten the risk of financial and reputational impact on the business.
9. 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 Wessex Water 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. An annual penetration test is carried out to test our security measures. A quarterly Information Security Forum maintains the focus on mitigating this risk.
10. 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 have completed 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. The business has committed to Office 365 cloud-based solutions which provide more capacity and improved resilience.

### **E. Wessex Water Enterprises Ltd**

The company and its subsidiaries generated turnover of £30.5m (2015 - £23.0m), from a number of unregulated activities in the Wessex Water Services Ltd region. The principal subsidiary is GENeco Ltd and the unregulated activities were the treatment of organic waste, power generation, food waste treatment, solicitors' searches and sale of industrial cooling water.

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

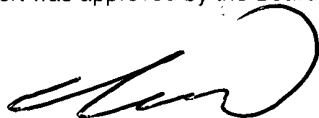
We also run an industrial laundry business in our 100% subsidiary Enterprise Laundry Services Ltd that is providing laundry services in the Bath area.

### **F. SC Technology GmbH**

Trading under the name Swiss Combi the turnover of the company for the year was £6.8m (2015 - £9.8m). 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 9 September 2016 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 2016.

### 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 \*  
 Tiong Lay Yeoh \*  
 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	Bonus	LTIP	Benefits	Pension contributions	Total 2015-16	Total 2014-15
	£000	£000	£000	£000	£000	£000	£000
Colin Skellett	439	272	13	30	-	754	638
Mark Watts	265	170	10	22	48	515	433
David Elliott	191	111	4	8	-	314	295
Andy Pymmer	223	123	7	22	-	375	299
Sean Cater	-	-	-	-	-	-	233
Total	1,118	676	34	82	48	1,958	1,898

In addition Colin Skellett and Mark Watts received emoluments of £140k and £150k respectively for their services to the group companies. No emoluments were paid to the other Directors.

### DIRECTORS SHARE INTERESTS

#### Shares held

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

	At 30 June 2015	Movements	At 30 June 2016
Mark Watts	388,030	-	388,030
David Elliott	85,315	-	85,315
Andy Pymmer	53,815	-	53,815

There were no other interests in shares of group companies that are disclosable in these accounts.

#### 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 2015	Exercise price RM	Date of grant	Expiry date	Exercised	At 30 June 2016
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, under the 2011 UK Plan. The share price as at 30 June 2016 was RM1.41 or £0.26.

	At 30 June 2015	Exercise price RM	Date of grant	Exercise date	Expiry date	At 30 June 2016
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 Pymmer	87,000	1.65	01/06/2012	01/06/2015	31/03/2021	87,000
Andy Pymmer	913,000	1.41	01/06/2012	01/06/2015	31/03/2021	913,000

### 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.

### 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.

### ETHICAL POLICY

We are determined to maintain our reputation as a Company that observes the highest standards of personal and corporate integrity by adhering to a strict code of business ethics. We aim to be the best and value everyone's contribution in our pursuit of excellence.

We are honest in the way we conduct our business. We treat one another, our customers and the environment with respect.

### MODERN SLAVERY ACT

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

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

### **RESEARCH AND DEVELOPMENT**

The Group carried out research and development in support of existing activities to improve the reliability and effectiveness of water and waste water services.

### **MARKET VALUE OF LAND AND BUILDINGS**

In the opinion of the Directors, the market value of land and buildings of the Group exceeds the book value of these assets at 30 June 2016.

### **CHARITABLE AND POLITICAL DONATIONS**

During the year £432,000 was donated to UK charities (2015 – £387,000). 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 2016 trade creditors represented approximately 34 days of trade purchases (2015 – 37 days). The Group does not follow any specific external code or standard on payment policy.

### **CORPORATE GOVERNANCE**

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

### **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  
Leigh. Fisher-Hoyle  
Company Secretary  
Wessex Water Operations Centre  
Claverton Down Road  
Claverton Down  
Bath BA2 7WW  
9 September 2016



## 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 2016 set out on pages 24 to 57. 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 22, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

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

### Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 30 June 2016 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  
66 Queen Square  
Bristol  
BS1 4BE

9 September 2016

## Consolidated Income Statement

For the year ended 30 June 2016

	<i>Note</i>	2016 £m	2015 £m
<b>Revenue</b>	2	<b>547.5</b>	559.5
Raw materials and consumables used		(36.2)	(36.0)
Staff costs		(60.4)	(63.0)
Depreciation, amortisation and disposal of tangible assets		(104.6)	(103.1)
Other expenses		(108.6)	(107.5)
<b>Total expenses</b>	3	<b>(309.8)</b>	(309.6)
<b>Operating profit</b>	2	<b>237.7</b>	249.9
Financial income	6	2.3	1.7
Financial expenses	6	(74.6)	(77.6)
<b>Net financing expense</b>		<b>(72.3)</b>	(75.9)
<b>Profit before tax</b>		<b>165.4</b>	174.0
Taxation	7	9.2	(33.6)
<b>Profit for the year</b>		<b>174.6</b>	140.4



## Consolidated Statement of Comprehensive Income

*For the year ended 30 June 2016*

	2016	2015
	£m	£m
<b>Profit for the year</b>	<b>174.6</b>	<b>140.4</b>
<b>Other comprehensive income</b>		
<i>Items that will not be reclassified to profit or loss:</i>		
Re-measurements of defined benefit liability	(37.8)	(25.2)
Income tax on items that will not be reclassified to profit or loss	6.8	5.0
	(31.0)	(20.2)
<i>Items that are or may be reclassified subsequently to profit or loss:</i>		
Foreign currency translation differences – foreign operations	-	0.1
	-	0.1
<b>Other comprehensive income for the year, net of income tax</b>	<b>(31.0)</b>	<b>(20.1)</b>
<b>Total comprehensive income for the year</b>	<b>143.6</b>	<b>120.3</b>

## Balance Sheets

### At 30 June 2016

	Note	Group 2016 £m	Group 2015 £m	Company 2016 £m	Company 2015 £m
<b>Non-current assets</b>					
Property, plant and equipment	9	3,382.3	3,278.7	-	-
Intangible assets	10	3.8	4.2	-	-
Investments in subsidiaries	11	-	-	82.5	82.5
		<u>3,386.1</u>	<u>3,282.9</u>	<u>82.5</u>	<u>82.5</u>
<b>Current assets</b>					
Inventories	12	10.5	11.4	-	-
Trade and other receivables	13	250.4	255.7	127.6	124.3
Cash and cash equivalents	14	126.6	88.1	7.2	6.0
Assets classified as held for sale	15	-	1.2	-	-
		<u>387.5</u>	<u>356.4</u>	<u>134.8</u>	<u>130.3</u>
<b>Total assets</b>		<u><u>3,773.6</u></u>	<u><u>3,639.3</u></u>	<u><u>217.3</u></u>	<u><u>212.8</u></u>
<b>Current liabilities</b>					
Bank overdraft	16	(12.1)	(14.3)	-	-
Other interest-bearing loans and borrowings	16	(8.3)	(8.7)	(3.3)	(4.1)
Trade and other payables	17	(191.1)	(172.6)	(49.6)	(42.8)
		<u>(211.5)</u>	<u>(195.6)</u>	<u>(52.9)</u>	<u>(46.9)</u>
<b>Non-current liabilities</b>					
Other interest-bearing loans and borrowings	16	(1,994.0)	(1,939.3)	-	-
Other payables	17	(0.4)	(0.4)	-	-
Employee benefits	18	(159.9)	(123.3)	-	-
Deferred income	19	(251.2)	(218.1)	-	-
Provisions	20	(0.2)	(1.7)	-	-
Deferred tax liabilities	21	(344.5)	(385.4)	-	-
		<u>(2,750.2)</u>	<u>(2,668.2)</u>	<u>-</u>	<u>-</u>
<b>Total liabilities</b>		<u><u>(2,961.7)</u></u>	<u><u>(2,863.8)</u></u>	<u><u>(52.9)</u></u>	<u><u>(46.9)</u></u>
<b>Net assets</b>		<u><u>811.9</u></u>	<u><u>775.5</u></u>	<u><u>164.4</u></u>	<u><u>165.9</u></u>
<b>Equity</b>					
Share capital	22	160.6	160.6	160.6	160.6
Retained earnings		<u>651.3</u>	<u>614.9</u>	<u>3.8</u>	<u>5.3</u>
<b>Total equity</b>		<u><u>811.9</u></u>	<u><u>775.5</u></u>	<u><u>164.4</u></u>	<u><u>165.9</u></u>

These financial statements were approved by the Board of Directors on 9 September 2016 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 2016

### Group

	<i>Note</i>	Share capital £m	Retained earnings £m	Total equity £m
Balance at 1 July 2014		160.6	604.7	765.3
<b>Total comprehensive income for the year</b>				
Profit for the year		-	140.4	140.4
Other comprehensive income		-	(20.1)	(20.1)
<b>Total comprehensive income for the year</b>		-	120.3	120.3
<b>Transactions with owners, recorded directly in equity</b>				
Dividends	8	-	(110.1)	(110.1)
Total contributions by and distributions to owners		-	(110.1)	(110.1)
<b>Balance at 30 June 2015</b>		<u>160.6</u>	<u>614.9</u>	<u>775.5</u>
Balance at 1 July 2015		<u>160.6</u>	<u>614.9</u>	<u>775.5</u>
<b>Total comprehensive income for the year</b>				
Profit for the year		-	174.6	174.6
Other comprehensive income		-	(31.0)	(31.0)
<b>Total comprehensive income for the year</b>		-	143.6	143.6
<b>Transactions with owners, recorded directly in equity</b>				
Dividends	8	-	(107.2)	(107.2)
Total contributions by and distributions to owners		-	(107.2)	(107.2)
<b>Balance at 30 June 2016</b>		<u>160.6</u>	<u>651.3</u>	<u>811.9</u>

Included in retained earnings are £561.0m of un-distributable reserves (2015 - £552.5m) created on first time adoption of IFRS when restating infrastructure assets to fair value.

## Statement of Changes in Equity

For the year ended 30 June 2016

### Company

	Note	Share capital £m	Retained earnings £m	Total equity £m
Balance at 1 July 2014		160.6	27.9	188.5
<b>Total comprehensive income for the year</b>				
Profit for the year		-	87.5	87.5
Total comprehensive income for the year		-	87.5	87.5
<b>Transactions with owners, recorded directly in equity</b>				
Dividends	8	-	(110.1)	(110.1)
Total contributions by and distributions to owners		-	(110.1)	(110.1)
<b>Balance at 30 June 2015</b>		<u>160.6</u>	<u>5.3</u>	<u>165.9</u>
Balance at 1 July 2015		<u>160.6</u>	<u>5.3</u>	<u>165.9</u>
<b>Total comprehensive income for the year</b>				
Profit for the year		-	105.7	105.7
Total comprehensive income for the year		-	105.7	105.7
<b>Transactions with owners, recorded directly in equity</b>				
Dividends	8	-	(107.2)	(107.2)
Total contributions by and distributions to owners		-	(107.2)	(107.2)
<b>Balance at 30 June 2016</b>		<u>160.6</u>	<u>3.8</u>	<u>164.4</u>

## Cash Flow Statements

### For year ended 30 June 2016

	Note	Group 2016 £m	Group 2015 £m	Company 2016 £m	Company 2015 £m
<b>Cash flows from operating activities</b>					
Profit for the year		174.6	140.4	105.7	87.5
<i>Adjustments for:</i>					
Depreciation, amortisation and disposal of assets		104.6	103.1	-	-
Financial income		(2.3)	(1.7)	(1.4)	(1.3)
Financial expense		74.6	77.6	0.1	0.1
Taxation		(9.2)	33.6	-	-
		<u>342.3</u>	<u>353.0</u>	<u>104.4</u>	<u>86.3</u>
Decrease / (increase) in trade and other receivables		4.7	(4.3)	(4.4)	5.0
Decrease / (increase) in inventories		0.9	(2.7)	-	-
Increase in trade and other payables		-	10.1	2.7	1.5
(Decrease) in provisions and employee benefits		(7.5)	(4.9)	-	-
		<u>(1.9)</u>	<u>(1.8)</u>	<u>(1.7)</u>	<u>6.5</u>
Tax paid		<u>(14.2)</u>	<u>(28.3)</u>	<u>-</u>	<u>-</u>
<b>Net cash from operating activities</b>		<u>326.2</u>	<u>322.9</u>	<u>102.7</u>	<u>92.8</u>
<b>Cash flows from investing activities</b>					
Proceeds from sale of property, plant and equipment		3.3	1.0	-	-
Interest received		2.1	1.8	1.4	1.4
Acquisition of property, plant and equipment		(181.6)	(189.3)	-	-
Proceeds from infrastructure charges and capital contributions		9.7	6.7	-	-
Acquisition of other intangible assets		-	(4.4)	-	-
<b>Net cash from investing activities</b>		<u>(166.5)</u>	<u>(184.2)</u>	<u>1.4</u>	<u>1.4</u>
<b>Cash flows from financing activities</b>					
Proceeds from new loan		50.0	150.0	1.1	-
Interest paid		(60.6)	(60.3)	(0.1)	(0.1)
Repayment of borrowings		(0.9)	(102.1)	(0.9)	(2.1)
Payment of finance lease liabilities		(4.5)	(25.6)	-	-
Dividends paid		(103.0)	(90.6)	(103.0)	(90.6)
<b>Net cash from financing activities</b>		<u>(119.0)</u>	<u>(128.6)</u>	<u>(102.9)</u>	<u>(92.8)</u>
Increase in cash and cash equivalents		40.7	10.1	1.2	1.4
Cash and cash equivalents at 1 July		73.8	63.7	6.0	4.6
<b>Cash and cash equivalents at 30 June</b>	14, 16	<u>114.5</u>	<u>73.8</u>	<u>7.2</u>	<u>6.0</u>

## 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.

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 Measurement convention

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

#### 1.3 Going concern

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

#### 1.4 Foreign currency

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

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

#### 1.5 Financial instruments

##### *Investments*

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

##### *Cash and cash equivalents*

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

##### *Interest-bearing borrowings*

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

## Notes to the financial statements

### 1. Accounting policies *(continued)*

#### 1.6 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.

#### 1.7 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.

#### 1.8 Investment property

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

#### 1.9 Inventories

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

## Notes to the financial statements

### 1. Accounting policies *(continued)*

#### 1.10 Impairment excluding inventories and deferred tax assets

##### *Financial assets (including receivables)*

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

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

##### *Non-financial assets*

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

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

#### 1.11 Employee benefits

##### *Defined benefit plans*

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

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

##### *Defined contribution plans*

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

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

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

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.



## Notes to the financial statements

### 1. Accounting policies (continued)

#### 1.11 Employee benefits (continued)

##### *Short-term benefits*

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

##### *Share-based payment transactions*

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

#### 1.12 Provisions

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

#### 1.13 Revenue

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

#### 1.14 Deferred income

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

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

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.

#### 1.15 Bad debt policy

Debt is written off for one of four reasons;

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

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

## Notes to the financial statements

### 1. Accounting policies *(continued)*

#### 1.16 Expenses

##### *Operating lease payments*

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

##### *Finance lease payments*

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

##### *Financing income and expenses*

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

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

#### 1.17 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.

#### 1.18 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.

#### 1.19 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.

## Notes to the financial statements

### 1. Accounting policies *(continued)*

#### 1.20 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)
- IFRS 16 Leases (Mandatory for years commencing on or after 1 January 2019)
- 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
- Annual improvements to IFRS's 2012-14 Cycle (mandatory for years commencing on or after 1 January 2016)
- Disclosure initiative – Amendments to IAS 1 (mandatory for years commencing on or after 1 January 2016).

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.

#### 1.21 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.

#### 1.22 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

	2016 £m	2015 £m
<i>Turnover</i>		
Regulated	513.8	529.2
Unregulated	33.7	30.3
	<u>547.5</u>	<u>559.5</u>
<i>Operating profit</i>		
Regulated	230.6	245.4
Unregulated	7.1	4.5
	<u>237.7</u>	<u>249.9</u>
<i>Net assets</i>		
Regulated	732.8	694.8
Unregulated	79.1	80.7
	<u>811.9</u>	<u>775.5</u>

### 3 Expenses and audit fee information

*Included in profit are the following:*

Impairment loss on other trade receivables and prepayments	11.7	12.0
Research and development expensed as incurred	0.1	0.1

	2016 £'000	2015 £'000
<i>Auditor's remuneration:</i>		
Audit of these financial statements	136	109
Audit of financial statements of subsidiaries pursuant to legislation	156	155
Taxation compliance services	9	10
Other tax advisory services	6	13
AMP6 price review services	-	18
Other costs	3	187
	<u>310</u>	<u>492</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	
	2016	2015
Wessex Water Services Ltd	2,012	1,920
Billing joint venture – Bristol Wessex Billing Services Ltd	319	335
Wessex Water Enterprises Ltd	8	10
Geneco Food Waste	6	5
Enterprise Laundry	12	7
SC Technology AG	19	19
Wessex Water Ltd	4	4
	<hr/>	<hr/>
Average number of employees	2,380	2,300
	<hr/> <hr/>	<hr/> <hr/>

The aggregate payroll costs of these employees was:

	2016	2015
	£m	£m
Wages and salaries	75.2	74.7
Social security costs	7.4	6.7
Pension costs	11.0	11.3
	<hr/>	<hr/>
	93.6	92.7
	<hr/> <hr/>	<hr/> <hr/>

These costs were allocated as follows:

	2016	2015
Capital schemes	33.2	29.7
Operating expenses	60.4	63.0
	<hr/>	<hr/>
	93.6	92.7
	<hr/> <hr/>	<hr/> <hr/>

### 5 Directors' remuneration

	2016	2015
	£'000	£'000
Total Directors' remuneration including benefits in kind	1,958	1,898
	<hr/> <hr/>	<hr/> <hr/>
Remuneration of highest paid Director	754	638
	<hr/> <hr/>	<hr/> <hr/>

Details of Directors' remuneration can be found in the Directors' Report. Directors' remuneration is in respect of four Executive Directors and five YTL appointed Directors (2015 - five Executive Directors and six YTL appointed Directors).

**Notes to the financial statements** *(continued)***6 Finance income and expense**

Recognised in the income statement

	2016	2015
	£m	£m
<i>Finance income</i>		
Interest receivable on short-term bank deposits	2.3	1.7
Total finance income	<u>2.3</u>	<u>1.7</u>
<i>Finance expense</i>		
To fellow subsidiary undertakings	-	-
Net interest on net defined benefit pension plan liability	(4.6)	(4.3)
On bank loans and leases	<u>(70.0)</u>	<u>(73.3)</u>
Total finance expense	<u>(74.6)</u>	<u>(77.6)</u>
Net interest payable	<u>(72.3)</u>	<u>(75.9)</u>

In accordance with IAS 23 borrowing costs of £1.5m (2015 - £2.2m) associated with the funding of eligible capital projects have been capitalised at an interest rate of 3.9% (2015 - 4.0%).

**7 Taxation**

Recognised in the income statement

	2016	2015
	£m	£m
<i>Current tax expense</i>		
Current year	27.8	16.6
Adjustments for prior years	<u>(3.1)</u>	<u>(1.9)</u>
Current tax expense	<u>24.7</u>	<u>14.7</u>
<i>Deferred tax expense</i>		
Origination and reversal of temporary differences	2.2	18.3
Reduction in tax rate	(38.3)	-
Adjustments for prior years	<u>2.2</u>	<u>0.6</u>
Deferred tax (credit) / expense	<u>(33.9)</u>	<u>18.9</u>
Tax (credit) / expense in income statement (excluding tax on discontinued operation)	<u>(9.2)</u>	<u>33.6</u>
Tax from discontinued operation (excluding gain on sale)	-	-

Recognised in other comprehensive income

	2016	2015
	£m	£m
Re-measurements of defined benefit liability	6.8	5.0
Change in tax rate	-	-
Tax credit	<u>6.8</u>	<u>5.0</u>

**Notes to the financial statements** *(continued)*

**7 Taxation** (continued)

**Reconciliation of effective tax rate**

	2016	2015
	£m	£m
Profit for the year	174.6	140.4
Total tax (credit) / expense	<u>(9.2)</u>	<u>33.6</u>
Profit excluding taxation:	165.4	174.0
Tax using the UK corporation tax rate of 20% (2015 - 20.75%)	33.1	36.1
Reduction of tax rate on deferred tax balances	(38.3)	-
Non-deductible expenses	0.1	0.4
(Over) provided in prior years	(0.8)	(1.3)
Group relief for nil consideration	(2.7)	(2.3)
Other	<u>(0.6)</u>	<u>0.7</u>
Total tax (credit) / expense	<u>(9.2)</u>	<u>33.6</u>

Reductions in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) and 18% (effective from 1 April 2020) were substantively enacted on 26 October 2015. A further reduction to the UK Corporation Tax rate was announced in the 2016 Budget to further reduce the tax rate to 17% (effective from 1 April 2020). These reductions will reduce the company's future current tax charge accordingly. The deferred tax liability at 30 June 2016 has been calculated based on the rate of 18% 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.

	2016	2015
	£m	£m
Dividends for the current year	83.5	90.6
Final dividend	<u>23.7</u>	<u>19.5</u>
	<u>107.2</u>	<u>110.1</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
<b>Cost</b>					
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
<b>Balance at 30 June 2015</b>	<b>853.7</b>	<b>1,929.4</b>	<b>1,533.7</b>	<b>25.0</b>	<b>4,341.8</b>
Balance at 1 July 2015	853.7	1,929.4	1,533.7	25.0	4,341.8
Additions	15.3	74.1	120.7	1.8	211.9
Disposals	(1.0)	(1.5)	(11.3)	-	(13.8)
Foreign exchange movements	0.1	-	2.2	-	2.3
<b>Balance at 30 June 2016</b>	<b>868.1</b>	<b>2,002.0</b>	<b>1,645.3</b>	<b>26.8</b>	<b>4,542.2</b>
<b>Depreciation and impairment</b>					
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)
Disposals	0.3	-	23.9	8.0	32.2
Foreign exchange movements	-	-	(0.4)	-	(0.4)
<b>Balance at 30 June 2015</b>	<b>(258.0)</b>	<b>(31.9)</b>	<b>(760.8)</b>	<b>(12.4)</b>	<b>(1,063.1)</b>
Balance at 1 July 2015	(258.0)	(31.9)	(760.8)	(12.4)	(1,063.1)
Depreciation charge for the year	(14.3)	(17.6)	(71.1)	(2.7)	(105.7)
Disposals	0.4	-	10.4	-	10.8
Foreign exchange movements	-	-	(1.9)	-	(1.9)
<b>Balance at 30 June 2016</b>	<b>(271.9)</b>	<b>(49.5)</b>	<b>(823.4)</b>	<b>(15.1)</b>	<b>(1,159.9)</b>
<b>Net Book Value</b>					
At 1 July 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
<b>At 30 June 2016</b>	<b>596.2</b>	<b>1,952.5</b>	<b>821.9</b>	<b>11.7</b>	<b>3,382.3</b>



## 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.

There is no impairment loss recognised in these financial statements.

At 30 June 2016 the net carrying amount of leased plant and machinery was £13.5m (2015 - £17.4m). The leased equipment secures lease obligations (see note 16).

Assets under construction included in the values above were £193.7m (2015 - £113.4m).

Cumulative borrowing costs capitalised and included above were £5.0m (2015 - £3.5m).

Included in freehold land and buildings above is an amount of £12.3m (2015 - £12.2m) 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.

	<b>Contractual trading rights</b>	
	2016	2015
	£m	£m
<b>Cost</b>		
Balance at 1 July 2015	4.4	-
Other acquisitions – externally purchased	-	4.4
Balance at 30 June 2016	<u>4.4</u>	<u>4.4</u>
<b>Amortisation and impairment</b>		
Balance at 1 July 2015	(0.2)	-
Amortisation for the year	(0.4)	(0.2)
Balance at 30 June 2016	<u>(0.6)</u>	<u>(0.2)</u>
<b>Net book value</b>		
At 1 July 2015	<u>4.2</u>	-
At 30 June 2016	<u>3.8</u>	<u>4.2</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	2016 %	2015 %
<b>Company - subsidiary</b>						
SC Technology GmbH	Switzerland	-	Waste treatment processes	CHF ordinary	100	100
Water 2 Business Ltd	United Kingdom	8518831	Billing services	£1 ordinary	70	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
<b>Company – joint venture</b>						
Bristol Wessex Billing Services Ltd	United Kingdom	4143955	Billing services	£1 A ordinary	50	50
<b>Group - subsidiary</b>						
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	Engineering services	£1 ordinary	100	100
Wessex Water Services Finance PLC	United Kingdom	3704265	Issue of bonds	£1 ordinary	100	100
<b>Group – joint venture</b>						
Searchlight Collections Ltd	United Kingdom	07940022	Billing services	£1 ordinary	50	50

Bristol Water Holdings Ltd acquired 30% of the share capital of Water 2 Business Ltd in the year.

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**

	2016	2015
	£000	£000
Bristol Wessex Billing Services Ltd		
Assets	880	2,343
Liabilities	(880)	(2,343)
Net assets		

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

	2016	2015
	£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	
	2016	2015	2016	2015
	£m	£m	£m	£m
Raw materials and consumables	3.3	4.1	-	-
Work in progress	<u>7.2</u>	<u>7.3</u>	-	-
	10.5	11.4	-	-

Raw materials, consumables and work in progress recognised as cost of sales in the year amounted to £3.2m (2015 - £4.3m). There was no write-down of inventories to net realisable value in either year.

**13 Trade and other receivables**

	Group		Company	
	2016	2015	2016	2015
	£m	£m	£m	£m
Trade receivables	65.4	71.0	0.5	-
Owed by subsidiary companies	-	-	27.0	24.3
Owed by other group companies	2.3	0.2	2.3	2.3
Owed by parent company	89.5	89.4	89.5	89.5
Prepayments and accrued income	87.2	88.1	7.4	7.3
Other debtors	<u>6.0</u>	<u>7.0</u>	<u>0.9</u>	<u>0.9</u>
	<u>250.4</u>	<u>255.7</u>	<u>127.6</u>	<u>124.3</u>

**14 Cash and cash equivalents**

	Group		Company	
	2016	2015	2016	2015
	£m	£m	£m	£m
Short-term bank deposits	112.0	71.6	-	-
Cash at bank	<u>14.6</u>	<u>16.5</u>	<u>7.2</u>	<u>6.0</u>
	<u>126.6</u>	<u>88.1</u>	<u>7.2</u>	<u>6.0</u>

**Notes to the financial statements** *(continued)***15 Current assets held for sale***Assets held for sale*

During the prior year a subsidiary company GENeco acquired land at Avonmouth, Bristol along with waste service contacts. The land was sold soon after and was therefore classified as held for sale.

	Group 2016 £m	Group 2015 £m
<b>Assets classified as held for sale</b>		
Land	-	1.2
	<u>-</u>	<u>1.2</u>
	<u>-</u>	<u>1.2</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 2016 £m	2015 £m	Company 2016 £m	2015 £m
<b>Non-current liabilities</b>				
Bank loans	415.0	365.0	-	-
Finance lease liabilities	6.9	11.9	-	-
Inter-company loans	1,572.1	1,562.4	-	-
	<u>1,994.0</u>	<u>1,939.3</u>	<u>-</u>	<u>-</u>
<b>Current liabilities</b>				
Bank overdraft	12.1	14.3	-	-
Short term bank borrowing	-	0.9	-	0.8
Current portion of finance lease liabilities	5.0	4.5	-	-
Loan from parent company	3.3	3.3	3.3	3.3
	<u>20.4</u>	<u>23.0</u>	<u>3.3</u>	<u>4.1</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 2016 £m	Carrying amount 2016 £m	Face value 2015 £m	Carrying amount 2015 £m
Bank loans.	Sterling		2018-2024	415.0	415.0	365.0	365.0
<i>Inter-company loans</i>							
Bond	Sterling	5.375%	2028	198.7	198.3	198.6	198.3
Bond	Sterling	5.75%	2033	346.9	345.9	346.7	345.7
Bond	Sterling	4.00%	2021	198.6	198.6	198.3	198.3
Bond	Sterling	4.00%	2021	104.8	104.8	105.8	105.8
Index Linked Bond	Sterling	3.52%	2023	74.4	74.4	73.2	73.2
Index Linked Bond	Sterling	2.186%	2039	61.0	61.0	60.0	60.0
Index Linked Bond	Sterling	1.75%	2046	100.1	100.1	98.5	98.5
Index Linked Bond	Sterling	1.75%	2051	100.0	100.0	98.5	98.5
Index Linked Bond	Sterling	1.369%	2057	100.0	100.0	98.5	98.5
Index Linked Bond	Sterling	1.374%	2057	100.0	100.0	98.4	98.4
Index Linked Bond	Sterling	1.489%	2058	63.0	63.0	62.4	62.4
Index Linked Bond	Sterling	1.495%	2058	63.0	63.0	62.4	62.4
Index Linked Bond	Sterling	1.499%	2058	63.0	63.0	62.4	62.4
				<b>1,988.5</b>	<b>1,987.1</b>	<b>1,928.7</b>	<b>1,927.4</b>

*Finance lease liabilities*

Finance lease liabilities are payable as follows:

	Minimum lease payments 2016 £m	Interest 2016 £m	Principal 2016 £m	Minimum lease payments 2015 £m	Interest 2015 £m	Principal 2015 £m
Less than one year	5.4	(0.4)	5.0	5.2	(0.7)	4.5
Between one and five years	7.3	(0.4)	6.9	12.8	(0.9)	11.9
More than five years	-	-	-	-	-	-
	<b>12.7</b>	<b>(0.8)</b>	<b>11.9</b>	<b>18.0</b>	<b>(1.6)</b>	<b>16.4</b>

**Notes to the financial statements** (continued)**17 Trade and other payables**

	<b>Group</b>		<b>Company</b>	
	<b>2016</b>	2015	<b>2016</b>	2015
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Current</b>				
Amounts payable to parent company	0.6	0.6	-	-
Amounts payable to subsidiary companies	-	-	25.4	23.2
Amounts payable to other group companies	0.4	-	0.4	-
Amounts owed to associate companies	0.7	-	-	-
Trade payables	15.5	17.9	-	-
Dividend	23.7	19.5	23.7	19.5
Other creditors	2.6	2.7	-	-
Corporation tax	14.1	3.6	-	-
Taxation and social security	2.6	2.2	-	-
Accruals and deferred income	130.9	126.1	0.1	0.1
	<u>191.1</u>	<u>172.6</u>	<u>49.6</u>	<u>42.8</u>
<b>Non-current</b>				
Other payables	0.4	0.4	-	-
	<u>191.5</u>	<u>173.0</u>	<u>49.6</u>	<u>42.8</u>

**18 Employee benefits****Pension plans**

	2016	2015
	£m	£m
Fair value of scheme assets	544.1	516.1
Present value of defined benefit obligations	(702.8)	(638.2)
Net (liability) for defined benefit obligations	(158.7)	(122.1)
Unfunded and compensatory added years pension	(1.2)	(1.2)
Total employee benefits	(159.9)	(123.3)

- 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.

- b. Profile of the Scheme

The defined benefit obligation includes benefits for current employees, former employees and current pensioners. Broadly, about 38% of the liabilities are attributable to current employees, 16% to former employees and 46% 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).

## Notes to the financial statements (continued)

### 18 Employee benefits (continued)

#### 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 2017.

#### 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.

#### e. Reporting at 30 June 2016

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 major assumptions used by the actuary were:

	30.06.16	30.06.15
Rate of increase in salaries – year 1	1.6%	0.75%
Rate of increase in salaries – years 2 to 3 (2015 years 2 to 4)	2.8 %	2.50%
Rate of increase in salaries – long term	3.3 %	3.70%
Rate of increase in pensions in payment	1.8 % or 2.7 %	2.2% or 3.1%
Rate of increase in pensions in payment - reduced level members	2.0 %	2.3%
Discount rate	2.9 %	3.8%
Inflation assumption – RPI	2.8 %	3.2%
Inflation assumption – CPI	1.8 %	2.2%

## Notes to the financial statements *(continued)*

### 18 Employee benefits *(continued)*

The mortality assumptions are based upon the recent actual mortality experience of Scheme members, and allow for expected future improvements in mortality rates. The assumptions are that a member currently aged 60 will live, on average, for a further 27.0 years (2015 – 27.2 years) if they are male, and for a further 29.3 years (2015 – 29.5 years) if they are female. For a member who retires in 2036 at age 60 the assumptions are that they will live, on average, for a further 28.4 years (2015 – 28.8 years) after retirement if they are male, and a further 30.9 years (2015 – 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 2015 core projection, with a long term improvement rate of 1.0% p.a. for all members.

#### Sensitivity analysis:

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

- A reduction in the discount rate of 0.1% from 2.9% to 2.8% would increase the scheme liabilities by £13.2 m from £702.8m to £716.0m, increasing the scheme deficit to £171.9m
- An increase in the inflation assumption of 0.1% (from 1.8% to 1.9% for CPI and 2.8% to 2.9% for RPI) would increase the scheme liabilities by £11.4m from £702.8m to £714.2m, increasing the scheme deficit to £170.1m
- An increase in life expectancy of 1 year would increase the scheme liabilities by £25.1m from £702.8m to £727.9m, increasing the scheme deficit to £183.8m.

f. The value of the assets as follows:

	2016	2015
	£m	£m
Equities	251.9	261.2
Property	28.8	27.0
Government Bonds	145.1	129.4
Corporate Bonds	117.4	98.3
Other	0.9	0.2
	<u>544.1</u>	<u>516.1</u>



**Notes to the financial statements** *(continued)***18 Employee benefits** *(continued)*

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

	2016 £m	2015 £m
<b>Operating cost – service cost</b>		
Current service cost	10.9	10.1
Administration expenses	0.5	0.4
Past service cost	0.1	1.2
<b>Financing cost</b>		
Interest on net benefit liability	4.6	4.3
Pension cost recognised in profit and loss	<u>16.1</u>	<u>16.0</u>
<b>Re-measurements in Other Comprehensive Income (OCI)</b>		
Return on plan assets in excess of that recognised in net interest	(12.0)	(30.1)
Actuarial losses due to changes in financial assumptions	64.0	62.2
Actuarial gains due to changes in demographic assumptions	(7.8)	-
Actuarial gains due to liability experience	(6.4)	(6.9)
Pension cost recognised in OCI	<u>37.8</u>	<u>25.2</u>
Total amount recognised in profit and loss and OCI	<u><u>53.9</u></u>	<u><u>41.2</u></u>

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

	2016 £m	2015 £m
Opening defined benefit obligation	638.2	566.5
Current service cost	10.9	10.1
Interest expense on defined benefit obligation	24.1	24.8
Contributions by scheme participants	0.2	0.2
Actuarial losses due to changes in demographic assumptions	(7.8)	-
Actuarial losses due to changes in financial assumptions	64.0	62.2
Actuarial gains due to liability experience	(6.4)	(6.9)
Net benefits paid out	(20.5)	(19.9)
Past service cost	0.1	1.2
Closing defined benefit obligation	<u>702.8</u>	<u>638.2</u>

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

	2016 £m	2015 £m
Opening fair value of scheme assets	516.1	467.7
Interest income on scheme assets	19.5	20.4
Re-measurement gains on scheme assets	12.0	30.1
Contributions by employer	17.3	18.0
Contributions by scheme participants	0.2	0.2
Net benefits paid out	(20.5)	(19.9)
Administration costs incurred	(0.5)	(0.4)
Closing fair value of scheme assets	<u>544.1</u>	<u>516.1</u>

## Notes to the financial statements (continued)

### 18 Employee benefits (continued)

j. Additional analysis:

	2016 £m	2015 £m
<b>Actual return on scheme assets</b>		
Interest income on scheme assets	19.5	20.4
Re-measurement gains on scheme assets	12.0	30.1
Actual return on scheme assets	<u>31.5</u>	<u>50.5</u>
<b>Analysis of amounts recognised in Other Comprehensive Income</b>		
Total re-measurement losses	<u>(37.8)</u>	<u>(25.2)</u>
Total loss	<u>(37.8)</u>	<u>(25.2)</u>

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

	30.06.16 £m	30.06.15 £m	30.06.14 £m	30.06.13 £m	30.06.12 £m
Fair value of scheme assets	544.1	516.1	467.7	422.1	380.8
Defined benefit obligation	<u>(702.8)</u>	<u>(638.2)</u>	<u>(566.5)</u>	<u>(536.0)</u>	<u>(516.6)</u>
Deficit in the scheme	<u>(158.7)</u>	<u>(122.1)</u>	<u>(98.8)</u>	<u>(113.9)</u>	<u>(135.8)</u>
Experience gains on scheme assets	12.0	30.1	26.0		
Experience gains / (losses) on scheme liabilities	6.4	6.9	(9.7)		

#### Defined contribution plans

The Group also operates a defined contribution pension plan. The total expense relating to this plan in the current year was £2.0m (2015 - £1.8m).

#### Share-based payments

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

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

#### 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** (continued)**18 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. There was no charge recognised in the profit and loss account for IFRS 2 as the share options had passed their vesting date. 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 2015 and 30 June 2016.

Granted – Ordinary shares of RM0.50 each	Outstanding at 30 June 2015	Granted	Forfeited	Exercised	Outstanding at 30 June 2016
01/06/2012 Unapproved	7,947,000	-	(39,000)	(13,000)	7,895,000
01/06/2012 Approved	39,041,000	-	(985,000)	(20,000)	38,036,000
<b>TOTAL</b>	<b>46,988,000</b>	<b>-</b>	<b>(1,024,000)</b>	<b>(33,000)</b>	<b>45,931,000</b>

The share price at 30 June 2016 was RM1.41 or £0.26.

**19 Deferred income**

	Above ground grants £m	Below ground grants £m	Sewer adoptions £m	Total £m
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)
<b>Balance at 30 June 2015</b>	<b>8.3</b>	<b>153.6</b>	<b>56.2</b>	<b>218.1</b>
Balance at 1 July 2015	8.3	153.6	56.2	218.1
Received during the year	1.0	8.7	25.9	35.6
Amortisation	(0.3)	(1.5)	(0.7)	(2.5)
<b>Balance at 30 June 2016</b>	<b>9.0</b>	<b>160.8</b>	<b>81.4</b>	<b>251.2</b>

**Notes to the financial statements** (continued)**20 Provisions**

Group	Restructuring costs £m	Total £m
Balance at 1 July 2015	1.7	1.7
Provisions made during the year	-	-
Provisions used during the year	(1.5)	(1.5)
<b>Balance at 30 June 2016</b>	<b>0.2</b>	<b>0.2</b>
Non-current	-	-
Current	0.2	0.2
	<b>0.2</b>	<b>0.2</b>

The restructuring provision is in respect of a reorganisation announced before the prior year-end, delivering efficiencies in the first year of the AMP 6 price review period. 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	
	2016 £m	2015 £m	2016 £m	2015 £m	2016 £m	2015 £m
Property, plant and equipment	543.2	572.3	(169.8)	(162.1)	373.4	410.2
Employee benefits	-	-	(28.8)	(24.7)	(28.8)	(24.7)
Provisions	(0.1)	(0.1)	-	-	(0.1)	(0.1)
Tax liabilities / (assets)	543.1	572.2	(198.6)	(186.8)	344.5	385.4
Net of tax liabilities / (assets)	-	-	-	-	-	-
<b>Net tax liabilities / (assets)</b>	<b>543.1</b>	<b>572.2</b>	<b>(198.6)</b>	<b>(186.8)</b>	<b>344.5</b>	<b>385.4</b>

*Movement in deferred tax during the year*

	1 July 2015 £m	Recognised in income £m	Recognised in equity £m	30 June 2016 £m
Property, plant and equipment	410.2	(36.8)	-	373.4
Employee benefits	(24.7)	2.7	(6.8)	(28.8)
Provisions	(0.1)	-	-	(0.1)
	385.4	(34.1)	(6.8)	344.5

## Notes to the financial statements *(continued)*

### 21 Provisions *(continued)*

*Movement in deferred tax during the prior 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)
	<u>371.5</u>	<u>18.9</u>	<u>(5.0)</u>	<u>385.4</u>

### 22 Capital and reserves

#### Share capital – Group and Company

*Ordinary shares*

	2016 £m	2015 £m
<i>Authorised</i>		
346,666,670 ordinary shares at £0.60 each	208.0	208.0
	<u>208.0</u>	<u>208.0</u>

	2016 £m	2015 £m
<i>Allotted, called up and fully paid</i>		
219,585,986 ordinary shares of £0.60 each	131.8	131.8
Shares classified in shareholders' funds	<u>131.8</u>	<u>131.8</u>

#### Share premium – Group and Company

	2016 £m	2015 £m
Share premium	28.8	28.8
	<u>28.8</u>	<u>28.8</u>
<b>Total share capital and share premium</b>	<u>160.6</u>	<u>160.6</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.

**Notes to the financial statements** *(continued)***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 £1,572.1m and a fair value of £1,955.3m. Short term and floating rate borrowings have a carrying value and fair value of £315.7m.

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

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

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

	Carrying amount 2016 £m	Fair Value 2016 £m	Level 1 2016 £m	Carrying amount 2015 £m	Fair Value 2015 £m	Level 1 2015 £m
<b>Loans and receivables</b>						
Cash and cash equivalents (note 14)	(126.6)	(126.6)	(126.6)	(88.1)	(88.1)	(88.1)
Total financial assets	<u>(126.6)</u>	<u>(126.6)</u>	<u>(126.6)</u>	<u>(88.1)</u>	<u>(88.1)</u>	<u>(88.1)</u>
Bank overdraft (note 16)	12.1	12.1	12.1	14.3	14.3	14.3
Other interest-bearing loans and borrowings (note 16 current)	8.3	8.3	8.3	8.7	8.7	8.7
Other interest-bearing loans and borrowings (note 16 non-current)	1,994.0	2,377.2	2,377.2	1,939.3	2,217.8	2,217.8
Total financial liabilities	<u>2,014.4</u>	<u>2,397.6</u>	<u>2,397.6</u>	<u>1,962.3</u>	<u>2,240.8</u>	<u>2,240.8</u>
Total financial instruments	<u>1,887.8</u>	<u>2,271.0</u>	<u>2,271.0</u>	<u>1,874.2</u>	<u>2,152.7</u>	<u>2,152.7</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.

	2016 £m	2015 £m
Cash and cash equivalents	<u>126.6</u>	<u>88.1</u>
	<u>126.6</u>	<u>88.1</u>
The concentration of credit risk for trade receivables (see note 13) at the balance sheet date by geographic region was:		
South West England	<u>65.4</u>	<u>71.0</u>
	<u>65.4</u>	<u>71.0</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** *(continued)***23 Financial instruments** *(continued)*

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

	Gross 2016 £m	Impairment 2016 £m	Gross 2015 £m	Impairment 2015 £m
Less than 1 year	43.4	(4.3)	49.6	(6.8)
1 to 2 years	20.4	(7.5)	20.8	(6.6)
2 to 3 years	16.5	(7.6)	15.5	(6.5)
3 to 4 years	12.0	(7.5)	12.4	(7.4)
More than 4 years	17.8	(17.8)	16.8	(16.8)
	<u>110.1</u>	<u>(44.7)</u>	<u>115.1</u>	<u>(44.1)</u>

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

	2016 £m	2015 £m
Balance at 1 July	(44.1)	(37.1)
Written off	11.1	5.0
Charge to profit and loss	(11.7)	(12.0)
Balance at 30 June	<u>(44.7)</u>	<u>(44.1)</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.

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

	Carrying amount 2016 £m	Contractual cash flows 2016 £m	Year 1 2016 £m	Years 2 to 5 2016 £m	Over 5 years 2016 £m
<b>Non derivative financial instruments</b>					
Bank overdraft	12.1	12.1	12.1	-	-
Finance lease liabilities	11.9	12.8	5.5	7.3	-
Secured bank loans	415.0	449.9	5.6	159.1	285.2
Inter-company loans	1,575.4	3,053.2	56.1	226.3	2,770.8
Total financial instruments	<u>2,014.4</u>	<u>3,528.0</u>	<u>79.3</u>	<u>392.7</u>	<u>3,056.0</u>

## Notes to the financial statements (continued)

### 23 Financial instruments (continued)

	Carrying amount	Contractual cash flows	Year 1	Years 2 to 5	Over 5 years
	2015	2015	2015	2015	2015
	£m	£m	£m	£m	£m
<b>Non derivative financial instruments</b>					
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	<u>1,962.3</u>	<u>3,729.0</u>	<u>81.4</u>	<u>396.4</u>	<u>3,251.2</u>

#### (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:

	2016	2015
	£m	£m
Fixed rate instruments	947.6	948.1
Floating rate instruments	342.3	299.9
Index linked instruments	724.5	714.3
	<u>2,014.4</u>	<u>1,962.3</u>

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.

### 24 Operating leases

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

During the year £2.0m was recognised as an expense in the income statement in respect of operating leases (2015 - £1.9m).

During the year £1.0m (2015 - £0.9m) was recognised as rental income by the Group.

### 25 Commitments

#### Capital commitments

##### Group

Capital expenditure contracted but not provided at 30 June 2016 was £108.6m (2015 - £152.3m).

The Company has guaranteed Bonds of £1,572.1m (2015 - £1,562.4m) 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 (2015 - £0.8m).



## Notes to the financial statements (continued)

### 26 Contingencies

#### Group and Company

There are no material contingent liabilities at 30 June 2016 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.

### 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 2016 and paid in July 2016.

### 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) 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.