WESSEX WATER SERVICES LTD

Accounts for the year to 30 June 2013

Registered in England and Wales No 2366648

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DIRECTORS' REPORT

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

PRINCIPAL ACTIVITIES

The main activities of the company are the supply of water and the treatment and disposal of waste water In November 2009 the industry regulator Ofwat announced a 1 9% price limit for Wessex Water Services Ltd (WWSL) from 1 April 2012, before adjustment for inflation The announcement also included price limits for the two subsequent years of 1 9% and 1 5%, before adjustment for inflation, for the years commencing 1 April 2013 and 2014 respectively

BUSINESS REVIEW

CHAIRMAN'S INTRODUCTION (some indicators are measured for the regulatory year to 31 March 2013)

The changing climate continues to provide new challenges for the company We began 2012-13 with a drought, which was quickly followed by the wettest summer on record Despite the early dry weather, we maintained our record of unrestricted water supplies to all our customers – it is now 36 years since we had to impose any form of restriction on water use within our region

The intense summer rainfall caused a number of flooding problems but our major investment in sewerage infrastructure over recent years helped to minimise the impact on customers In 2011 the government transferred responsibility for private sewers to water companies, so we took on around 11,000 miles of largely sub-standard sewers This, together with the growing impact of climate change, will require major investment in future

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

We maintain 100% compliance with sewage treatment discharge consents and our compliance with drinking water standards continues to exceed 99 9% We generated one of our highest recorded amounts of renewable energy and continued our progress to becoming a truly sustainable water and sewerage company Many staff also worked long hours to help ensure the Olympic sailing at Weymouth was a great success

We have continued to become more efficient and have delivered savings against both our capital investment programme and our operating costs while at the same time delivering all of the required regulatory outputs

We are sharing our efficiency savings with customers through additional customer focused schemes, £50m in this price review period and £100m in the last decade

We are halfway through a £1bn, five-year investment programme This programme includes the largest project we have ever undertaken the construction of a water supply grid across the region that will enable us to reduce abstraction at environmentally sensitive sites and ensure much greater flexibility and greater resilience in the supply of water to customers Our total capital investment in 2012-13 was £231 3m This investment not only improved services, but helped to create local jobs within our region

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

Our water and sewerage bills represent only 1 5% of average household expenditure This is marginally higher than the 1 4% at privatisation in 1989 We recognise that the economic climate means some customers find it difficult to pay their bills, so we have launched 'tap', our tailored assistance programme, to help these customers This programme works closely with debt agencies and special advisers to offer a range of tariffs and assistance

Operating costs for the year increased from £257 3m to £274 6m due principally to increased business rates, the full year cost of operating private sewers and increases in costs from new obligations

Despite these cost increases and the difficult economic conditions profit before tax at £140 7m was £7 2m above last year

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

We are committed to high standards of corporate governance, it is at the heart of our business and underpins the relationships we have with our customers, shareholder and other stakeholders This year's report includes an extended section on corporate governance that reflects the latest guidance and codes of practice

Prices and investment programmes for water companies follow a five-year cycle and work is well under way for the next price review, which will come into force in 2015 We are consulting directly with more than 10,000 customers engaging with a wide range of stakeholders and putting our proposals to an independent scrutiny group chaired by Charles Howeson, the regional chair of the Consumer Council for Water

Our proposals will recognise the range of new obligations we have to meet but must also take account of the ability of customers to pay in today's difficult economic climate

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

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

Highlights

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

Our customers and community

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

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

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

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

Customer service
Last year we were again a leading company on Ofwat's service incentive mechanism (SIM), supported by the results of our own satisfaction and value for money surveys

However, through our internal customer experience group we have looked for ways to continue improving customer service and our SIM score and meet customers' growing expectations We have improved our processes in many areas and undertaken a review of our speed of response for operational problems, comparing ourselves to companies outside the water industry We introduced new ways of keeping customers informed, in particular making wider use of text messaging and outbound calling

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

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

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

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

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

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

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

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

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

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

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

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

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

Education and water efficiency
Informing customers of all ages about what we do and encouraging them to use water wisely forms an important part of our work

In the past year our education officers have received an unprecedented number of requests from schools, colleges and community groups across our region They delivered lessons about our water and sewage treatment as well as activities on environmental topics and water saving and behind the scenes insight into how we supply drinking water and treat sewage

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

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

Watermark awards
Our Watermark awards help organisations with their environmental projects Organised by the Conservation Foundation, the scheme has awarded thousands of pounds to nearly 50 environmental groups in the last year

Their projects received anything from £150 to £1 500 and included funding for nature trails for a disabled access group, the restoration of a charity bus and a pond to protect great crested newt colonies

Our finance

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

The UK group structure is simple and transparent with the company owned by a Wessex Water intermediate company which in turn is owned by a YTL UK holding company

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

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

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

in brief
• Profit before taxation increased by £7 2m despite excessive rainfall in the year inflationary pressure on operating costs and an increase in financing charges
• The capital programme is beginning to peak for this price review period and we delivered an increase of 21% in investment compared to the previous year
• We incurred a corporation tax charge of £29 7m which is already in the process of being paid to HMRC
• Gearing, as measured by net debt to regulatory capital value at 31 March, remains at 64% which is modest in water sector terms
• Our total cost of debt remains attractive at around 5%
• Dividends in the year were declared in accordance with board policy which at all times is to preserve our existing credit ratings and access to new capital

Financial performance
In the third year of the current price review period, against a background of a continuation of challenging economic conditions and extreme rainfall that suppressed demand for water, we have been able to show a solid performance with operating profit increasing from £217 3m to £225 1m

There was a small increase in the costs of financing the business and as a result profit before tax rose from £133 5m to £140 7m While the corporation tax charge grew there was a deferred tax credit in the year compared to a charge last year, resulting in profit after taxation increasing overall from £83 6m last year to £128 2m this year

Turnover
Turnover increased by £25 1m or 5 3% from £474 6m to £499 7m The price increase allowed by Ofwat at 1 April 2012 was 7 1% comprising November 2011 RPI of 5 2% and a K factor of 1 9% There was a small growth in turnover due to new customers in the housing market and new connections, although economic growth in the region was flat

There were two offsetting reductions in turnover because of the weather conditions and customers switching to metered supply Total rainfall for the year to March 2013 was 1 278 millimetres compared with 640 millimetres in the previous year The increased rainfall over the summer months had the greatest impact by reducing domestic metered water supply

Operating costs
Operating costs (excluding depreciation amortisation and disposal of assets) increased from £140 9m to £152 3m due to a number of factors
• business rates continued to increase through the central government valuation process
• there was a full year cost of operation of private sewers, for which we were given responsibility half way through last year
• the bad debt charge increased both in line with the increase in turnover and because of the challenging economic conditions
• the price of power and chemicals increased by more than the level of inflation
• there was an accounting credit in the prior year for pension accounting under FRS17 which was not repeated this year
• an increase from the cost of meeting new obligations and installing additional meters

Alongside these increases we were able to manage employment costs through a pay award effective from April 2012 that was below the rate of inflation

Capital investment
In 2012-13 we delivered gross capital expenditure of £231 3m which is a 21% increase compared to £191 0m last year

After three years of the current five-year price review period our capital expenditure represents 83 2% of the Final Determination allowance up to the end of year three

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

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

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

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

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

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

Depreciation
The depreciation and infrastructure maintenance charge increased by £5 9m from £116 4m to £122 3m There was a £2 6m increase in the infrastructure maintenance charge, while depreciation increased by £3 3m Base depreciation increased by £3 5m from the continuing capital investment programme, and there was a £0 2m reduction on the disposal of fixed assets

Interest charges
Interest charges increased from £83 8m last year to £84 4m this year The £0 6m increase was split between the base interest decrease of £0 5m and a £1 1m increase in the interest costs associated with pension accounting under FRS 17, shown as other finance costs in the profit and loss account

There was an increase in net debt during the year from £1 660 6m to £1,767 1m The cost of debt in both years was around 5% which with the increase in net debt explains the increase in the interest charge

There is a prudent mix of debt between fixed rate, index linked and floating rate instruments At the year end the debt split was approximately 45% fixed, 36% index linked and 19% floating, with the index linked debt based on either November or March RPI In August 2012, the company issued a £100m fixed rate bond through its subsidiary which will mature in 2021

The maturity of debt is generally long term with £1,604 2m of debt maturing after 2020

Taxation
The corporation tax charge in the year was £29 7m, an increase of £8 9m from £20 8m last year The increase was mainly due to a one-off credit in the previous year following an industry-wide agreement with HMRC over the tax treatment of certain infrastructure income There was also a benefit to the corporation tax charge from a reduction in the statutory tax rate from 25 5% last year to 23 75% this year

Corporation tax is paid to HMRC quarterly based on the statutory year end of 30 June The first two payments are made in January and April before the tax year has ended, and the last two in July and October after the end of the year

We use an external water industry expert to analyse our capital expenditure and ensure the correct capital allowances are claimed We take a prudent approach to tax affairs, ensuring that we claim the tax relief to which we are entitled, but not submitting complicated tax schemes that could endanger our relationship with HMRC

Deferred tax has moved significantly, from a charge of £29 1m last year to a credit of £17 2m this year In the prior year there was a reduction in the discounting of deferred tax due to the movement in discount rates, which pushed up the charge, where as this year there was an increase in the discounting

Dividends
Wessex Water's dividend policy is to declare dividends consistent with the company's performance and prudent management of the economic risk of the business The Board has agreed to ensure that gearing stays at or below 70% in order to maintain its current credit ratings and give the company continued access to the capital markets

Cashflow
Net debt increased by £106 5m to £1,767 1m This comprised
- cash inflow from operating activities of £337 2m, less
- capital investment cash outlay of £220 1m, less
- interest payments of £76 3m, less
- tax payments of £28 0m, less
- dividend payments of £119 3m

Liquidity at year end was £128 2m consisting of £144 7m of cash bank deposits less £16 5m of bank overdraft

Our environment

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

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

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

Catchment management
Our catchment management activities have expanded to cover 15 catchments where nitrate or pesticide pollution is having an impact on raw water quality Over the previous six years where we have been working collaboratively with farmers, we have seen significant reductions in the levels of nitrate concentrations in our drinking water sources

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

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

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

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

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

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

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

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

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

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

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

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

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

• Dorset Wild Rivers project, delivering 3 35km of river restoration, together with 4 8 hectares of targeted wet woodland and related wetland habitat
• Buglife's Wessex Springs and Seepages project surveying the invertebrate potential of small and often ignored habitats on the West Dorset coastal cliffs
• a farm water management project in the River Parrett catchment

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

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

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

We made significant energy savings during 2011-12 and although electricity use increased in 2012-13 by 16 5 GWh (7%), this was a result of the exceptionally wet weather from mid-April to the end of the year Heavy rainfall increases the amount of energy required for pumping waste water

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

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

We have also reached an agreement with Triodos Renewables for their development of wind power at the Bristol works where four turbines are due to be installed in autumn 2013 They are expected to produce between 15 and 20 GWh of electricity per year

Our employees

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

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

Training

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

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

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

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

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

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

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

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

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

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

Our apprenticeship programmes are flourishing and we are now in the process of extending apprenticeships to our customer contact centre, laboratory information services and engineering and construction departments

We are conscious that today's apprentices are our potential managers and leaders of the future so we recognise the importance of our investment in our apprenticeship training programmes

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

Health and safety

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

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

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

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

Innovation
During the course of this year, we have changed the way we recruit suitable, skilled employees who are culturally aligned, flexible and deliver results

We have replaced our paper based, manual recruitment process with a web based, online process which has improved our service delivery to potential candidates and managers and is expected to reduce the time taken to recruit skilled candidates to vacant roles

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

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

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

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

We have developed and introduced key behaviours that we expect leaders at all levels to demonstrate in all interactions with customers and employees Through consistent behaviours by all staff at different levels, this will support the culture we are looking to build

The Wessex Water leadership behaviours support our corporate aims and values and the model covers three key areas

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

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

Our infrastructure

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

in brief
• £231m invested in maintaining and improving services to our customers and the environment
• Provided more than 1 000 jobs both directly in constructing new assets and in the regional supply chain
• Met all our regulatory outputs
• Prepared our draft water resources management plan for consultation
• Progressed our water supply grid, a key component of our water resources planning over the next 25 years which will increase security of supply to customers
• Making good progress on a major programme of mains rehabilitation in Taunton to improve the appearance of the water
• Exceptional 2012 weather affected the number of flooding incidents from our sewerage network and we invested more than £7m to reduce flooding
• Completed the first full year following the transfer of private sewers
• Completed schemes at Weston-super-Mare sewage treatment works to improve quality of bathing water, at Holton Heath sewage works, in Dorset, to meet the Shellfish Directive, and at six sewage treatment works in the Somerset Levels to reduce levels of phosphorus

Water resources

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

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

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

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

Our proposals include the introduction of a policy to install meters on properties when they change ownership and enhance our water efficiency services – both of which will help drive demand and abstraction down and reduce leakage The plan forecasts a surplus of supply over demand and we have examined the scope to export water to neighbouring companies with a deficit of resources We are consulting on the plan in spring and summer 2013

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

Leakage

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

Sewage flooding

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

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

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

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

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

Private sewers transfer

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

We recruited additional staff in our call centre and control room and used external drainage contractors to supplement our crews, allowing us to manage the initial influx of work in October 2011 and the subsequent, steady increase in customer calls and work activities throughout the following year

In 2012-13 more than 11 000 jobs were raised and actioned against transferred assets, more than doubling the sewerage workload pre-transfer

Asset management

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

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

For risk management we use modelling and analytical tools to help prioritise investment These incorporate
• assessments of the impact and likelihood of service failure which can be applied consistently across all our assets
• a review of all customer environmental, legal, and regulatory risks
• reporting to senior management/Board on strategic high-level risks and mitigation measures

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

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

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

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

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

Other schemes include
• construction work to extend Sutton Bingham water treatment works near Yeovil and improve its performance with regard to taste and odour
• construction work at Taunton sewage treatment works on a major £14 3m scheme to extend the secondary treatment plant and improve the quality of the effluent discharged into the River Tone
• construction work at Puddletown sewage treatment works in Dorset to improve the quality of effluent discharged to the river
• more than £4m invested to improve the environmental impact at a further 20 overflows in Bristol
• a further £4m spent on proactively renovating more than 15km of sewers throughout our region

Drought and the development of infrastructure to meet the demands of dry weather conditions pose challenges for the future The drainage infrastructure will need to cope with increasing levels of urban creep especially if planning laws are relaxed, and rainfall events will have more significant impacts on flow rates in sewers as the percentage of impermeable areas continues to grow

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

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

RISK REVIEW

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

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

Risk process

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

At the lowest level, asset and operational risks are reviewed, assessed and recorded monthly by operational staff Risks are scored using a best practice process which assesses probability and impact on a five by five matrix Risk mitigation plans are recorded and implemented where appropriate and pre and post mitigation scores are recorded Results are reported monthly to the Group Management Team and to each Board meeting

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

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

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

Principal risks

The 11 principal risks identified and agreed by the Board are

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

2 *Information management and digital security* The company holds and processes large quantities of data which is considered sensitive within the meaning of the Data Protection Act Failure to process and protect the data in the prescribed manner is an offence Additionally the Information Commissioner can take enforcement action which would require the company to take prescribed actions for improvements in the future A project to improve understanding of the importance of data integrity and to enhance security measures has been undertaken, resulting in the implementation of an information security management system in accordance with ISO27001 best practice This will continue to evolve and expand during the next 12 months

3 *IS business resilience* Most activities undertaken by the business are reliant on the availability of IT services and facilities The Security Service has identified the growing threat of cyber attack or industrial espionage as a high risk to both businesses and utilities The company continues to examine ways in which IT resilience can be maintained and where appropriate improved During this year a third data centre has been implemented where business critical systems and data can be replicated to improve availability

4 *Staff integrity* Considerable damage could be done to the reputation of the company by a rogue or radicalised employee or contractor References are obtained for all new starters whether permanent or contract CRB checks are undertaken for all new permanent staff and for contract staff who are to work in particularly sensitive positions

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

6 *Incorrect site/asset knowledge* Accurate information about the location and status of the company's assets is central to their protection and maintenance A project to improve the asset records of the business including the newly transferred private sewers, is continuing

7 *Major pollution incident* Control of the escape of polluting matter to the environment is central to the company's business Significant effort is made to prevent such an incident occurring through staff adherence to company processes and procedures New staff are trained in these processes and procedures and their importance No major pollution incidents were recorded during the year

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

9 *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

10 *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

11 *Leakage* Failure to control leakage could breach a regulatory output and lead to loss of an important resource at times of drought The company sets a tighter level of leakage than the official target The existing regulatory approach to leakage control is the most cost effective way of achieving the economic level of leakage

Many other areas which would be expected as standard areas for consideration such as fraud, have been assessed and determined to be risks which are well controlled with current mitigations Complacency is avoided through regular reviews and challenges within the risk group and risk committee The internal audit programme includes a rolling review of principal mitigation measures with regular reports to the Audit Committee

GOVERNANCE REPORT

Introduction

We are committed to high standards of corporate governance Under Condition F of its Instrument of Appointment as a water and sewerage undertaker (the Licence) WWSL is required to conduct its water and sewerage business as if it were the company's sole business as a public limited company The Licence also requires WWSL to have particular regard to the UK Corporate Governance Code as approved for the purposes of the Listings Rules of the Financial Services Authority (the Code") The Code is not a rigid set of rules and provides general principles of best practice The Code is made up of ' Main Principles , "Supporting Principles" and ' Code Provisions ' The Code Provisions are subordinate to the Principles Whilst the Code is generally regarded as embodying best practice in UK Corporate Governance, its main focus is the relationship between a listed company and its shareholders WWSL has a single shareholder and, accordingly, it is able to address some issues more directly and completely than it could if it were a listed company

Our focus is on complying with the Principles and spirit of the Code in its particular context as a private limited company with a single shareholder In practice, the company complies with the Code Principles and Code Provisions with only very limited exceptions In those few areas where we have decided not to follow the precise requirements of the Code we explain why, and how good governance is nevertheless achieved

The following parts of this Governance Report explain how good governance is at the heart of the company's business and underpins the relationships the company has with its customers, shareholder and other stakeholders The Board regards it as fundamental to the long-term success of the company to provide excellent customer service and satisfaction Governance arrangements are kept under constant review The company is making the changes referred to below in the coming financial year so that we continue to reflect best practice and maintain our position as the leading water and sewerage company for customer service and satisfaction

We believe that our governance arrangements, together with the changes we are making, will ensure the company continues to operate effectively and efficiently to the benefit of our customers, shareholder, and other stakeholders with clear accountability for decision making

Governance structures

The Board
All decisions which affect Wessex Water are the responsibility of the Board, which controls and directs the undertaking of the regulated water and sewerage business The Board is well balanced with five Executive Directors, four Independent Non-Executive Directors and four Non-Executive Directors appointed by the shareholder

The Board annually reviews and approves the company's Organisation and Control Arrangements (O&CA) which set out the framework for control of the company's affairs The O&CA set out requirements for the competency of members of the Board and its Committees, for effective management of the company and for the granting of delegated powers and authorisations

The principal duties of the Board the matters reserved for its decision and the terms of reference of its Committees are fully documented (and copies are available on our website) Matters reserved to the Board include strategy charges material changes to the Company's management and control structure, approval of Board appointments, approval of material contracts, risk management, health and safety policies, disposal of material assets, approval of the annual operating budgets, employee pension arrangements significant changes in accounting policies and defence and settlement of material litigation

There are no matters specifically reserved to the shareholder In practice the Board operates (and has operated continuously for more than a decade) without the requirement for shareholder resolutions As part of its responsibility for the management of risk, the Board has determined criteria which control the extent of dividends paid and consequently the financial gearing of the company As with all Board decision making, these criteria were determined with the active involvement of the Independent Non-Executive Directors

There are five Executive Directors, all appointed on one-year rolling contracts There are four Independent Non-Executive Directors, exceeding by one the requirements of Condition P of the Licence Four further Non-Executive Directors are appointed by the Company's sole shareholder

This balance on the Board ensures a high level of engagement and dialogue with the company's customers and shareholder In this way, we comply with and exceed the principles and spirit of the Code without the need for compliance with certain specific Code Provisions (including those in relation to the use of an annual general meeting to communicate with investors and encourage participation) which are not relevant to a company with a single shareholder

The Non-Executive Directors scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance In addition, the Independent Non-Executive Directors, led by the Senior Independent Director, are responsible for performance evaluation of the Chairman They also form or participate in the various Committees, assessing the integrity of financial information and whether financial controls and systems of risk management are robust and defensible determining appropriate levels of remuneration for Executive Directors, assisting in appointing and, if necessary, removing Executive Directors and assisting in succession planning

The Board ensures that directors (and in particular the Independent Non-Executive Directors) have access to independent professional advice at the company's expense where they judge it necessary to discharge their responsibilities as directors The Board also ensures that the Committees are provided with sufficient resources to undertake their duties

The company arranges appropriate directors' and officers' insurance against the usual legal risks faced through holding office

If directors have concerns about the running of the company or a proposed action which cannot be resolved, they are encouraged to ensure that their concerns are recorded in the Board minutes and the Independent Non-Executive Directors are encouraged, on resignation, to provide a written statement to the Chairman highlighting any such concerns

Due to the company having a single shareholder, the Code provisions in relation to directors being subject to annual election by shareholders are of limited relevance and not applied

We comply with the Code's Main Principles and Supporting Principles as to the composition of the Board Moreover, we exceed the requirements of the Code (designed for listed rather than privately held companies) by having four Non-Executive Directors who are directors or employees of the Malaysian holding company, thus enabling effective dialogue with the shareholder

While the Board has a majority of Non-Executive Directors, it does not have a majority of Independent Non-Executive Directors as envisaged by the relevant Code Provision This is a deliberate decision, intended to ensure that the Board has the appropriate balance of skills, experience, independence and knowledge and that the Board has an appropriate combination of Executive Directors and Non-Executive Directors, so that no single group can dominate decision taking and that the Board does not become too unwieldy

The search for Board candidates is conducted, and appointments and re-appointments are made, on merit, against objective criteria, and with due regard to the benefits of diversity on the Board, including gender diversity All directors receive induction training on joining the Board and regularly update and refresh their skills and knowledge

The following were directors during the year under review

Colin Skellett - Executive Chairman
David Barclay *
Gillian Camm *
Sean Cater
Kathleen Chew +
Peter Costain *
Julian Dennis (resigned 28 November 2012)
David Elliott
Jonathan Porritt * (resigned 1 August 2012)
A F Pymer (appointed 1 August 2012)
Fiona Reynolds DBE * (appointed 1 August 2012)
Mark Watts
Francis Yeoh #
Hann Yeoh # (appointed 1 August 2012)
Hong Yeoh #
Mark Yeoh #

* Independent non-executive director + Alternate director to Francis Yeoh
\# Non-executive director

Chairman
Colin Skellett is the company's Chairman and Chief Executive He brings more than 40 years' water industry experience to the company including 25 years as Chief Executive covering privatisation of the industry and two changes of ownership By agreement with the shareholder, Colin Skellett's dual role is an exception to the relevant Code Provision which generally requires separation of the roles of running the Board and running the company's business

The division of responsibilities required under the Code between the roles of an independent Chairman and Chief Executive is intended principally to protect against one individual having unfettered powers of decision making (effectively running both the Board and the company's business) in the context of a public company with disparate shareholders and with no direct shareholder board representation However, WWSL is a private company with a single shareholder who appoints Non-Executive Directors to the Board and, accordingly, these concerns are of limited relevance Further, in the specific context of WWSL, good governance is ensured and the concern of individual dominance alleviated by the presence on the Board of Executive Directors responsible for the main business functions, together with a majority of Non-Executive Directors who are able to hold the entire executive function to account

The Chairman leads the Board, ensuring its effectiveness while taking into account the interests of all stakeholders and promoting the highest standards of business ethics and governance The Chairman is responsible for ensuring that directors receive accurate, timely and clear information The Chairman also promotes a culture of openness and debate by facilitating the effective contribution of Non-Executive Directors, in particular ensuring constructive relations between Executive and Non-Executive Directors, and ensuring effective communication with the company's shareholder

Board agendas are agreed in consultation with other directors and the Company Secretary Any director or the Company Secretary may request an item be included on the agenda The Chairman meets regularly with representatives of the company's shareholder and has separate group and individual meetings with the Independent Non-Executive Directors

The Chairman ensures that new directors receive a full, formal and tailored induction on joining the Board (including an opportunity to meet with representatives of the shareholder) and regularly reviews and agrees with each director their training and development needs

In his role as Chief Executive Colin Skellett has responsibility for the day to day business of the company, making proposals for its strategic direction and communicating with customers and other stakeholders

Senior Independent Director
The Board has appointed David Barclay as the Senior Independent Director He chairs the Audit Committee and is a member of the Remuneration Committee and of the Nomination Committee He would chair Board meetings if the Chairman were unavailable The Senior Independent Director's role is to act as a sounding board for the Chairman and to serve as an intermediary for the other directors when necessary He is also available as an additional point of contact for the shareholder and other stakeholders As the Senior Independent Director and appointed in accordance with the Licence, he is well placed to provide an independent link to WSRA, our regulator His responsibilities include leading the evaluation of the performance of the Chairman Led by the Senior Independent Director the Non-Executive Directors meet annually without the Executive Directors present to appraise the Chairman's performance and to discuss any other relevant matters

Independent Non-Executive Directors
The company's Independent Non-Executive Directors are appointed from a range of different backgrounds to bring to the Board external experience and insight They provide independent thought and challenge to the Board's decision making The Board has reviewed their status and concluded that they are all independent In particular, the Board considers these directors to be independent in character and judgement The Board are not aware of any relationships or circumstances which are likely to affect, or could appear to affect, any Independent Non-Executive Director's judgement

Independent Non-Executive Directors are appointed, after consultation with Ofwat and with the agreement of the company's shareholder, for an initial three-year term (subject to statutory provisions relating to removal) that may be extended The last two financial years have seen the appointment of two new Independent Non-Executive Directors, one other new Non-Executive Director and one new Executive Director

Any term beyond six years for an Independent Non-Executive Director is subject to particularly rigorous review and takes into account the need for progressive refreshing of the Board balanced against the requirement for skills, experience, independence and knowledge The Board considers that both Peter Costain and David Barclay remain independent and that the Board is refreshed at sufficient intervals and accordingly the company is compliant with the spirit of the Code in this respect The Board has concluded that it is in the company's interests due to the importance of its infrastructure construction programme that Peter Costain, with a background in major engineering projects, continues as an Independent Non-Executive Director beyond the period suggested in the Code David Barclay's continued appointment brings to the Board his experience on other listed and private company boards as well as his knowledge of financial markets The continued appointment of Peter Costain and David Barclay therefore promotes the long-term success of the company and is in accordance with the spirit of the Code

Independent Non-Executive Director	**Appointed**	**Current term expires**
David Barclay	1/11/2005	31/10/2014
Gillian Camm	1/11/2011	31/10/2014
Peter Costain	1/12/1999	31/03/2014
Fiona Reynolds	1/08/2012	31/07/2015

All Independent Non-Executive Directors are appointed on written terms setting the time commitments and standards required of them In accordance with Code Provision B 3 2 terms of engagement are regulated by letters of appointment (copies of which are available on the company s website) Non-Executive Directors representing the company s sole shareholder do not have formal terms of appointment and receive no payments from the company In accordance with Code Provision B 4 1, all directors are required to participate in an induction process to familiarise themselves with the company s governance arrangements, business, regulatory framework and ethos Introductory meetings are held with all Executive and Non-Executive Directors the Company Secretary and senior managers across the company's business Visits are made to the company s principal offices and representative operational sites The training and development needs of the Executive Directors and Independent Non-Executive Directors are reviewed annually by the Chairman

Company Secretary
All Directors have access to the Company Secretary and the company's internal solicitors The Company Secretary's responsibilities include ensuring good information flows within the Board and its Committees and between senior management and Non-Executive Directors as well as facilitating induction and assisting with professional development as required The Company Secretary is responsible for ensuring the company's O&CA are followed and advising on suggested changes as well as ensuring that Board procedures are complied with

The Company Secretary gives legal and regulatory advice as required by the Board or any director and is responsible for advising the Board through the Chairman on all governance matters The Board is kept informed of all major changes to law and regulation affecting the company's business The Company Secretary also advises on directors' duties and conflicts All directors are aware that any conflicts of interest must be reported to and registered by the Company Secretary

The appointment or resignation of the Company Secretary is a matter for consideration by the Board as a whole

Board Meetings
The Board meets a minimum of six times a year at approximately bi-monthly intervals, which is considered sufficiently regular to enable the Board to discharge its duties effectively It may meet on such further occasions as may be required

Board attendance in the financial year under review

Board Attendance 2012-13			
Colin Skellett	6/6	Jonathan Porritt	1/1
David Barclay	6/6	Fiona Reynolds	5/9
Gillian Camm	6/6	Mark Watts	6/6
Sean Cater	4/6	Francis Yeoh (or alternate)	1/6
Peter Costain	6/6	Hann Yeoh	3/6
Julian Dennis	3/3	Hong Yeoh	3/6
David Elliott	6/6	Mark Yeoh	4/6
Andy Pymer	6/6		

It is expected that all Independent Non-Executive Directors attend all Board meetings except where prevented by prior appointments or illness Directors who are unable to attend a particular meeting receive the Board papers and may comment in advance of the meeting to the Chairman or Senior Independent Non-Executive Director At least one of the four Non-Executive Directors representing the company's sole shareholder has attended all Board meetings The Chairman briefs all Directors unable to be present after the meeting about the discussions held and decisions reached

Board Committees and Advisory Panels

Four formal Committees operated throughout the financial year under review

• Audit Committee
• Risk Management Committee
• Remuneration Committee
• Nomination Committee

These Committees operate under the authority of the Board and assist the Board in carrying out its duties The Committees report back to the Board on decisions and actions taken together with any specific recommendations Reports from the Chair of each of the Committees are set out on the following pages

A fifth Committee for Corporate Responsibility was established in June 2013 The principal purpose of the Committee is to make recommendations to the Board about the company's corporate and social obligations to its employees and other stakeholders The Committee will be chaired by Gillian Camm with Fiona Reynolds, David Elliott and Andy Pymer as members

The Board also receives reports from its Sustainability Panel and four Liaison Panels as part of the company's commitment to wide stakeholder engagement

The Sustainability Panel is chaired by Fiona Reynolds It keeps under review all sustainability, health and environmental issues affecting the company This Panel includes Colin Skellett, David Elliott and Gillian Camm By invitation a range of external scientific and technical expertise is brought to this Panel

The Panels are established to build strong relationships with outside stakeholders They afford opportunities for direct discussion between the company and a wide variety of interest groups on all areas affected by the company's activities and its proposals for future development The Liaison Panels cover customers and communities, business customers, services and planning and environment The Customer and Communities Liaison Panel is chaired by Gillian Camm

The Liaison Panels include representatives from local authorities, the Environment Agency, Natural England, National Farmers Union, Country Landowners Association, environmental wildlife interest groups, schools, universities, hospitals, business, industry, Citizens Advice Bureaux and other charitable bodies

Board, Committee and Director Performance
The Board has agreed to review its own performance, and the performance of its Committees, the Chairman, the Executive Directors and the Independent Non-Executive Directors, annually in accordance with the Code Generally the Board will engage the services of an external Board evaluation consultant at least one year out of three Between external evaluations, reviews are facilitated by the Company Secretary

A Board effectiveness review was carried out in June 2013 This involved the use of a questionnaire to Independent Non-Executive Directors and covered a range of issues around Board and Committee processes, Board roles and responsibilities Individual responses to the questionnaire were aggregated and analysed, and the results presented to and discussed by the Board at its meeting on 25 June 2013 with several improvements suggested as a result including

• Prior to the start of each financial year the Board will review the calendar to ensure key strategic issues are covered at meetings during the year
• Regular reviews of implementation of key policies including post investment appraisal of capital projects

Evaluation of the Board considers the Board's balance of skills, experience, independence and knowledge of the company and how the Board works together as a unit, and other factors relevant to its effectiveness

Directors' Remuneration
Details of directors' remuneration are set out in the Remuneration Committee Report

Directors' Interests and Conflicts
Directors are aware of the requirement to disclose interests in contracts with the company and any conflicts of interest No such interests or conflicts were disclosed during the year

Whistleblowing
The company operates a written whistleblowing policy that is publicised to employees for reporting instances of malpractice or inappropriate activity across all areas of business including water regulation, health and safety, bribery corruption and fraud All reports are treated on a strictly confidential basis Reports on whistleblowing are made to the Audit Committee Nothing was reported during the financial year under review

Anti-corruption
The company operates a written policy on business ethics that makes known its expectation that directors and employees commit to the highest possible standards of professional and ethical conduct to protect its reputation and standing Bribery and corruption is not tolerated All directors and employees are made aware of the company's policy and that breaching it will result in the severest disciplinary action No instances of a breach of the policy were recorded during the year

Procurement
The company has in place procurement rules that ensure awards of contracts for works, services and supplies are made after compliance with the Utilities Contracts Regulations 2006 and for contracts below the relevant thresholds in accordance with clear rules The rules promote fair competition for potential suppliers All relevant staff are required to certify to internal audit through the year that they have complied with the rules or to disclose non-compliance No material instances of non-compliance were recorded during the year

Audit Committee Report

The following directors were members of the Audit Committee throughout the financial year under review

David Barclay (Chair)
Gillian Camm
Peter Costain

In addition Fiona Reynolds joined the Audit Committee in June 2013

The Board is satisfied that all members of the Audit Committee are independent and that, through David Barclay and Peter Costain, it has relevant financial experience

Role and Report on Activities
In accordance with Code Provision C 3 2 the Audit Committee s full terms of reference are available on the company's website This report provides details of the role of the Audit Committee and the work it has undertaken during the year under review

The members of the Audit Committee receive updates on financial reporting, the regulatory framework and performance throughout each financial year The Director of Finance and Treasurer, Director of Customer and Retail Services, Director of Environment and Assets, Head of Internal Audit, Group Financial Controller and the company's external auditor KPMG attend, by invitation all meetings of the Audit Committee Other Executive Directors, members of senior management and the company s engineering auditor are also invited to attend as appropriate

Following each meeting the Audit Committee reports to the subsequent meeting of the Board on the Audit Committee's work
The Audit Committee met three times in the financial year under review which is considered sufficient to enable it to discharge its duties effectively Its work focused on

• overseeing the company's financial reporting processes and accounting policies
• ensuring that the company has adequate internal controls and that they are appropriately reviewed and implemented
• overseeing the internal and external audit programmes
• ensuring compliance with the regulatory reporting obligations of the company, including the Risk and Compliance Statement and the company's key performance indicators

In accordance with Code Provision C 3 8, key issues discussed during the financial year under review included

• progress made in the mitigation of a number of the principal risks identified in the Risk and Compliance Statement
• company performance on a number of internal processes to deliver regulatory outputs
• detailed independent consideration of the March 2013 Annual Review and Accounts document prior to its ultimate approval by the Board
• consideration of the company's pension arrangements, bad debts and taxation The Committee was satisfied that the company's treatment of these matters was properly addressed within the company's financial statements

KPMG reported to the Audit Committee on their review of the half-year interim results and on their audit of the March 2013 Regulatory Accounts

Internal Controls
The Audit Committee monitors the effectiveness of the system of internal control assisted by internal audit It also reviews management letters received from the external auditors The Audit Committee also receives a report on any incidents of fraud or bribery including the actions taken to investigate and respond to such incidents There were no material incidents during the financial year under review

The Audit Committee also reviews arrangements by which staff of the company may, in confidence raise concerns about possible improprieties in matters of financial reporting or other matters The Audit Committee's objective is to ensure that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action No such matters were raised during the financial year under review

Oversight of Internal Audit and External Audit
The Audit Committee oversees the work of the company's internal audit function, monitoring and reviewing the effectiveness of the internal audit activities and manages the relationship with its external auditors The Audit Committee reviews the performance of the internal and external auditors annually to ensure that they are effective and recommends to the Board whether the external auditors should be reappointed

The Audit Committee regularly holds discussions at the end of its meetings with both the internal and external auditors in the absence of management

Internal Audit
The annual programme of planned internal audits is agreed by the Audit Committee at the start of each financial year based on a balance of topics which represent major business risks, and internal business processes which affect either financial or regulatory compliance At the request of Executive Directors or the Audit Committee, additional audits are undertaken throughout the financial year to address any issues that arise in the financial year

The Head of Internal Audit reports back on reviews of performance and the effectiveness of the company's internal controls and their adequacy in managing business risk and performance This work is summarised and reported to the Audit Committee on a regular basis

The audit plans and the level of resources of the internal audit function are reviewed at least annually by the Audit Committee The Head of Internal Audit is free to raise any issues with the Audit Committee or its Chairman at any time during the financial year

External Auditors
KPMG Audit Plc were appointed as the company's auditor in 2002 and the audit contract has not been put out to tender since Each year the Finance Director and Treasurer reports to the Audit Committee on the effectiveness of the external auditor throughout the year The Audit Committee reviews that report and their own experience of the auditor's effectiveness in the year They then make a recommendation to the Board as to whether they be reappointed In June 2013 the Board again decided that KPMG be re-appointed for the following year Although KPMG's appointment exceeds the normal 10 year period suggested in the Code it is consistent with the transitional arrangements as published by the FRC, that retender can take place at the end of the current audit partner's term of office

KPMG Audit Plc was paid £144k for audit fees and £36k for non-audit services during the financial year under review

KPMG Audit Plc makes reports to Ofwat in respect of the company s regulatory accounts The Audit Committee also receives reports from its engineering consultants, Halcrow, on non-financial regulatory outputs as part of the company's Ofwat compliance process

Audit Committee Attendance
David Barclay 3/3
Peter Costain 3/3
Gillian Camm 3/3
Fiona Reynolds 1/1

Risk Management Committee Report

The following were members of the Risk Management Committee throughout the financial year under review

Colin Skellett (Chair)
Sean Cater
David Elliott
Andy Pymer
Mark Watts

Julian Dennis was a member of the Committee until 28 November 2012

Role
Responsibility for the company's risk management policy rests with the Board The purpose of the Risk Management Committee is to identify and manage the key business risks faced by the company It produces for the Board's annual approval a risk management plan addressing the company's risk management systems, practices and procedures to ensure effective risk identification, management and compliance with risk management policies The Audit Committee reviews the annual Risk and Compliance Statement which includes a description of the company's risk process As part of its terms of reference, if the Audit Committee is not satisfied that a correct and proper risk process is in place and has been carried out at least annually it is authorised to refer the matter to the Board's attention with a recommendation that the Committee assumes direct responsibility for managing the risk management process

The Risk Management Committee's full terms of reference are available on the company's website

The Risk Management Committee meets at least twice a year or at such shorter intervals as may be necessary to consider changes to the company's business risks and enable it to discharge its duties effectively The Risk Management Committee also plays a key role in the company's processes for complying with the Ofwat requirement for an annual Risk and Compliance Statement

Risk Management Committee Attendance
Colin Skellett 2/2
Sean Cater 2/2
Julian Dennis 1/1
David Elliott 2/2
Andy Pymer 2/2
Mark Watts 2/2

Nomination Committee Report

The following were members of the Nomination Committee throughout the financial year under review

Hong Yeoh (Chair)
David Barclay
Mark Yeoh
Colin Skellett

The Nomination Committee is chaired by a Non-Executive Director appointed by the shareholder by way of exception to the relevant Code Provision The relevant Code Provision envisages a majority of the members being Independent Non-Executive Directors and the Chairman or an Independent Non-Executive Director chairing the Committee This is intended to ensure a formal, rigorous and transparent procedure for the appointment of new directors to the Board in the case of a listed company with disparate shareholders However, the company's Nomination Committee complies with the Principles and spirit of the Code and reflects the requirements of a private company with a sole shareholder

Role and Report on Activities
The Nomination Committee's full terms of reference are available on the company's website This report provides details of the role of the Nomination Committee and its work over the financial year under review

The purpose of the Nomination Committee is to ensure that appropriate procedures are in place for the nomination, selection, training and evaluation of directors and for succession planning It reviews Board structure, size, composition and succession planning The Nomination Committee evaluates the balance of skills, experience independence and knowledge on the Board and, in the light of this evaluation, prepares a description of the role and capabilities required for a particular appointment

The Nomination Committee meets sufficiently regularly to enable it to discharge its duties It met once during the financial year under review under the chair of Hong Yeoh In future financial years under revised terms of reference its role will also be expanded to include monitoring the independence of Independent Non-Executive Directors, advising the Board on any conflicts of interest succession planning below Board level and promoting diversity and opportunity across the company

Further to the publication of the Davies Report Women on Boards in February 2011, boards of FTSE 350 companies have been encouraged to promote greater female representation on corporate boards Fiona Reynolds' appointment brings gender balance to the company s four Independent Non-Executive Directors

The company has received advice from Women on Boards UK about promoting female opportunities and advancement in the company and is encouraging female personal development alongside promoting the development of all employees

The principal area of activity was the internal promotion of a new Executive Director, Andy Pymer, on the retirement of Julian Dennis, and the selection of two new Non-Executive Directors Hann Yeoh as a shareholder appointee and Fiona Reynolds as an Independent Non-Executive Director on the retirement from the Board of Jonathon Porritt

As part of the process to replace Independent Non-Executive Directors at the end of their term the Committee has and will use external recruitment agencies to provide a shortlist of candidates, to which is added further names after consultation with the Executive and Non-Executive Directors and other stakeholders

Nomination Committee Attendance
Hong Yeoh 1/1
Mark Yeoh 1/1
David Barclay 1/1
Colin Skellett 1/1

Remuneration Committee Report

The following were members of the Remuneration Committee throughout the financial year under review

Hong Yeoh (Chair)
David Barclay
Peter Costain
Mark Yeoh

Gillian Camm will join the Remuneration Committee as an additional Independent Non-Executive Director with effect from the next meeting

The Remuneration Committee is chaired by a Non-Executive Director appointed by the shareholder by way of exception to the relevant Code Provision The relevant Code Provision envisages at least three Independent Non-Executive Directors on the Remuneration Committee This is intended to ensure a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors in the case of a listed company with disparate shareholders However, the company's Remuneration Committee complies with the Principles and spirit of the Code and reflects the requirements of a private company with a sole shareholder, resulting in a formal and transparent procedure for developing policy on executive remuneration

Role and Report on Activities
The Remuneration Committee's full terms of reference are available on the company's website

The Remuneration Committee determines, on behalf of the Board, the company's policy on the remuneration (including pension rights and any compensation payments) of Executive Directors, the Chairman and senior executive managers The Committee seeks to link rewards to performance to promote the long-term success of the company and does not reward poor performance

This report sets out the remuneration policy for the directors of the company and discloses the amounts paid to them in the financial year ended 30 June 2013 The policy also applies to the remuneration of the company's senior managers

The Remuneration Committee met once during the financial year under review, which was considered sufficient to enable it to discharge its duties effectively

The Remuneration Committee continued to monitor the company's remuneration policy to take account of evolving best and market practice The annual bonus plan is designed to promote the success of the company over the five-year regulatory period and is based on a portfolio of KPIs linked to the company's performance scorecard and Ofwat s measures of success

A review of the job sizing of Executive Director roles and senior executive managers was completed during the financial year under review Salary and bonus levels were benchmarked against the Hay Group Industrial and Service and National Utilities market sectors with jobs sized in relation to scope, role responsibilities and impact to determine salary The Remuneration Committee continued to take a proactive approach to responding to developments in legislation, best practice and the wider market, as well as the corporate strategy, in order to ensure that the company's senior executive reward policy remained market competitive and fit for purpose

The Remuneration Committee addressed the need to ensure that changes in senior executive remuneration are proportionate in the context of workforce pay While it has not set a specific policy on the relationship between Executive Directors' pay and that of the rest of the workforce, it aims to ensure that executive salary movement is appropriately aligned to the rest of the workforce and to specifically consider this aspect as part of its decision making process

To ensure that the company's remuneration practices are market competitive the Remuneration Committee had access to detailed external research on market data and trends from experienced specialist consultants Hay Group provided detailed market analysis and independent advice to the committee Hay Group provides no other services to the company and has no other connection to the company

The Remuneration Committee also considers what compensation commitments (including pension contributions and all other elements) directors' terms of appointment would entail in the event of early termination The aim is to avoid rewarding poor performance, and the Remuneration Committee would take a robust line on reducing compensation to reflect departing directors' obligations to mitigate loss

The Chairman and Chief Executive (Colin Skellett) and the Group Head of Human Resources (Mark Nicholson) also attended the Remuneration Committee meeting to provide advice and respond to specific questions They did not participate in any discussion concerning their own remuneration

Remuneration Committee Attendance
Hong Yeoh 1/1
Mark Yeoh 1/1
David Barclay 1/1
Peter Costain 1/1

The remuneration policy for senior executives is based on the company's four key focus areas and risk management

Key Focus	Remuneration Policy
Customer service delivery and business costs	Target annual bonus potential just below the median when compared to industrial and service and national utilities market, supported by competitive base salary at or below market upper quartile Financial based KPIs within the annual bonus are set with close regard to Ofwat's determination, ensuring that we closely manage our performance within the regulatory limits Customer focused KPIs form a substantial part of the annual bonus scorecard
Employee alignment	The Remuneration Committee aims to ensure that the executive salary movement is aligned to the rest of the workforce The performance scorecard is used for the annual bonus throughout the company KPIs within the annual bonus for all employees include health and safety, engagement and training compliance factors
Environment performance	KPIs within the annual bonus for all employees include environmental factors
Financial performance	A variety of financial KPIs are used within the annual bonus plan with the aim of maximising returns to our shareholder

The Remuneration Committee continues to monitor the variable pay arrangements for the Executive Directors and senior managers The Remuneration Committee believes that the arrangements are appropriately managed and that the choice of performance measures and targets does not encourage undue risk taking by the executives so that the long-term performance of the business is not put at risk by considerations of short-term value The arrangements incorporate a range of internal and external performance metrics, measuring both operational and financial performance providing a rounded assessment of overall company performance to ensure that a significant portion of executive remuneration is performance-related

Remuneration Arrangements for Executive Directors
The remuneration arrangements for the Executive Directors comprise the following elements

- basic salary
- bonus
- pension plan
- car and health benefits
- share option scheme of the parent company YTL Power International Berhad

A detailed explanation of each of these follows and the table below highlights some of the elements

Component	Colin Skellett Executive Chairman	Sean Cater Director	David Elliott Director	Andy Pymer Director	Mark Watts Director
Target bonus (% of salary)	40	40	40	40	40
Maximum bonus (% of salary)	80	80	80	80	80
Actual bonus (% of salary)	42	51	50	59	55
Share options (maximum)	Approved 87,000 Unapproved 1,913,000	Approved 87,000 Unapproved 913,000	Approved 87 000 Unapproved 913,000	Approved 87,000 Unapproved 913,000	Approved 87,000 Unapproved 913,000
Pension arrangement	Defined benefit	Defined benefit	Defined benefit	Defined benefit	Defined benefit

Benefits	Company car benefit based on list price and CO_2 emissions, fuel benefit £4,078, private medical insurance £1 634 (family)

Base Salaries and Benefits
Executive Directors' remuneration is reviewed annually by the Remuneration Committee and takes effect from 1 April Salaries are set with reference to individual performance, experience and contribution, together with development in the relevant employment market (having regard to the upper quartile position for similar roles in the relevant employment market) and internal relativities

The Remuneration Committee gives due consideration to the current economic climate and current market practice regarding executive salary reviews and the broader employee salary review policy at the company

The Remuneration Committee has reviewed salaries and determined that salaries for all Executive Directors would be increased by 2 15% from 1 April 2013 This increase was in line with the agreed increase across the rest of the company

Executive Directors' Bonuses - 2012-13 Scheme
The annual bonus of Executive Directors is performance-related and designed to promote the long-term success of the company It is dependent on the achievement of company, team and individual targets In the case of Executive Directors these targets are weighted as 60% company, 20% team and 20% individual The company targets are 22 key performance indicators covering financial measures, customer service and efficiency measures, asset performance, and environmental and employee matters

Financial – profit after corporation tax / operational costs / net capital expenditure / cash flow before dividends / equity return

Service – Service Incentive Mechanism – customer satisfaction / Service Incentive Mechanism – customer contact / drinking water quality / customer service rating / operating cost comparative performance

Asset – regulatory outputs / serviceability / security of supply / leakage

Environmental – energy usage / energy self-generation / sewage treatment compliance / bathing water quality / pollutions category 1 2 and 3

Employees – reportable injuries / employee rating of company / compliance with training plan

In the year to March 2013, 19 of the 22 company targets were achieved or bettered Those not achieved were in respect of energy usage, energy self-generation and bathing water quality all of which were adversely affected by the unusual weather conditions during the financial year

The bonus payments are shown within the table of directors' emoluments on page 25 Annual bonus payments to Executive Directors are not pensionable

Bonus Arrangements for 2013-14
The Remuneration Committee regularly reviews the target and maximum bonus levels of Executive Directors, to ensure that they are in line with industry standards

Pensions
Executive Directors are members of the Wessex Water defined benefit pension scheme The scheme is a HMRC registered defined benefit occupational pension scheme The Executive Directors are members of the WPS section which provides

- a normal retirement age of 65 years
- a pension at normal retirement age based on 1/60th of completed pensionable service and final pensionable salary
- life cover of four times basic salary including bonus
- a pension payable in the event of retirement on grounds of ill health
- a dependent's pension on death of two thirds of the member's pension
- guaranteed increases in line with price inflation (subject to a maximum of 5% each year)

Members' contributions are payable at the rate of 8% of basic salary with the company making a further 18 2% contribution Early payment of pension is available from age 55 with the consent of the company Any pension would be subject to a reduction, based on rates the trustees consider appropriate, acting on actuarial advice, to reflect the expected longer payment of the pension

In the event of incapacity, an unreduced pension is payable immediately Incapacity pensions can be paid on either a "partial" or 'full ill health" basis depending on the conditions met A full ill health pension is topped up to give additional service to age 65, subject to a maximum of 20 years

Under the Trust Deed and Rules, pensions in payment in excess of any guaranteed minimum pension are guaranteed to increase in line with price inflation subject to a maximum of 5% each year In the calculation of individual cash equivalent transfer values, allowance is made for such increases

As a result of the changes in pension legislation for high earners, WWSL has introduced the following options for individuals under age 55 who are affected by the tax changes

- continue in the scheme, with individuals meeting any tax liabilities as they fall due, or
- continue in the scheme with a capped pensionable salary which restricts pension growth to the annual allowance limit (£50,000 pa) and receive a cash supplement in lieu of pension entitlement on the excess salary The cash supplement is based on the employer contribution rate to the scheme, currently 18 2%

Of the current executive directors, Mark Watts received a cash supplement of 18 2% of excess salary above the capped salary for pension purposes

Executive Directors' Service Contracts

Provision	**Summary**
Notice period	12 months from either party
Termination payment	Theoretical maximum payment in the case of redundancy of 100% of salary (inclusive of allowances, benefits) plus redundancy payment
Change of control	There are no specific contractual payments or benefits which would be triggered in the event of a change in control of the company

Executive Directors	**Date of current agreement**	**Date of appointment as Executive Director**
Sean Cater	11/06/2007	11/06/2007
David Elliott	11/06/2007	11/06/2007
Andy Pymer	01/08/2012	01/08/2012
Colin Skellett	01/01/2006	01/09/1989
Mark Watts	16/03/2010	16/03/2010

Non-Executive Directors

The remuneration policy for Independent Non-Executive Directors is determined by the Board The remuneration reflects the time commitment and responsibilities of the role The breakdown of the Independent Non-Executive Directors' fees from 1 July 2012 is shown in the Directors' Emoluments table below

Independent Non-Executive Directors do not participate in share or bonus schemes or any other performance-related scheme, nor is any pension provision made

Independent Non-Executive Directors are normally appointed for three-year terms (subject to statutory provisions relating to the removal of a director) that may be renewed They do not have service contracts but their terms of engagement are regulated by letters of appointment (copies of which are available on the company's website)

Any term beyond six years for an Independent Non-Executive Director is subject to particularly rigorous review and takes into account the need for progressive refreshing of the Board balanced against the requirement for skills, experience, independence and knowledge

Directors' Emoluments

	Salary £000	Loss of office £000	Bonus £000	Benefits £000	Total before pension contributions £000	Pension contributions £000	**Total 2012-13 £000**	Total 2011-12 £000
Colin Skellett	330	-	137	22	489	-	**489**	490
David Barclay	80	-	-	-	80	-	**80**	72
Lesley Bennett	-	-	-	-	-	-	-	25
Gillian Camm	55	-	-	-	55	-	**55**	35
Sean Cater	175	-	88	13	276	32	**308**	301
Peter Costain	80	-	-	-	80	-	**80**	72
Julian Dennis	54	132	-	5	191	-	**191**	230
David Elliott	171	-	85	15	271	31	**302**	300
Jonathan Porritt	9	-	-	-	9	-	**9**	51
Andy Pymer	134	-	57	15	206	24	**230**	-
Fiona Reynolds	50	-	-	-	50	-	**50**	-
Mark Watts	167	-	84	13	264	28	**292**	275
Total	1,305	132	451	83	1,971	115	**2,086**	1,851

Notes

1 There were no emoluments earned or paid to the Non-Executive Directors appointed by the shareholder
2 Andy Pymer and Fiona Reynolds from 1 August 2012
3 Jonathan Porritt to 1 August 2012 and Julian Dennis to 28 November 2012
4 The following directors received emoluments for their services to other group companies
Colin Skellett £222k
Mark Watts £152k
Sean Cater £129k

Executive Directors' Defined Benefit Pension Provision

	Pension service completed in years (including transfers in and bonus years)	**Accrued pension at 30 June 2012 £pa**	**Increase in accrued pension during year £pa**	**Accrued pension at 30 June 2013 £pa**
Sean Cater	22	55,595	5 554	61,149
David Elliott	24	84 624	5 582	90,206
Andy Pymer	22	51,132	4 421	55,553
Colin Skellett (1)	41	157 457	4 822	162 279
Mark Watts	24	70,713	5 497	76,210

(1) Pension in payment

Executive Directors Share Interests

Share Options

YTL Power International Berhad (the parent company and itself a subsidiary of YTL Corporation Berhad) operates a share option scheme under which options are granted to employees of the company The terms of the scheme are specified under the YTL Power ESOS (2011 UK part) known as the 2011 UK Plan The majority of options are issued under terms approved by HMRC (the 'Approved' scheme) but some are 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

The Executive Directors have been granted ordinary share options of Malaysian Ringgit RM0 50 each in YTL Power International Berhad under the 2011 UK Plan

Approved options were granted at an exercise price of RM1 65 and unapproved at RM1 49 The share price at 30 June 2013 was RM1 60 or £0 33

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

Share Warrants

YTL Power International Berhad issued share warrants in 2008 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 at an exercise price of RM1 21 over a period of 10 years

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

Shares Held

The Executive Directors held the following ordinary shares of YTL Power International Berhad at the start and end of the accounting period

	At 30 June 2012	Purchased	Sold	At 30 June 2013
Mark Watts	333,353	-	-	333 353
David Elliott	81,253	-	-	81,253
Andy Pymer	51 253	-	-	51 253

EMPLOYMENT

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

SUSTAINABILITY

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

ENVIRONMENT POLICY

The company protects, conserves and improves the environment and operates in a socially responsible manner Working practices are continually revised as improved techniques and technologies become available The environment policy is reviewed annually

ETHICAL POLICY

We are determined to maintain our reputation as a 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

RESEARCH AND DEVELOPMENT

The company 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 company exceeds the book value of these assets at 30 June 2013

CHARITABLE DONATIONS

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

SUPPLIER PAYMENT POLICY

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

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 company'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 company's auditor is aware of that information

RE-APPOINTMENT OF AUDITOR

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

Andrew J Phillips

By order of the Board
A J Phillips - Company Secretary
Claverton Down
Bath, BA2 7WW
13 September 2013

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

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

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

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

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

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

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

We have audited the financial statements of Wessex Water Services Ltd for the year ended 30 June 2013 set out on pages 30 to 47 The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice)

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

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 28, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 30 June 2013 and of its profit for the year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

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

PROFIT AND LOSS ACCOUNT
For the year to 30 June 2013

	NOTE	Year to 30 06.13 £m	Year to 30 06 12 £m
Turnover	2	499 7	474 6
Operating costs	3	(274 6)	(257 3)
Operating profit	2	225 1	217 3
Interest payable and similar charges	4	(84 5)	(84 4)
Interest receivable	4	2 4	1 8
Other finance charges	4	(2.3)	(1 2)
Profit on ordinary activities before taxation		140 7	133 5
Taxation on profit on ordinary activities	5	(12 5)	(49 9)
Profit for the financial year		128 2	83 6

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

The accompanying notes on pages 33 to 47 are an integral part of this profit and loss account

BALANCE SHEET
30 June 2013

	NOTE	30 06 13 £m	30 06 12 £m
Fixed assets			
Tangible assets	8	2,185 4	2,084 2
Investments	9	-	-
		2,185 4	2,084 2
Current assets			
Stock and work in progress	10	6 8	6 6
Debtors	11	166 7	163 9
Short-term cash investments	12	144 7	173 0
		318 2	343 5
Creditors - amounts falling due within one year	13	(204.3)	(239 9)
Net current assets	1a	113 9	103 6
Total assets less current liabilities		2,299.3	2,187 8
Creditors - amounts falling due after more than one year	14	(1,888 5)	(1,762 7)
Provisions for liabilities	15	(104 7)	(123 1)
Retirement benefit obligations	16	(88 9)	(104 5)
Deferred income	17	(17 1)	(17 7)
Net assets	2	200 1	179 8
Capital and reserves			
Called up equity share capital	18	81 3	81 3
Profit and loss account	19	118 8	98 5
Shareholders' funds		200.1	179 8

The accompanying notes on pages 33 to 47 are an integral part of this balance sheet
The financial statements were approved by the board of directors on 13 September 2013 and signed on its behalf by

M T Watts
Director

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
For the year to 30 June 2013

	NOTE	Year to 30 06 13 £m	Year to 30 06 12 £m
Profit for the financial year		**128.2**	83 6
Actuarial gain / (loss) recognised in the pension scheme	19	**16.5**	(72 2)
Deferred tax arising on actuarial gain / (loss) in the pension scheme	19	**(5 1)**	16 1
Total recognised gains and losses relating to the financial year		**139 6**	27 5

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS
For the year to 30 June 2013

		Year to 30 06 13 £m	Year to 30 06 12 £m
Opening shareholders' funds		**179 8**	300 2
Profit attributable to shareholders		**128 2**	83 6
Dividends	7	**(119.3)**	(147 9)
Actuarial gain / (loss) recognised in the pension scheme	19	**16.5**	(72 2)
Deferred tax arising on actuarial gain / (loss) in the pension scheme	19	**(5 1)**	16 1
Closing shareholders' funds		**200 1**	179 8

The notes on pages 33 to 47 are an integral part of these financial statements

NOTES TO THE ACCOUNTS
For the year to 30 June 2013

1 **Accounting policies**

a **Basis of preparation**

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

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

The directors have considered the financial position of the company and have concluded that it will be able to meet its 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

The company is exempt by virtue of section 400 of the Companies Act 2006 from the requirement to prepare group financial statements The financial statements present information about the company as an individual undertaking and not about its group

b **Turnover**

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 premesis are unoccupied or where no services are provided charges are not raised and no turnover is recognised

c **Tangible fixed assets and depreciation**

Tangible fixed assets comprise infrastructure assets and other assets

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

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

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

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

d **Leased assets**

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease The assets are depreciated over the shorter of their estimated useful lives and the period of the lease

e **Investments**

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

1 **Accounting policies (continued)**

f **Grants and contributions**

Grants and contributions in respect of specific expenditure on non-infrastructure fixed assets are treated as deferred income and recognised in the profit and loss account over the expected useful economic lives of the related assets (note 17) Grants and contributions relating to infrastructure assets have been deducted from the cost of those assets This is not in accordance with the requirements of the Companies Act 2006 which requires assets to be stated at their purchase price or production cost, without deduction of grants and contributions which would be accounted for as deferred income The departure from the requirement of the Act is, in the opinion of the directors, necessary to give a true and fair view This is because infrastructure assets are not depreciated directly and accordingly the related grants and contributions would not be recognised through the profit and loss account The effect on the value of fixed assets is disclosed in note 8

g **Stock**

Stock and work in progress are stated at cost less any diminution in value In respect of work in progress, cost includes labour, materials and attributable overheads

h **Foreign currency**

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

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

i **Research and development**

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

j **Taxation**

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

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

k **Pensions**

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

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

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

l **Cash flow**

Under Financial Reporting Standard 1 (revised 1996) the company is exempt from the requirement to prepare cash flow statements on the grounds that a parent undertaking includes the company in its own published consolidated financial statements

m **Joint arrangements**

The company has certain contractual arrangements with other participants to engage in joint activities that do not create an entity carrying on a trade or business of its own The company includes its share of assets, liabilities and cash flows in such joint arrangements in the financial statements

1 **Accounting policies (continued)**

n **Finance costs**

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

o **Debt**

Debt is initially stated at the amount of the net proceeds after the deduction of issue costs The carrying amount is increased by the finance cost in respect of the accounting year and reduced by payments made in the year The finance cost of debt is allocated to periods over the term of the debt at a constant rate on the carrying amount

p **Interest rate instruments**

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

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

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

r **Share-based payments**

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

2 Segmental analysis

Substantially all of the turnover operating profit and net assets derive from the United Kingdom

	Year to 30 06 13 £m	Year to 30 06 12 £m
a Turnover		
Regulated	492 5	469 1
Intra group	7 2	5 5
	499 7	474 6
b Operating profit		
Regulated	225 1	217 3
Intra group	-	-
	225.1	217 3
c Net assets		
Regulated	200.1	179 8
Intra group	-	-
	200 1	179 8

3 Operating costs

	Year to 30 06 13 £m	Year to 30 06 12 £m
Manpower costs (note 6b)	52.6	48 3
Materials and consumables	27.2	27 3
Other operational costs	72 5	65 3
Depreciation	122 5	116 5
Amortisation of grants and contributions	(0 7)	(0 8)
Loss on disposals of fixed assets	0 5	0 7
	274 6	257 3
Operating costs include		
Operating leases for plant and machinery	1.5	1 2
Research and development	0 1	0 1
Directors' remuneration	2 1	1 9

	Year to 30.06.13 £000	Year to 30 06 12 £000
Auditor's remuneration		
Audit of these financial statements	144	178
Tax compliance services	14	14
Other tax advisory services	21	84
All other services	1	17
	180	293

		Year to 30 06 13 £m	Year to 30 06 12 £m
4	**Net interest payable**		
	Interest payable		
	To fellow subsidiary undertakings	**80.0**	76 9
	On bank loans	**3.9**	6 5
	On finance leases	**0.6**	1 0
	Total interest payable	**84.5**	84 4
	Interest receivable on short-term deposits	**(2.4)**	(1 8)
	Other finance charges	**2.3**	1 2
	Net interest payable	**84 4**	83 8
5	**Taxation**		
a	Analysis of charge in the year		
	Corporation tax		
	UK corporation tax at 23 75% (2012 – 25 5%)	**31.1**	31 6
	Adjustments in respect of previous years	**(1 4)**	(10 8)
	Total corporation tax charge	**29 7**	20 8
	Deferred tax – current year		
	Origination and reversal of timing differences	**(7.5)**	(18 1)
	(Increase) / decrease in discount	**(10.3)**	40 3
		(17 8)	22 2
	Deferred tax – prior year		
	Origination and reversal of timing differences	**1 0**	8 4
	(Increase) in discount	**(0 4)**	(1 5)
		0.6	6 9
	Total deferred tax (credit) / charge	**(17.2)**	29 1
	Taxation charge on profit on ordinary activities	**12.5**	49 9
b	Current tax reconciliation		
	Profit on ordinary activities before tax	**140.7**	133 5
	Current tax at 23 75% (2012 – 25 5%)	**33 4**	34 0
	Group relief for nil consideration	**(1 7)**	(1 7)
	Adjustments in respect of previous years	**(1 4)**	(10 8)
	Capital allowances for the year less than depreciation	**2.3**	3 1
	Payment of lease creditor capital	**(1 6)**	(1 7)
	Other timing differences	**(1.3)**	(2 1)
	Total corporation tax charge - as above	**29.7**	**20 8**

c On 20 March 2013 the Chancellor announced the reduction in the corporation tax rate to 20% with effect from 1 April 2015 but these changes were not substantially enacted by 30 June 2013 Had this change been enacted at the balance sheet date the deferred tax provision (note 15) would have reduced by £15 8m to £88 7m and the deferred tax asset (note 16) would have decreased by £3 4m to £22 8m

6 Directors and employees

		Year to 30 06 13 £m	Year to 30 06 12 £m
a	Total employment costs of the company were		
	Wages and salaries	62 3	57 6
	Social security costs	5.6	5 1
	Other pension costs	10.8	9 5
		78.7	72 2
b	Total employment costs are charged as follows		
	Capital schemes	20 7	17 9
	Infrastructure renewals expenditure	5 4	6 0
	Manpower costs (note 3)	52 6	48 3
		78.7	72 2

		Year to 30 06.13 £000	Year to 30 06 12 £000
c	Directors' remuneration		
	Total remuneration (including benefits in kind)	2,086	1,851
	Highest paid director (including benefits in kind)	489	490

			30 06 13 number	30 06 12 number
d	Monthly average number of employees during the year	- Billing Services	332	353
		- All other staff	1,806	1,675
		- Total	2,138	2 028

7 Dividends

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

	Year to 30 06.13 £m	Year to 30 06 12 £m
Final dividend in respect of a prior year but not recognised as a liability in that year on 81,350,000 ordinary shares (2012 – 26 61p)	-	21 7
Dividends in the year 118 01p per share on 81,350,000 ordinary shares (2012 – 126 55p)	96 0	102 9
Final dividend of 28 67p per share on 81,350,000 ordinary shares (2012 – 28 67p)	23 3	23 3
	119.3	147 9

8 **Tangible fixed assets**

	Freehold land & buildings	Infra-structure assets	Plant machinery & vehicles	Other assets	Payments on account & assets in course of construction	Total
	£m	£m	£m	£m	£m	£m
Cost						
At 1 July 2012	677 7	1,270 0	1,191 6	108 7	101 1	3,349 1
Additions	6 4	77 1	49 7	4 2	93 9	231 3
Transfers on commissioning	18 3	8 9	38 5	2 0	(67 7)	-
Disposals	(0 2)	-	(11 4)	(0 5)	-	(12 1)
Grants and contributions	-	(5 8)	-	-	-	(5 8)
At 30 June 2013	**702.2**	**1,350.2**	**1,268 4**	**114.4**	**127 3**	**3,562 5**
Depreciation						
At 1 July 2012	215 3	445 9	567 8	35 9	-	1,264 9
Charge for the year	13 8	44 6	57 4	6 7	-	122 5
Disposals	(0 2)	-	(9 6)	(0 5)	-	(10 3)
At 30 June 2013	**228 9**	**490 5**	**615 6**	**42 1**	-	**1,377.1**
Net book value						
At 30 June 2013	**473.3**	**859 7**	**652 8**	**72 3**	**127 3**	**2,185 4**
At 1 July 2012	462 4	824 1	623 8	72 8	101 1	2,084 2

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

Other assets include furniture and fittings, laboratory and other equipment

The net book value of assets held under finance leases is £38 7m (2012 - £45 0m)

The depreciation charge for the year on assets held under finance leases is £6 5m (2012 - £6 5m)

The net book value of infrastructure assets at 30 June 2013 is stated after the deduction of grants and contributions amounting to £133 3m (2012 - £127 5m) in order to give a true and fair view (note 1f)

Included in the cost of infrastructure assets is £502 6 m (2012 - £454 3m) of expenditure on maintaining the network, and £490 5m (2012 - £445 9m) of depreciation included in the profit and loss account

Included in freehold land and buildings above is an amount of £11 4m (2012 - £10 9m) in respect of land which is not depreciated

9 **Investments**

The company has an investment of £13 000 (2012 - £13,000) in 100% of the £1 ordinary shares of a subsidiary company Wessex Water Services Finance Plc

		30 06 13 £m	30 06 12 £m
10	**Stock and work in progress**		
	Raw materials and consumables	**2 6**	2 7
	Work in progress	**4 2**	3 9
		6 8	6 6
11	**Debtors**		
	Trade debtors	**61 4**	60 3
	Owed by fellow subsidiary undertakings	**30 0**	32 0
	Prepayments and accrued income	**69 0**	65 8
	Other debtors	**6 3**	5 8
		166.7	163 9
12	**Short-term cash investments**		
	Short-term bank deposits	**144.7**	173 0
		144 7	173 0

£44 7m of short-term bank deposits mature within 1 month £12 0m within 3 months, £46 0m within 4 months, £27 0m within 7 months and £15 0m within 9 months Interest receivable on short-term bank deposits is disclosed in note 4

13	**Creditors - amounts falling due within one year**		
	Bank overdraft	**16.5**	14 9
	Short term bank loans	**-**	50 0
	Obligations under finance leases	**7.8**	7 0
	Trade creditors	**9.0**	9 6
	Amounts owed to subsidiary undertaking	**30 7**	25 0
	Amounts owed to other group companies	**1 2**	0 8
	Dividends	**23 3**	23 3
	Other creditors	**2 4**	2 1
	Corporation tax	**17 7**	16 2
	Taxation and social security	**1 9**	1 9
	Accruals and deferred income	**93 8**	89 1
		204.3	239 9

14 Creditors - amounts falling due after more than one year

	30.06 13 £m	30 06 12 £m
Loans repayable - in more than 1 year, but not more than 2 years	-	-
- in more than 2 years, but not more than 5 years	100 0	100 0
- in more than 5 years	215 0	215 0
	315 0	315 0
Finance lease repayable - in more than 1 year, but not more than 2 years	8 6	7 8
- in more than 2 years, but not more than 5 years	31 9	29 1
- in more than 5 years	2 8	14 7
	43 3	51 6
Inter company loans - in more than 5 years	1,529 2	1,395 1
Other	1 0	1 0
	1,888.5	1,762 7

The inter company loans are due to a subsidiary company Wessex Water Services Finance Plc in respect of the proceeds of the following bond issues lent to the company

	30.06 13 £m	30 06 12 £m
Bond at 5 375% repayable in March 2028	198 4	198 3
Bond at 5 75% repayable in October 2033	346 4	346 2
Bond at 4 0% repayable in September 2021	305 4	197 5
Index linked bond at 3 52% plus inflation repayable in July 2023	69.5	66 7
Index linked bond at 2 186% plus inflation repayable in June 2039	58.0	56 2
Index linked bond at 1 75% plus inflation repayable in July 2046	93.5	89 7
Index linked bond at 1 75% plus inflation repayable in July 2051	93 6	89 8
Index linked bond at 1 369% plus inflation repayable in July 2057	93.5	89 8
Index linked bond at 1 374% plus inflation repayable in July 2057	93 6	89 8
Index linked bond at 1 489% plus inflation repayable in November 2058	59.1	57 0
Index linked bond at 1 495% plus inflation repayable in November 2058	59.1	57 0
Index linked bond at 1 499% plus inflation repayable in November 2058	59.1	57 1
	1,529.2	1 395 1

15 Provisions for liabilities

	Deferred tax £m	Restructuring costs £m	Total £m
At 1 July 2012	123 0	0 1	123 1
Utilised during year	-	(0 1)	(0 1)
Provided in year	-	0 2	0 2
Origination and reversal of timing differences	(7 7)	-	(7 7)
Increase in discount	(10 8)	-	(10 8)
At 30 June 2013	**104 5**	**0 2**	**104 7**

Restructuring costs relate to the severance costs of a redundancy programme announced in the year

15 **Provisions for liabilities (continued)**

	30 06 13 £m	30 06 12 £m
The elements of deferred taxation are as follows		
Accelerated capital allowances	**253 3**	261 2
Other timing differences	**(0 4)**	(0 6)
Undiscounted provision for deferred tax	**252 9**	260 6
Discount	**(148 4)**	(137 6)
Discounted provision for deferred tax	**104 5**	123 0

16 **Pensions**

	30 06 13 £m	30 06 12 £m
FRS 17 pension liability (see note 16e)	**113 9**	135 8
FRS 17 deferred tax asset	**(26 2)**	(32 6)
Unfunded and compensatory added years pension	**1 2**	1 3
	88.9	104 5

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

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

b The total pension cost for the year under FRS 17, including amounts set aside for early retirees and other finance income, was £13 1m (2012 - £10 7m) Actuarial gains and losses have been recognised in the period in which they occur through the Statement of Total Recognised Gains and Losses

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

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

d The actuarial valuation described above has been updated at 30 June 2013 by a qualified actuary using revised assumptions that are consistent with the requirements of FRS 17 Investments have been valued for this purpose, at fair value The major assumptions used by the actuary were

	30 06 13	30 06 12
Rate of increase in salaries - short term	**2.15 to 3 4%**	2 5%
Rate of increase in salaries - long term	**4 2%**	3 8%
Rate of increase in pensions in payment	**2.4% or 3 2%**	2 3% or 2 9%
Rate of increase in pensions in payment - reduced level members	**2.2%**	2 1%
Discount rate	**4 6%**	4 4%
Inflation assumption - RPI	**3 4%**	3 0%
Inflation assumption - CPI	**2 4%**	2 3%

The mortality assumptions are based upon the recent actual mortality experience of members within the scheme and the assumptions also allow for future mortality improvements The assumptions are that a member currently aged 60 will live, on average, for a further 27 1 years if they are male, and for a further 28 9 years if they are female For a member who retires in 2033 at age 60 the assumptions are that they will live, on average for a further 28 7 years after retirement if they are male, and a further 30 5 years after retirement if they are female

16 **Pensions (continued)**

Sensitivity analysis
The calculation of the defined benefit obligation is sensitive to the assumptions set out above A reduction in the discount rate of 0 1% from 4 6% to 4 5% would increase the scheme liabilities by £9 2m from £536 0m to £545 2m, increasing the scheme deficit to £123 1m An increase in the inflation assumption of 0 1% (from 2 4% to 2 5% for CPI and 3 4% to 3 5% for RPI) would increase the scheme liabilities by £8 0m from £536 0m to £544 0m, increasing the scheme deficit to £121 9m

e The value of the assets and liabilities were as follows

	30 06 13 £m	30 06 12 £m
Equities	**188 8**	172 2
Property	**45 2**	26 6
Government Bonds	**108.8**	98 2
Corporate Bonds	**78 9**	82 8
Cash	**0 4**	1 0
Total fair value of the assets	**422 1**	380 8
Present value of defined benefit obligations	**(536.0)**	(516 6)
Deficit in the scheme	**(113.9)**	(135 8)

The expected rates of return were as follows

	%	%
Equities	**7 8**	7.7
Property	**7 2**	6.7
Government Bonds	**3.3**	2 7
Corporate Bonds	**4 2**	3 6
Cash	**0 8**	1 6
	5 9	5 4

Narrative description of the basis used to determine expected value

Wessex Water Services Ltd employs a building block approach in determining the long-term rate of return on pension assets Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles The assumed long-term rate of return of each asset class is set out within this note The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation of the scheme as at 30 June 2013

f Additional analysis

	30 06 13 £m	30 06 12 £m
Analysis of profit and loss charge		
Current service cost	**10 6**	9 2
Past service cost	**0 2**	0 3
Interest cost	**22 6**	24 0
Expected return on scheme assets	**(20 3)**	(22 8)
Expenses recognised in the profit and loss account	**13 1**	10 7
Changes to the present value of defined benefit obligations during the year		
Opening present value of defined benefit obligations	**516 6**	431 6
Current service cost	**10 6**	9 2
Interest cost	**22 6**	24 0
Contributions by scheme participants	**0.2**	0 3
Actuarial losses on scheme liabilities	**2 7**	67 3
Net benefits paid out	**(16.9)**	(16 1)
Past service cost	**0.2**	0 3
Closing present value of defined benefit obligations	**536 0**	516 6

16 **Pensions (continued)**

	30.06 13 £m	30 06 12 £m
Changes to the fair value of scheme assets during the year		
Opening fair value of scheme assets	**380.8**	359 8
Expected return on scheme assets	**20 3**	22 8
Actuarial gains / (losses) on scheme assets	**19 2**	(4 9)
Contributions by the employer	**18 5**	18 9
Contributions by scheme participants	**0 2**	0 3
Net benefits paid out	**(16 9)**	(16 1)
Closing fair value of scheme assets	**422 1**	380 8

Actual return on scheme assets

Expected return on scheme assets	**20 3**	22 8
Actuarial gains / (losses) on scheme assets	**19 2**	(4 9)
Actual return on scheme assets	**39 5**	17 9

Analysis of amounts recognised in Statement of Total Recognised Gains and Losses

Total actuarial gains / (losses)	**16 5**	(72 2)
Cumulative amount of losses recognised	**(148 4)**	(164 9)

History of asset values, present value of liabilities, deficit in the scheme and experience gains and losses

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

	30 06 13 £m	30 06 12 £m
17 Deferred income		
Grants and contributions		
At 1 July	**17 7**	18 5
Received in the year	**0 1**	-
Less amortisation	**(0 7)**	(0 8)
At 30 June	**17.1**	17 7
18 Called up equity share capital		
81,350,000 ordinary shares of £1 each Allotted, called up and fully paid	**81 3**	81 3

	30 06 13 £m	30 06 12 £m
19 Profit and loss account		
At 1 July	**98 5**	218 9
Profit attributable to shareholders	**128.2**	83 6
Dividends (note 7)	**(119 3)**	(147 9)
Actuarial gains / (losses) net of taxation	**11 4**	(56 1)
At 30 June	**118.8**	98 5

20 Financial instruments

Short term debtors and creditors have been excluded from the financial instruments disclosure other than £144 7m of short term deposits (2012 - £173 0m) and £24 3m of short term borrowings (2012 - £71 9m)

The company has financed its activities through a combination of short term borrowings, long term loans and leases and bonds issued by its subsidiary company Wessex Water Services Finance Plc At 30 June 2013 there were no undrawn facilities (2012 - £25 0m)

a Interest rate and currency exposure

	Fixed rate borrowings 2013 £m	**Floating rate borrowings 2013 £m**	**Total borrowings 2013 £m**	Fixed rate borrowings 2012 £m	Floating rate borrowings 2012 £m	Total borrowings 2012 £m
Sterling	**1,529 2**	**237 9**	**1,767.1**	1,395 1	265 5	1,660 6

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

	Interest rate % 2013	**Period years 2013**	Interest rate % 2012	Period years 2012
Sterling	**3 8**	**24 9**	3 8	26 9

Floating rate borrowings with interest rates moving in line with LIBOR comprise £144 7m of short term deposits (2012 - £173 0m), £24 3m of short term borrowings (2012 - £71 9m) and £358 3m (2012 - £366 6m) of long term borrowings

b Fair values

	Book value £m 2013	**Fair value £m 2013**	Book value £m 2012	Fair value £m 2012
Borrowings less than 1 year	**(120 4)**	**(120 4)**	**(101 1)**	**(101 1)**
Floating rate borrowings over 1 year	**358.3**	**358 3**	**366 6**	**366.6**
Fixed rate borrowings over 1 year	**1,529 2**	**1,791 6**	**1,395 1**	**1,701 3**
	1,767.1	**2,029.5**	**1,660.6**	**1,966 8**

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

20 **Financial instruments (continued)**

c Movement in net debt

	1 July 2012 £m	Cash Flow £m	Non cash items £m	**30 June 2013 £m**
Short term cash investments	173 0	(28 3)	-	**144 7**
Bank overdraft	(14 9)	(1 6)	-	**(16 5)**
Short term loans	(50 0)	50 0	-	**-**
Loans repayable after one year	(315 0)	-	-	**(315 0)**
Finance leases repayable within one year	(7 0)	(0 8)	-	**(7 8)**
Finance leases repayable after one year	(51 6)	8 3	-	**(43.3)**
Bonds repayable after one year	(1,395 1)	(108 4)	(25 7)	**(1,529.2)**
	(1 660 6)	(80 8)	(25 7)	**(1,767.1)**

21 **Commitments and guarantees**

a There were £0 1m (2012 - £0 1m) of operating lease payments under leases on land and buildings due within the next year which expire in over 5 years There were no commitments under other operating leases

b Capital expenditure contracted but not provided at 30 June 2013 was £81 6m (2012 - £84 8m)

c The company has guaranteed Bonds of £1,529 2m (2012 - £1,395 1m) issued by its wholly owned subsidiary company Wessex Water Services Finance Plc

22 **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 49	0 22
01/06/2012 Approved	01/06/2015	31/03/2021	1 65	0 16

Under FRS 20 equity settled share-based payments are measured at the fair value at the date of the grant and the fair value is expensed on a straight line basis over the vesting period A charge of £0 7m was recognised in the profit and loss account for FRS 20 The 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 1 July 2012 and 30 June 2013

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

23 Contingent liabilities

There are no material contingent liabilities at 30 June 2013 for which provision has not been made in these financial statements

24 Related parties

There are no related party transactions requiring disclosure in these financial statements As the company is a wholly owned subsidiary of Wessex Water Ltd (note 25), the company has taken advantage of the exemption contained in FRS 8 Related Party Disclosures' and has therefore not disclosed transactions or balances with entities which form part of the group

25 Ultimate parent company

The smallest group into which the financial statements of the company are consolidated is that headed by Wessex Water Ltd, a company incorporated in England whose registered address is Wessex Water Operations Centre Claverton Down, Bath, BA2 7WW The ultimate parent company is YTL Corporation Berhad which is incorporated in Malaysia under the Companies Act 1965, whose registered address is Yeoh Tiong Lay Plaza, 55 Jalan Bukit Bintang, 55100 Kuala Lumpur, Malaysia Consolidated financial statements are available on request from both these addresses