Wessex Water Limited

Annual Report And Financial Statements
30 June 2017

Registered in England & Wales No. 2366633

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Strategic Report
A. Principal Activities

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

On 1 April 2017 all non-household customers of WWSL were able to choose their retailer for water services. From that date WWSL continued to offer wholesale services to those customers, but retail services were offered through Water 2 Business Ltd (owned by the Company and Bristol Water Holdings Ltd).

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

During the year the company made two acquisitions, Albion Water Ltd and Flipper Ltd. See sections G and H of the Strategic Report.

All subsidiary companies are listed in note 12.

B. Financial performance

Profit after tax decreased by £19.9m from £174.6m to £154.7m, due to the factors shown below.

Turnover increased by £23.8m or 4.3% from £547.5m to £571.3m. There were a number of factors for this increase, the price increase allowed by the regulator in respect of WWSL, growth in unregulated turnover of WWE and additional turnover consolidated from the retail company Water 2 Business.

Total expenses, excluding depreciation and amortisation, increased by £20.5m from £205.2m to £225.7m. In WWSL the increases in repair costs, site operations, pension costs and Environment Agency charges exceeded cost savings made, and there were additional costs consolidated from the retail company Water 2 Business. Depreciation and amortisation charges (including the disposal of assets) have increased by £3.6m from £104.6m to £108.2m.

Interest charges increased by £2.8m from £72.3m to £75.1m, as in WWSL there was an increase in the level of debt and the cost of debt also increased from 3.6% to 4.0%.

There was a £16.8m increase in taxation from a credit last year of £9.2m to a charge of £7.6m this year, comprising:

• an increase in the corporation tax charge of £1.7m from £24.7m to £26.4m. Despite the reduction in profit before tax and the reduced corporation tax rate from 20% to 19.75%, there was also a reduction in credits relating the prior year that caused the overall increase in corporation tax.

• deferred tax moving from a £33.9m credit last year to a £18.8m credit this year. There is a deferred tax credit in both years because the rate at which deferred tax is calculated has fallen from 20% at June 2015 to 18% at June 2016 and has fallen again to 17% at June 2017. This 2% reduction in the deferred tax rate was a credit of £38.3m last year and the 1% reduction in the deferred tax rate was a credit of £19.1m this year.

The cash outflow of £66.9m increased net debt from £1,887.8m to £1,954.7m comprised:

• cash flow from operating activities of £345.6m
• less net interest payments of £72.2m
• less tax payments of £23.6m
• less net capital investment of £184.9m
• less dividend payments of £102.5m, less a working capital and bond accrual outflow of £29.3m.

Dividends declared in the year amounted to £102.8m compared to £107.2m last year.

Under IAS 19 the pension scheme deficit of £158.7m at the start of the year has increased to £195.6m at 30 June 2017, the increase in the liabilities of £86.1m being more than the £49.2m increase in asset values.

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

Group operating profit as a percentage of turnover was 41.6% (2016 – 43.4%), the fall was due to the profit reduction and the dilution impact of the Water 2 Business trade, and interest cover fell to 3.2 times (2016 – 3.3 times) as net interest costs rose from the previous year.

Strategic Report (continued)

C. **Wessex Water Services Ltd** - some indicators are measured for the regulatory year to 31 March 2017

INTRODUCTION

At Wessex Water we thrive on finding new ways to deliver the best levels of service and environmental performance.

We provide some of life's most essential services to millions of people in our area and we constantly look for new ways to deliver these. This year we have been pioneering two new approaches, EnTrade and catchment permitting, both helping us to deliver environmental improvements at the lowest possible cost to our customers.

Finding better ways to deliver often involves working in partnership with others such as farmers, our customers and our regulators. We are very proud that with our great people and by forming strong partnerships with others we have once again achieved both industry leading customer service and environmental performance.

Excellent customer service

Our customers are at the heart of everything we do and we aim to provide an exceptional service experience that is inclusive and accessible to all.

We're one of only 10 companies in the UK to achieve the Institute of Customer Service's ServiceMark with distinction, the highest level of accreditation available to its 500-plus members.

We are one of only two water companies to commit to fixing as many reported leaks as possible within a single day – and this year we raised the bar to 70%.

We are committed to providing excellent quality drinking water and overall compliance in 2016 was 99.95%, and we now generate almost 30% of our total energy needs from the sewage that we process.

Resilience

Our services need to continue to be high quality in the face of both acute shocks and gradual stresses.

This year, by joining up our resources in a water grid we have avoided the need to develop new water resources to meet demand in the next 25 years. The grid also means that more of our customers have the added resilience of an alternative water supply should they need it.

This year we have also built more resilience into our system by helping customers to use water more wisely. We fitted efficient water devices and fixed faulty plumbing in more than 5,000 homes through our Home Check programme.

We are continuing our joint research programme with the University of Bath with whom we launched a water innovation and research centre based at the university. This helps to identify opportunities such as using the natural environment to help protect our rivers, lakes and estuaries.

Affordability

Affordability is important for our customers and therefore for us as we develop our future plans and proposals. Bills need to be affordable for all our customers.

We have kept average household bills flat since last year and have continued to work hard to support customers who are financially vulnerable and have difficulty paying. We are now helping more than 27,000 customers to pay ongoing charges and repay debt, as well as offering additional practical help to reduce water and energy bills.

It is 10 years since we introduced the industry's first social tariff and this year we introduced a new discount for customers receiving Pension Credit.

We provide help when and where it's needed most because we understand that anyone can find themselves vulnerable at any time through illness, unemployment or simply a change in circumstances like a bereavement or divorce.

Engaged communities

As a community business and one of the largest infrastructure investors in the region, it is important to us that individuals, households and community groups are engaged with their local water environment and actively support the delivery of our aims.

We have led the way with ideas like catchment permitting and gone further still by investing in a number of very innovative projects, some of which are industry firsts. In the Poole Harbour catchment we have run the first reverse auctions to encourage farmers to plant cover crops that reduce the amount of harmful nutrients leaking into the water.

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

Wessex Water's Young People's Panel brings the views of young adults into our decision making as we plan our future operations. To our knowledge this is the first 'youth panel' for this age group that a water company has organised. It is an innovative way of engaging young people, whereby we gain their insights and they gain real-life experience of a company, which also helps them develop their future careers. Some of their ideas have already been taken forward.

Our work with local schools allows us to showcase the work we do and encourage children to engage with the water environment around them.

Strategic Report (continued)

Our people

It takes great people and great teamwork to provide water and sewerage services to nearly three million customers, 24 hours a day, seven days a week. That's why we encourage and reward our employees for their contribution to achieving our aims.

We seek their ideas and put them into practice, celebrate success at our annual awards and encourage them to go the extra mile with our GEM scheme.

This year we launched our People Programme, a dedicated programme of initiatives to address current and future strategic people priorities in areas including resourcing, talent management, reward and recognition, future working, diversity and employee wellbeing.

Our apprenticeship strategy is proving successful for both the Company and the local community, offering secure employment opportunities across our region.

Financial results

Turnover for 2016-17 increased from £522m to £531m. Profit before tax was £158m (against £157m last year) and we achieved all our key financial targets in the year.

Dividends were declared in accordance with Board policy, which at all times is to preserve our investment grade credit ratings and access to new capital.

We continue to maintain a straightforward corporate structure, pay the expected level of corporation and other taxes and are classed by the Inland Revenue as low risk.

The future

We have now published our updated strategic direction document at www.wessexwater.co.uk/ourstrategy

In it we set out what we aim to deliver for customers, wider society and the environment. We explain our key priorities for the future, based on wide and ongoing conversations with our customers and stakeholders.

We have also set out the strategy by which we will deliver, focusing wherever possible on forming partnerships with others and harnessing market forces where they can help deliver more effectively and efficiently.

Our strategic direction is designed to inform both our water resources plan which runs to 2045, and our business plan proposals for service and environmental improvements to 2025.

This has been a great year for Wessex Water with achievements to be proud of in many areas. We look forward to continuing to innovate to help reduce cost, improve resilience and improve the essential services we provide.

CUSTOMERS AND COMMUNITIES

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

We achieve this by delivering what customers say is really important to them:

- excellent and reliable water and sewerage services at a price they can afford
- a service tailored to meet their individual needs
- choice and flexibility in the way they can communicate and interact with us
- a real person to answer the telephone
- resolving problems quickly and first time
- keeping them informed at all times using their channel of choice
- checking they are happy with the outcome if they have a problem
- compensating without quibble where things go wrong.

We encourage our staff to go the extra mile whenever they can and invite customers to let us know if we have done well or need to improve.

We remain the top performer in the water sector for customer service. This is the second year of Ofwat's new look service incentive mechanism (SIM) and we have again come top of all water and sewerage companies in the satisfaction surveys.

But we can't stand still. We want to become the best of the best, not just the best in the water industry, and we have challenges ahead of us:

- customer expectations continue to rise and they increasingly demand a more personalised and effortless service
- our future customers, the youth of today, will want a very different and increasingly digital customer service experience
- some areas of vulnerability are becoming more prevalent in society, such as mental ill health, and our staff need to be properly equipped to support our customers
- as we are very reliable, we are a silent provider to many, so we need to build stronger relationships with our communities.

We are rising to these challenges through our customer excellence programme, which is shortly entering its second year, and are also benefiting from our membership of the Institute of Customer Service.

Strategic Report (continued)

Customer service

Once again, we topped Ofwat's league table for satisfaction surveys. This is mirrored in our own satisfaction surveys where customers continue to score us highly on satisfaction, first-time resolution, staff conduct, knowledge and effort.

This year we implemented our real time feedback tool, allowing us to seek feedback on our service from more customers than ever. Under the guidance of our customer experience group, we use this information for continuous improvement of policies, processes, systems and training.

In terms of our performance commitments, 96% of our customers rate our service as very good or good. This is slightly below the long-term average and we are working hard to improve this.

Our value for money score has once again improved with 84% of customers rating our service as very good or good value for money. Our overall customer effort score has dipped slightly with 75% of customers saying it takes little or no effort to resolve their query, but the number saying it takes no effort at all has improved to 59%.

Compared with sectors outside water, our net promoter score compares favourably with many of the top household names. Our UK customer satisfaction index score shows we are towards the top of the utility sector and not far away from the top 50 companies across all sectors.

In September, the Consumer Council for Water confirmed that we continue to have the lowest number of complaints in the water industry – we have had no referrals this year to the water ombudsman, WATRS.

Day to day we are widening our use of alternative communication channels while remaining committed to offering personal telephone answering and, most importantly, choice for our customers. We have also extended our opening hours for operational contact and are seeing a growing number of customers opting for self-service, text messaging and Live Chat.

Keeping customers informed when we have problems on our network, such as a burst water main, or when we are fixing a problem at their own home or additional support to customers in vulnerable circumstances and this year they are in touch with more customers than ever before.

We've developed our metered bills so we are now able to provide graphical water use information. This will help customers compare their use over time and identify leakage.

Our billing customer relations staff have been through further training on adopting a more conversational style of writing, designed to make our replies to queries and complaints simpler, easier to understand, more personalised and overall more engaging. This has coincided with additional focus on complaints and root causes and the introduction of an improved two-stage, rather than three-stage, complaints process.

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

Our operational contact centre has achieved the Institute of Customer Service's ServiceMark with distinction, one of only 10 in the UK to achieve this accolade. We are about to enter the second year of our customer excellence programme, over the last year we've focused on:

- reviewing customer journeys from the customer's perspective and fixing any problem areas
- improving our communications
- developing better feedback tools and metrics
- improving our self-service offering
- reviewing all our community work
- extending our opening hours

Over this year, projects include a new and improved contact management system, a customer self-service portal and improved signage.

Customer engagement

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

Our challenge group, the Wessex Water Partnership, oversees all our engagement and how it is used. It has met six times and is independently chaired by Dan Rogerson, formerly water minister in the coalition government.

Our engagement strategy – Your say, your future – continues to develop and this year we've conducted major pieces of research to inform our long-term, 25-year vision, obtain customers' views on paying for changes in service levels and their opinions on the resilience of our services.

We successfully launched our Young People's Panel of 21 sixth formers recruited from schools and colleges across our region. These are our future customers and it has been invaluable to hear about their priorities for service, their views on our day-to-day service offering now and in the future, and on topics such as resilience, intergenerational fairness and affordability.

Our Have your say online customer panel continues and this year we sought its views on:

- our 25-year vision
- our customer magazine
- experience of drought.

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

Strategic Report (continued)

Customers in vulnerable circumstances

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

We pride ourselves on treating customers as individuals and tailoring our service to suit their needs, making sure we are inclusive and accessible to all. We have retained the British Standard for inclusive services provision (BS 18477) and the Louder than Words charter mark.

We have made sure staff have the right skills, confidence and awareness to deal with often quite complex situations and strengthened this with specialist training. Alongside Wiltshire Mind, we enhanced our training material for field staff by developing videos to support our Going the Extra Mile (GEM) programme and to help them spot the signs of mental ill health and how to support customers, colleagues, friends and family.

We are also an active member of the British Gas task force aimed at encouraging utilities to become dementia friendly and intend to make all our staff Dementia Friends over the next two years. We hold registers of customers with longer term disabilities or additional needs and, as they are likely to need the same support from their energy provider, we are doing all we can to signpost customers to other utilities. This year we renamed this service Priority Services, in line with energy companies.

Through our assistance programme, tap, we continue to support those who are financially vulnerable. We are now helping more than 27,000 customers to pay ongoing charges and repay debt, while offering practical help to reduce water and energy bills – this represents a 28% increase over the year.

Around 10,000 customers are in receipt of our main social tariff, Assist, which offers discounts of up to 90% off water charges for those in the greatest financial hardship. A further 3,000 pensioners on Pension Credit are receiving a discount of around 20% on their bills.

Our partnerships with the debt advice community are thriving and we continue to believe that holistic advice is vital to help customers get back on track and into sustainable payment – it's never just about water debt. We are also liaising with a growing number of community based organisations outside the debt advice sector and using geographical mapping to help us engage with customers who are traditionally much harder to reach and likely to be some of the most vulnerable.

We have also launched five new projects in hard to reach areas such as deprived housing estates. We continue to support financial capability and money management projects in our communities, funding a further four this year through our Money Matters awards.

Community and education

We are committed to helping customers reduce water usage at home and use numerous methods to help them with their water use, attending summer shows around our region to encourage them to Be Smart about water.

Last year we were at Yeovilton Air Day in Somerset inviting people to find out how to save water and money by learning more about our Be Smart love your loo campaign.

We were at the Bournemouth Air Festival answering questions and telling visitors about water saving initiatives in their homes and gardens.

In September we attended Dorset County Show spreading information about our Be Smart switch to a meter programme, as well as environmental initiatives.

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

The advisers welcomed students to eight education centres across our region where the experience included a guided tour of the works and opportunities for hands-on practical work in or around the education centres.

During the last year, 29,104 students benefited from school visits and trips to water and sewage treatment works.

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

Last year awards included one to help a Somerset school with its swift nesting box project and another to aid a project to save a rare butterfly – the Duke of Burgundy.

Groups and organisations in Dorset, Wiltshire and Somerset with environmental and wildlife projects in areas along our water supply grid scheme received funding for environmental initiatives through our grid community awards. The awards helped restore a historic pond in Dorchester and supported Wiltshire Bat Group to purchase new monitoring equipment to study a rare species of bat.

Market opening

In April 2017, the retail market opened to enable non-household customers to choose their retailer for water services.

To meet this challenge we delivered our Open Water programme to ensure we operated effectively, compliantly and on budget in the new market. This was achieved through a strategy of providing a wholesale service which is 'best for business and right for retail'. This meant continuing to supply excellent water quality, great sewerage standards and industry leading customer service to retailers and their customers.

We were also able to test our approach in the shadow market – a practice run before the official opening – which ran from October 2016 to March 2017.

From 1 April 2017 the non-household customers were transferred to a retail company Water 2 Business Ltd which is owned by Wessex Water Ltd and Bristol Water Holdings Ltd.

Strategic Report (continued)

Water and sewerage

Our service delivery and investment plans focus on our outcomes; the results of our consultations with customers and other stakeholders.

Highest quality drinking water

We are committed to providing the highest quality drinking water to our customers. Our overall compliance with drinking water standards in 2016 was 99.95%, marginally below our long-term performance.

In 2016, there were 23 failures out of approximately 34,000 tests, of which 20 were due to domestic plumbing and service pipe issues such as lead pipes, nickel taps and copper plumbing. The remaining three exceedances were related to our own iron water mains.

There was a further reduction in the number of customer contacts about acceptability of water due to the ongoing benefit of our mains rehabilitation work and improved customer communications.

Sewage flooding minimised

Sewage flooding is a rare occurrence but when it does happen it can be devastating – so tackling it remains a key objective.

The number of flooding incidents caused by blockages in public sewers fell further, down to 1.20 incidents per 10,000 properties compared to our target of 1.72.

This was the result of:

- our campaigns about the problems caused by flushing wet wipes down toilets and pouring fat down sinks
- optimising operational maintenance
- the generally dry weather conditions in the region last year.

Members of the public are being misled by advertising and labelling related to certain wet wipes and other products branded as 'flushable'. Following our complaint to the Advertising Standards Authority, it decided that this issue did not sit within its area of enforcement, but the action was successful in raising public awareness.

In 2015, we introduced a new and innovative measure of overall flood risk due to inadequate capacity, which could potentially cause internal or external flooding. Last year we invested £9m to reduce this risk at 99 locations, but we have narrowly missed the target. We expect to complete a large project at Brent Knoll in the first half of 2017-18, which will put us on course to meet the target.

The responsibility for flooding is often complex and we work with local authorities as they produce surface water management plans and sustainable strategies for flood management. We were consulted more than ever before, attending more than 100 liaison meetings. Together with Wiltshire Council and the Environment Agency we are trialling a shared resource to review planning applications in Wiltshire.

We have contributed a further £50k towards the partnership scheme to reduce flooding at Cannington in Somerset and £25k towards a sustainable partnership scheme in Southmead, Bristol.

Resilient services

Our asset management framework continues to help us maintain a truly integrated approach to risk and investment decision making. Last year we were recertified to the international standard for asset management, ISO55001:2014.

During the year we carried out an assessment of the resilience of our business, assets and services. The methodology we use assesses the status of our systems and processes and identifies improvements; it also provides a consistent framework to manage progress. We will carry out the assessment annually.

In 2010, we began work on our biggest ever project, a major integrated water supply grid, and it remains on track for completion in 2018. Once fully operational it will enable us to:

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

All the major pipelines have been laid and work is well advanced on the final parts of the scheme at Black Lane in Blandford and Codford, near Warminster. For the first time ever we have transferred water between our southern and northern resource zones, thus delivering some of the benefits of the scheme in advance of the target date.

This year we have reduced the number of properties supplied by a single source by a further 30,000, ahead of the agreed programme.

On the sewer network our infiltration reduction plans continue to reduce the risk of groundwater entering public and private sewers and drains. We proactively inspected more than 90 km of sewers and permanently sealed 5.2 km of leaking sewers.

Strategic Report (continued)

ENVIRONMENT

Our region has many of the country's finest rivers and streams and we are focused on working with other stakeholders in continuing to protect and improve their condition.

By cutting leakage and managing customer demand and working with communities where there is concern about local effects of abstraction, we have reduced water abstraction.

We have upgraded sewage treatment to avoid adverse effects from contaminants such as ammonia and excessive nutrients. We have reduced the number of pollution incidents from our sewers, usually caused by blockages, and work with the Environment Agency and local councils to address water pollution caused by misconnected domestic plumbing.

Our region is rich in wildlife and has a large number of areas protected by international and national designations. We take our duties towards the environment seriously and are actively reviewing our landholding and integrating this information with our geographic information system to develop land management plans to improve biodiversity.

All projects within our capital investment programme are subject to detailed environmental screening to avoid harming wildlife. We also offer grants to wildlife organisations under our biodiversity action plan partners' programme, which is helping to further our catchment management objectives.

Collaboration and innovation underpin our significant early progress against our challenging environmental outcomes. This has resulted in our industry leading performance.

Improved bathing waters

The only bathing water within our region that is failing to meet the 'satisfactory' standard is at Burnham Jetty. This is a result of tighter directive standards rather than any underlying deterioration in water quality and is why our performance commitment for beaches passing EU bathing standards is reported as 98% against our target of 100%. We have an agreed programme to improve our assets that may affect the Burnham Jetty bathing water.

We completed the National Environmental Programme during the year, achieving 100% performance against target to deliver agreed schemes. Outputs from the programme include:

- constructing a 1,200m^3 underground storage tank at Sloway Lane pumping station near Highbridge
- increasing pumping capacity at Blake Gardens in Bridgwater to reduce overflow operation
- proactively investigating misconnections of foul flows that could end up in the River Parrett in Bridgwater
- installing 67 event duration monitors at overflow locations.

We are supporting Litter Free Coast and Sea project officers in both Dorset and Somerset to raise awareness and ownership of bathing water quality and to promote behaviour change campaigns for local residents, tourists and businesses.

Rivers, lakes and estuaries protected

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

During the year, our in-house engineering team began detailed design on the first group of these schemes, with the first few starting construction on site, and also began outline design on the next group.

The National Environment Programme also includes a series of phosphorus technology trials designed to test the performance of new processes to meet future, more stringent targets for phosphorus levels in sewage discharges required by the EU Water Framework Directive.

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

Under this programme we are working with the University of Bath to develop a high-rate algal pond for the removal of phosphorus from sewage effluent. This plant has been constructed at Beckington sewage treatment works and we are currently monitoring its performance.

Tackling leakage and improving water efficiency

We are committed to reducing the amount of treated water that is used unnecessarily or lost through leaks from our pipe network. This maintains the resilience of our services and helps to keep bills affordable. We have maintained leakage at 68 Ml/d which is below our agreed target for the year and also met our target of fixing 70% of leaks reported to us in the same day.

We completed more than 5,000 free in-home water efficiency checks, fitting devices and sharing behavioural advice, and repaired nearly 4,300 of our customers' leaking pipes free of charge to help reduce their water use.

While we met our target for water saved through water efficiency promotion, average daily water use has increased to 141 litres per person, which is above our target. This was due to the exceptionally dry weather experienced from June through to late autumn.

With the completion of our water supply grid in 2018 we will be operating well below the economic leakage level meaning that, without new ways of working, the cost of reducing leakage further will outweigh the value of the water saved. We will continue to innovate as we seek to meet our target of 66.5 Ml/day by 2020.

Water resources

Overall, 2016-17 was a drier than usual year with 86% of average rainfall across the region.

Strategic Report (continued)

Resource management actions and rainfall in early 2017 helped improve the resource position and, although reservoirs refilled later in the season than we usually experience, by the end of the year storage stood at 91% of total capacity. Some groundwater levels and river flows were still below average at the end of the year.

Using our performance measure to limit abstraction at our Mere source has resulted in significant reductions in output. In 2016-17 we were able to minimise abstraction between July and November. However, we then had to return to regular abstraction levels to help manage the effects of the dry autumn on the wider resource situation and the need for other source outages as part of our grid investment programme. During the year we used 341Ml against a target of 100Ml and we anticipate this performance will improve later in the AMP once the supply grid is fully commissioned.

Last year was the 41st since we imposed any customer restrictions on water use, such as hosepipe bans. During the year we developed a new draft drought plan setting out how we will respond to periods of drought – public consultation on this plan will take place during 2017-18. We have also started work on developing a new water resources management plan that looks 25 years to the future.

Environmental investigations

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

In AMP6, we are delivering 45 environmental investigations covering a range of issues:

- the occurrence and removal of hazardous and emerging substances from sewage effluent
- trialling new, sustainable treatment solutions for phosphorus removal
- understanding the ecological impact of our reservoirs and abstractions
- understanding the effect of our sewage treatment works on the nutrient levels within rivers, compared to other sources, at a catchment scale
- trialling techniques to restore and enhance grassland and woodland habitats, improving connectivity for species to disperse.

A number of investigations have been concluded, including one to understand the effects of our assets upstream of and around Taunton on the bathing water quality at Burnham Jetty. This included tracer surveys, complex hydrological modelling of the river system and extensive sampling. The data indicated that there is a limited effect from these assets on bathing water quality, so no further investment is recommended.

This work will feed into our proposals for AMP7 to deliver the most cost effective and sustainable solutions for our customers with the best environmental results.

Wildlife and conservation

In order to develop our performance commitment to assess 100% of our landholding for biodiversity, we have surveyed our key conservation sites extensively over the last five years, resulting in changes to their management. So far, most of our holdings in excess of 10 hectares have been surveyed, amounting to just over 70% of our land area.

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

Ten new projects have been initiated this year, including the refurbishment of the toilet block at Sutton Bingham reservoir, improving footpaths at Otterhead Lakes and Tucking Mill reservoir, a public bat walk at Backwell Lake and tree surveys and improvement works across a number of sites.

We continue to support wildlife projects funded by our Biodiversity Action Plan Partners Programme up to £80,000 per year and will be supporting four projects in our area between 2015 and 2020.

Our small grants scheme, new for this phase of the programme, has supported three projects this year leading to:

- the creation of training materials
- improving accuracy of riverfly monitoring
- recruiting volunteers
- constructing brushwood berms to improve river flow
- exploring new ways to control the invasive Himalayan balsam.

Reduced carbon footprint

One of our long-term sustainability goals is to be carbon neutral in our operations. Our net greenhouse gas emissions fell to 123 kilotonnes carbon dioxide equivalent in 2016-17.

This was our lowest since 1999-2000 and meant we met our performance commitment for the year. The reduction was the result of work to improve energy efficiency, increase and diversify renewable energy generation and the falling carbon dioxide intensity of UK grid electricity.

Our electricity use continues downwards from its peak in 2007-08, largely through concerted energy efficiency work which is delivering around four gigawatt hours of savings each year. We are also gaining financial benefits by using innovations such as Open Energi's dynamic demand system which enables instantaneous, temporary adjustment of the site's energy use to maintain a balance on the local electricity grid.

Following installation of advanced anaerobic digestion and associated electricity generation at Trowbridge sewage treatment works in 2015-16, we are making good progress with a scheme to improve digestion at Berry Hill, near Bournemouth.

Meanwhile, our operating division GENeco has finalised an agreement with Unilever for a certified supply of biomethane originating from anaerobic digesters at Bristol sewage treatment works.

Strategic Report (continued)

Innovation

Our environmental investigations programme aims to gather knowledge and data from locations potentially experiencing environmental stress in order to better understand the scale of the issue.

One project, in the Bristol Avon catchment, involves a novel approach to regulating effluent discharges. We have agreed with the Environment Agency a mandatory reduction of 46 tonnes of phosphorus from a group of 24 sites at a cost of £20m less than the traditional approach; each of these in turn has a discretionary stretch target.

This is a more flexible approach than usual, which will allow optimisation of existing treatment and the use of novel processes or additional treatment that has not been over-sized.

Our Eureka programme rewards staff who have proposed projects that save money, improve service to customers, reduce risk and improve the ways we work. In 2016, there were 91 suggestions overall, of which 16 were rewarded and five deemed suitable for wider roll-out.

In addition, we have introduced Directors' challenges where a defined issue is put to the entire Company for ideas.

The first two, which concerned protection of drinking water quality once it is in the distribution network and options to reduce fly nuisance at sewage treatment works, received positive responses.

We carry out regular trials of new products developed by other companies and in 2016-17 these included:

- a hydrogen sulphide resistant product that deals with corrosion in pipes and tunnels
- an epoxy lining system that can be used for sewers more than 300mm in diameter
- a mobile unit that analyses the phosphate content of river water.

We continue to develop better ways to tackle our most pressing environmental and social concerns. One of these, launched this year, is EnTrade – an innovative, market-based method for improving the water environment. EnTrade involves an online platform by which farmers bid for payment to carry out measures such as planting cover crops that reduce the amount of nitrogen that leaches from soil into groundwater. This approach is much more cost- effective than conventional engineered solutions and the first two auctions were comfortably oversubscribed.

The first part of our joint research programme with the University of Bath concluded in 2016-17. The main themes were low energy nutrient recovery from sewage, methods for increasing biogas from sewage sludge digesters, emerging pollutants in waste water, and improved techniques for understanding and comparing the whole life costs of water management.

Meanwhile, the University's Water Innovation Research Centre, formed with our assistance in 2014-15, continues to develop. The last 12 months saw the formation of an advisory board that brings together individuals from industry, regulators and academia, plus the hosting of its first water science and engineering conference and the UK International Water Association's Young Water Professionals event.

Environmental resilience

The resilience of our services to customers is closely tied to the resilience of the wider water catchments in which we operate.

Catchment-based strategies are now a business as usual approach to protecting our service levels; often this means we are able to deal with the source of the problems not the symptoms. We are currently working with farmers at 20 sites to reduce nitrate levels in groundwater sources or to remove pesticide risks from reservoirs.

We are now also taking catchment-based approaches to reducing nitrate run- off into Poole Harbour rather than installing nitrate removal at a sewage treatment works and are finding innovative ways to maximise the benefits achieved at the lowest cost to customers.

We have extended the work we do to promote the more efficient use of water and during the year we visited more than 5,000 homes, fitting water saving devices and offering advice, resulting in a saving of 50 litres per person. The service has had excellent customer feedback and we will be extending its reach during 2017.

EMPLOYEES

We aim to be an employer of choice and provide all employees with the opportunity to develop to their full potential and have a rewarding and satisfying career.

We provide our employees with the skills, expertise and professional development they need to perform to the highest level. In return, our employees are highly motivated and engaged and consistently provide outstanding and industry leading levels of customer service.

Our people are of the utmost importance to us and our continued success is built on their commitment, goodwill and performance.

Apprenticeships are a key element of our resourcing strategy to build and maintain a sustainable workforce to meet current and future needs. We are proud that we have recruited a higher percentage of young women into technical apprenticeships compared to the regional and national average in both the engineering and construction sectors – this reflects the work we do to bring young women into our sector.

Promoting and encouraging diversity and inclusion has been a key focus again this year. We firmly believe the diversity of our workforce should reflect the community we serve. We recognise that difference in personal characteristics is positive and brings richness to our work environment that is essential to our continued success.

We continue to develop and implement a range of diversity initiatives and we continue to promote flexible and remote working, together with flexible retirement aimed at easing people into retirement gradually.

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

Strategic Report (continued)

Training

Training and development continues to be of integral importance and we have delivered more than 650 courses with an average of three days' development training per employee.

We continue to work in partnership with a number of local colleges and universities to enhance our management development programmes. In partnership with the University of the West of England, we have delivered our accredited Institute of Leadership and Management Level 5 programme, which has been very successful.

As part of our talent and succession planning, we continue to invest in two-day development centres for nominated high potential employees. This led to rotation, secondment and mentoring opportunities providing our people with identified career development opportunities.

Apprentices

We are seeing the benefits of running apprenticeship programmes and have an outstanding retention rate with our apprentices. Over the past year we employed 43 new apprentices with another 42 posts expected to be filled in the next six months.

We have continued to engage our local young people in apprenticeships. We held our second apprenticeship open day in November 2016 to coincide with National Engineering Week and again welcome around 300 visitors to learn more about the company and the career opportunities available to young people in our business.

Taking advantage of our volunteering policy, our apprentices took part in the Brathay Apprenticeship Challenge. Through the challenge, they visited more than 20 schools and careers fairs to promote the concept of apprenticeships to young people. They also designed, resourced and built an outside learning space for St John's Primary School in Trowbridge.

We are proud that 12% of our technical apprentices this year are female – this exceeds the regional and national average in both engineering and construction sectors and is a reflection of the work we do to engage young women into our sector.

We have again worked with our training providers to support local women into engineering events, and ensure our vacancies are promoted to all kinds of young people across our region.

As the government changes the focus of apprenticeships, we will ensure we make best use of the reforms and this year we introduced our first higher level apprenticeship. The Civil Engineering higher level apprenticeship saw four apprentices develop skills and knowledge across our entire Engineering and Construction directorate whilst also studying towards an HNC in Civil Engineering and a NVQ Level 4 in Construction Site Supervision. As the scope of apprenticeships widens, we will continue to offer more Higher Level Apprenticeships and introduce Degree Level Apprenticeships.

Diversity

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

We continue to place strong emphasis on promoting diversity and inclusion within the company, ensuring everyone has an equal chance to progress their career with us regardless of age, gender, sexual orientation, ethnicity, disability, cultural background and carer responsibilities.

We have developed and implemented a range of diversity initiatives this year, including policies on hearing loss, facilitated action learning sets for employees to support one another through supported facilitation and coaching.

We hosted a Women in Sustainability networking event to promote and encourage membership within our company and we have been an active member of the Business Disability Forum.

We have promoted our volunteering policy and encouraged staff to volunteer in our community. We continue to promote flexible and remote working together with flexible retirement to ease people into retirement gradually.

Diversity is a key focus within our strategic People Programme, our aim is to reflect the community we serve.

Culture

We continue to have a strong, friendly and positive culture and staff enjoy working for us and with each other. We held a staff survey this year and 86% of employees rated us a good company to work for and 77% rated us a great place to work. Our staff engagement was 80%, an increase of 3% from last year. Our employees are important to us and we listen to their feedback.

We want to ensure they continue to feel valued and to make a positive difference to their day-to-day lives. To help us achieve this we have launched a People Programme, a five-year plan to oversee and invest in a series of activities to benefit our employees, to attract and retain highly skilled staff and help build a sustainable workforce for the future.

Health and safety

As a responsible employer it is clear to us that the management of health and safety is critical to our success. Protecting the health, safety and welfare of our staff, contractors and customers remains an established and shared responsibility that is essential to maintaining our reputation.

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

We monitor all accidents and incidents reported by employees and the information we collect assists in determining problem areas and allows resources to be allocated to ensure that the situation does not escalate.

Strategic Report (continued)

During the year we have encouraged staff to report all incidents and especially near misses. Any report that raises significant concerns is subject to additional investigation and where appropriate the situation is rectified or procedures improved.

Position for the 12 months to 31 December 2016:

- 539 incidents reported (an increase of 17% from 2015)
- no fatalities or life changing (permanently disabling) injuries
- no reportable diseases or dangerous occurrences
- 10 incidents were notifiable to the Health and Safety Executive (an increase of three from 2015)
- 230 working days lost through notifiable incidents (a reduction of40% from 2015)
- no enforcement action from the Health and Safety Executive.

Despite an increase in the overall number of reportable incidents during 2016, overall safety performance was within the Company target.

Lost time incident rate

This includes all reported incidents involving staff that resulted in absence from work of one or more days. In 2016 there was a slight reduction in the number of incidents with 40 lost time incidents. The principal causes of lost time in 2016 were slips, trips and falls and manual handling.

Safety Smart

More than 850 staff attended a Safety Smart day. The day comprised a business update, health and safety presentations and an interactive safety scenario using actors to play out an incident based around a life changing injury sustained after a fall through defective mesh flooring.

Health and safety awards

Our commitment to safety and performance has been recognised by two external safety bodies.

Engineering and Construction were awarded the prestigious Sir George Earle trophy by RoSPA. This is the pinnacle of the RoSPA Awards scheme and is internationally recognised as the premier performance award for occupational health and safety. RoSPA acknowledged our committed and insightful management and the innovative and unique approach to changing behaviour based on expanding the awareness of teams, whilst also engaging and using them as a source of innovation.

Operations were awarded a distinction in the British Safety Council's 2016 International Safety awards with a score of 59 out of 60 and were shortlisted for the Power and Utilities sector award that recognises outstanding performance.

External engagement

To improve awareness and safety at roadworks we have joined the charity SafeWise which has centres at Weymouth, Bournemouth and Devizes. The charity works with schools and young people to educate them about the risks in the home and on the roads, using full scale street scenes.

Staff from Engineering and Construction had been involved with the charity and in particular a focus group involving disabled charities that identified safety improvements for pedestrians around roadworks. In support of speeding issues at roadworks we have produced a hard-hitting video designed to slow down drivers passing roadworks. The video is used at driver awareness sessions run by Dorset and Wiltshire Police for people who have been detected committing a road traffic offence.

Future initiatives

Overall performance is encouraging and remains within target but we continue to look for new ways to improve. We are developing a safety incident and observation app to improve the ease of reporting incidents and near misses as well as trialling a driver behaviour programme. We are also reviewing the Company arrangements for managing the safety of lone and mobile workers and trialling female fit personal protective equipment.

FINANCE

The UK group structure has remained the same since 2002 with WWSL wholly owned by WWL, which in turn is wholly owned by YTL Utilities (UK) Limited. Neither of the parent entities provide any intra-group funding to WWSL with virtually all of the debt raised for the UK group sitting within WWSL and all borrowings at market rates provided by financial third parties.

Gearing, as measured by net debt to RCV, stood at 65% at March 2017. On a pensions-adjusted basis, this figure rises slightly over 70%, which the Board still finds an acceptable level.

During the year the WWSL Board has continued to pay particular attention to the projected level of the its gearing ratio with a view, when declaring dividends, to protect the existing credit ratings at all times. The Board remains committed to maintaining the Company's current level of credit ratings.

The latest actuarial valuation of the pension scheme took place on 30 September 2016. At each triennial valuation the Company agrees with the scheme's trustees a payment recovery plan in respect of any deficit and the Company will do so again with regard to the 2016 valuation, which is still in the process of being finalised. The Company is committed to honouring any special contribution obligations that it signs up to.

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

Strategic Report (continued)

Taxation strategy

WWL group adopts a risk averse and cautious approach to tax. It seeks to comply with the spirit and letter of UK tax legislation and claims all tax reliefs and allowances that it is entitled to. It does not enter into complicated structures nor engages in any aggressive or artificial tax planning, as it does not believe it is the correct thing to do.

Due to the size and complexity of the UK tax system, tax is a complicated area and uncertainties will arise. Consistent with other business areas it seeks external advice when required.

WWL Group has an open, regular and professional dialogue with HMRC. HMRC renewed its low risk rating for the Group last year for a further three-year period. WWL is keen to maintain this low risk status in the long term. It believes that its approach to tax and early engagement with HMRC on any area of uncertainty are significant factors in maintaining this low risk rating.

The current year corporation tax charge was £26.6m, which represented an effective tax rate of 17%. This is lower than the statutory rate of corporation tax of 19.75% due to the availability of tax allowances available to WWSL.

In addition to corporation tax, the Group is also liable to a number of other taxes, which represent a cost to the business, including employer National Insurance contributions, business rates, environmental taxes and Insurance Premium Tax.

D. Principal Risks

Our industry leading customer and environmental performance has been achieved through a focus on understanding the risks we face and using innovative approaches to mitigate risks and create opportunities to improve the services we provide.

The policy on risk identification and management is subject to annual review by the Board. The identification and management of risk is delivered through a tiered system of groups from operational staff, senior management, Executive Directors and the Wessex Water Services Limited Board. The Board reviews and holds ultimate responsibility for the risk process and for the identification and mitigation of risks.

A risk group meets through the year and submits the current corporate risk register and summary report every six months to the Risk Management Advisory Group made up of the Executive Directors. This group scrutinises and challenges the risks included in the register and identifies any additional work it thinks is necessary to better classify the risk or explore other mitigation methods which may be available. Any significant new risks are reported to the Advisory Group and to the Board as they arise.

The Chief Executive submits an annual risk review paper to the Board for its review and agreement. This paper details the risk review process, identifies the current principal risks (listed below) to the business and the mitigation measures in place. It also records the status of emergent risks that have been identified.

Since the last annual review, the Board has agreed the removal of one principal risk relating to the industry's preparedness for retail non-household market opening now that the market has opened, and the combination of two principal risks of digital security and IS business resilience into a single risk of digital resilience.

The Board also agreed the addition of a principal risk reflecting the ability to attract skilled resources. Risk scores have generally remained static as mitigation works have balanced out a general increasing trend of risk.

1) Government/regulatory action. Market uncertainties reflecting the Brexit vote, general election and the format of the next (PR19) price control are all reflected in this risk. Relationships with politicians and regulators are maintained so that the Company's views about the effect of any proposed legislative changes on the Company and its customers are heard.

2) Major pollution incident. Recent fines in the industry are now regularly exceeding £1m per incident, with a maximum fine to date of £20m. Significant effort is made to prevent such an incident occurring through staff adherence to Company processes and procedures. Local emergency plans are in place to protect the local environment at key installations.

3) Insider threat. Considerable damage could be done to the Company's reputation by a rogue or radicalised employee or contractor. References are obtained for all new starters, whether permanent or contract. DBS checks are undertaken for all new permanent and fixed-term staff and for agency staff working in sensitive areas of the business.

4) 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. As expected, the changes to the sentencing guidelines has resulted in an increase in recent prosecution fines for larger organisations which have, in some cases, been greater than £2m. Health and safety is of paramount importance to us with processes and procedures implemented through staff training and regularly monitored to maintain compliance and to protect people from harm. Our 'Take 5 to Check 5' initiative has been launched during the year and our health and safety approach has been recognised through national awards.

5) Availability of new finance. The bond markets are used extensively to fund new investment. The current economic climate post Brexit vote has shown the volatility of these markets. The relationship with bond markets and rating agencies will be maintained and the Board will continue to ensure that the Company operates within prudent financial parameters. This annual review includes our long-term viability statement which includes modelling the main financial risks.

6) Resourcing and skills. There is already a recognised short-fall in STEM skills (Science, Technology, Engineering and Maths), which is compounded by the uncertainty from the Brexit vote and heightened in our region by the impact of the Hinkley Point C programme. It is expected that this situation will become worse and we have initiated a People Programme to help mitigate this risk.

Strategic Report (continued)

7) Unfit water. Significant effort is made to prevent a major failure of process or contamination of the water supply. We have completed a major exercise in documenting and updating our methodology for drinking water safety plans in liaison with the Drinking Water Inspectorate. Risk assessments are now being formally reviewed at the monthly water risk meeting and issues escalated to the Risk Group.

8) Outcome delivery incentive failure. As part of the move to risk-based regulation Ofwat has introduced performance commitments for the period 2015-2020. Many of these measures are company specific but some are cross-company measures with stretch targets. As well as reputational risk there are also financial penalties and rewards that can be incurred which will apply in the period 2020-2025.

9) Digital resilience. Most activities undertaken by the business are reliant on the availability of IT services and facilities and the company continues to examine ways in which IT resilience can be maintained and, where appropriate, improved. 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 also holds and processes large quantities of data which are considered sensitive within the meaning of the Data Protection Act. Failure to process and protect the data in the prescribed manner is an offence. The quarterly Information Security Forum maintains the focus on mitigating this risk.

10) Anti-competitive behaviour. With the opening of the non-household retail market the risk of not complying with competition law is at its highest. We have setup a competition team that meets monthly to consider emergent issues and risks and appropriate actions. Management and staff have completed a training programme and further mitigation is being implemented to address this risk.

While the corporate risk register holds 80-100 risks at any time, the principal risks are those that the Board consider could have a material impact on the capability of the business to perform its functions. All these risks are subject to active mitigation strategies and the Board considers that the Company is taking appropriate action to mitigate the severity and likelihood of those risks to an acceptable level. 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.

E. Wessex Water Enterprises Ltd

The company and its subsidiaries generated turnover of £33.9m (2016 - £30.5m), from a number of unregulated activities in the Wessex Water Services Ltd region. The principal subsidiary is GENeco Ltd and the unregulated activities were the treatment of organic waste, power generation, food waste treatment, solicitors' searches and sale of industrial cooling water.

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

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

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

F. SC Technology GmbH

Trading under the name Swiss Combi the turnover of the company for the year was £7.1m (2016 - £6.8m). The principal subsidiary in Holland operates two sludge drying plants and has contracts with two major customers.

G. Albion Water Ltd

On 22 September 2016 the Company acquired 51% of Albion Water Ltd from Albion Water Group Ltd. The principal activity of Albion Water Ltd is to win water and sewerage inset appointments in the competitive market in England and Wales. Turnover for the period to 30 June 2017 was £0.6m.

H. Flipper Ltd

On 20 June 2017 the company set up two new subsidiary companies, Wessex Concierge Ltd and its 100% subsidiary Wessex Concierge Services Ltd. The subsidiary company acquired 100% of the activities of Flipper Ltd on 20 June 2017, whose principal activity is energy switching for domestic customers in United Kingdom. No transactions were consolidated for the period up until 30 June 2017.

The strategic report was approved by the Board of Directors on 19 September 2017 and signed on its behalf by:

Mark Watts - Director

Directors' Report

The Directors present their Directors' Report and the financial statements for the year to 30 June 2017.

Directors

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

Colin Skellett
Mark Watts
David Elliott
Andy Pymer (resigned 10 July 2017)
Francis Sock Ping Yeoh *
Seok Hong Yeoh *
Seok Kian Yeoh *
Mark Seok Kah Yeoh *
Tiong Lay Yeoh *
David Barclay (appointed 1 February 2017)

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

Directors' interests

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

Directors' Emoluments

	Salary £000	Bonus £000	LTIP £000	Benefits £000	Pension contributions £000	**Total 2016-17 £000**	Total 2015-16 £000
Colin Skellett	444	280	15	32	-	**771**	754
Mark Watts	282	188	12	26	39	**547**	515
David Elliott	194	123	7	17	-	**341**	314
Andy Pymer	257	125	3	16	47	**448**	375
David Barclay	91	-	-	-	-	**91**	-
Total	1,268	716	37	91	86	**2,198**	1,958

In addition Colin Skellett and Mark Watts received emoluments of £140k and £190k respectively for their services to the other group companies. No emoluments were paid to the other Directors.

Directors' share interests

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

	At 30 June 2016	Movements	At 30 June 2017
Mark Watts	388,030	-	388,030
David Elliott	85,315	-	85,315
Andy Pymer	53,815	-	53,815

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

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

	At 30 June 2016	Exercise price RM	Date of grant	Expiry date	Exercised	At 30 June 2017
David Elliott	37,800	1.14	12/06/2008	11/06/2018	-	37,800

Directors' Report (continued)

Share options
The following Directors have been granted ordinary share options of Malaysian Ringgit RM0.50 each in YTL Power International Berhad, under the 2011 UK Plan. The share price as at 30 June 2017 was RM1.45 or £0.26.

	At 30 June 2016	Exercise price RM	Date of grant	Exercise date	Expiry date	At 30 June 2017
Colin Skellett	87,000	1.65	01/06/2012	01/06/2015	31/03/2021	87,000
Colin Skellett	1,913,000	1.41	01/06/2012	01/06/2015	31/03/2021	1,913,000
Mark Watts	87,000	1.65	01/06/2012	01/06/2015	31/03/2021	87,000
Mark Watts	913,000	1.41	01/06/2012	01/06/2015	31/03/2021	913,000
David Elliott	87,000	1.65	01/06/2012	01/06/2015	31/03/2021	87,000
David Elliott	913,000	1.41	01/06/2012	01/06/2015	31/03/2021	913,000
Andy Pymer	87,000	1.65	01/06/2012	01/06/2015	31/03/2021	87,000
Andy Pymer	913,000	1.41	01/06/2012	01/06/2015	31/03/2021	913,000

Dividends

The Wessex Water Services Ltd dividend policy is to declare dividends consistent with the Company's performance and prudent management of the economic risk of the business. The Board wishes to ensure that gearing stays at or below 70% in order to secure the current credit ratings and ongoing access to the capital markets.

Sustainability

The Group has a sustainability vision that guides its progress towards being a sustainable water group. The sustainability vision is reviewed bi-annually.

Employment

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

Environment policy

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

Ethical policy

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

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

Modern Slavery Act

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

Research and development

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

Directors Report (continued)

Market value of land and buildings

In the opinion of the Directors, the market value of land and buildings of the Group exceeds the book value of these assets at 30 June 2017.

Charitable and political donations

During the year £337,615 was donated to UK charities (2016 – £432,000). There were no political donations in either year.

Supplier payment policy

The policy in respect of its suppliers is to agree the payment terms for transactions in advance and to make payments in accordance with those terms. At 30 June 2017 trade creditors represented approximately 33 days of trade purchases (2016 – 34 days). The Group does not follow any specific external code or standard on payment policy.

Corporate governance

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

Other information

An indication of likely future developments in the business and particulars of significant events which have occurred since the end of the financial year have been included in the Strategic Report on pages 3 to 15. Information on the use of financial instruments by the Company are shown in note 23 to the financial statements".

Disclosure of information to the Auditor

The Directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Group's auditor is unaware; and each Director has taken all the steps that ought to have been taken as a Director to make themselves aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

Auditor

KPMG LLP are engaged as auditor of the Company for the current financial year, after which the partner has to rotate off the audit. In accordance with best practice, the Company will take that opportunity to seek tenders for the audit service for the next financial year.

By order of the Board
Leigh Fisher-Hoyle
Company Secretary
Wessex Water Operations Centre
Claverton Down Road
Claverton Down
Bath BA2 7WW
19 September 2017

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

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

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. Under that law they have elected to prepare both the Group and the parent company financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period. In preparing each of the Group and parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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

Opinion

We have audited the financial statements of Wessex Water Limited ("the Company") for the year ended 30 June 2017 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Balance Sheets, Statements of Changes in Equity, Cash Flow Statements and related notes, including the accounting policies in note 1.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 30 June 2017 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Strategic Report and Directors' Report

The Directors are responsible for the Strategic Report and the Directors' Report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the Strategic Report and the Directors' Report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the Strategic Report and the Directors' Report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

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

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 19, the Directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

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

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an Auditor's Report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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.

Andrew Campbell-Orde (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
66 Queen Square
Bristol
BS1 4BE
19 September 2017

Consolidated Income Statement
For the year ended 30 June 2017

	Note	2017 £m	2016 £m
Revenue	1,3	**571.3**	547.5
Raw materials and consumables used		**(34.9)**	(36.2)
Staff costs		**(67.7)**	(60.4)
Depreciation and amortisation		**(108.2)**	(104.6)
Other expenses		**(123.1)**	(108.6)
Total expenses	4	**(333.9)**	(309.8)
Operating profit	3	**237.4**	237.7
Financial income	7	**2.3**	2.3
Financial expenses	7	**(77.4)**	(74.6)
Net financing expense		**(75.1)**	(72.3)
Profit before tax		**162.3**	165.4
Taxation	8	**(7.6)**	9.2
Profit for the year		**154.7**	174.6
Attributable to:			
Equity holders of the parent		**154.6**	174.6
Non-controlling interest		**0.1**	-
Profit for the year		**154.7**	174.6

Consolidated Statement of Comprehensive Income
For the year ended 30 June 2017

	2017 £m	2016 £m
Profit for the year	**154.7**	174.6
Other comprehensive income		
Items that will not be reclassified to profit or loss:		
Re-measurements of defined benefit liability	**(35.6)**	(37.8)
Income tax on items that will not be reclassified to profit or loss	**4.5**	6.8
	(31.1)	(31.0)
Items that are or may be reclassified subsequently to profit or loss:		
Foreign currency translation differences – foreign operations	**(0.1)**	-
	(0.1)	-
Other comprehensive income for the year, net of income tax	**(31.2)**	(31.0)
Total comprehensive income for the year	**123.5**	143.6

Total comprehensive income attributable to:		
Equity holders of the parent	**123.4**	143.6
Non-controlling interest	**0.1**	-
Total comprehensive income for the year	**123.5**	143.6

Balance Sheets
At 30 June 2017

	Note	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Non-current assets					
Property, plant and equipment	10	**3,476.7**	3,382.3	-	-
Intangible assets	11	**5.8**	3.8	-	-
Investments in subsidiaries	12	-	-	**82.7**	82.5
		3,482.5	3,386.1	**82.7**	82.5
Current assets					
Inventories	13	**10.4**	10.5	-	-
Trade and other receivables	14	**281.3**	250.4	**161.4**	127.6
Cash and cash equivalents	15	**97.1**	126.6	**0.4**	7.2
		388.8	387.5	**161.8**	134.8
Total assets		**3,871.3**	3,773.6	**244.5**	217.3
Current liabilities					
Bank overdraft	16	-	(12.1)	-	-
Other interest-bearing loans and borrowings	16	**(17.0)**	(8.3)	**(3.3)**	(3.3)
Trade and other payables	17	**(201.6)**	(191.1)	**(45.3)**	(49.6)
		(218.6)	(211.5)	**(48.6)**	(52.9)
Non-current liabilities					
Other interest-bearing loans and borrowings	16	**(2,034.8)**	(1,994.0)	**(33.8)**	-
Other payables	17	**(0.2)**	(0.4)	-	-
Employee benefits	18	**(196.8)**	(159.9)	-	-
Deferred income	19	**(266.6)**	(251.2)	-	-
Provisions	20	**(0.3)**	(0.2)	-	-
Deferred tax liabilities	21	**(321.2)**	(344.5)	-	-
		(2,819.9)	(2,750.2)	**(33.8)**	-
Total liabilities		**(3,038.5)**	(2,961.7)	**(82.4)**	(52.9)
Net assets	3	**832.8**	811.9	**162.1**	164.4
Equity					
Share capital	22	**160.6**	160.6	**160.6**	160.6
Retained earnings		**672.1**	651.3	**1.5**	3.8
Non-controlling interest		**0.1**	-	-	-
Total equity		**832.8**	811.9	**162.1**	164.4

These financial statements were approved by the Board of Directors on 19 September 2017 and were signed on its behalf by:

Mark Watts
Director
Company registered number: 2366633

Statement of Changes in Equity
For the year ended 30 June 2017

Group

	Note	Share capital £m	Retained earnings £m	Total equity £m
Balance at 1 July 2015		160.6	614.9	775.5
Total comprehensive income for the year				
Profit for the year		-	174.6	174.6
Other comprehensive income		-	(31.0)	(31.0)
Total comprehensive income for the year		-	143.6	143.6
Transactions with owners, recorded directly in equity				
Dividends	9	-	(107.2)	(107.2)
Total contributions by and distributions to owners		-	(107.2)	(107.2)
Balance at 30 June 2016		160.6	651.3	811.9
Balance at 1 July 2016		160.6	651.3	811.9
Total comprehensive income for the year				
Profit for the year		-	154.7	154.7
Other comprehensive income		-	(31.2)	(31.2)
Total comprehensive income for the year		-	123.5	123.5
Transactions with owners, recorded directly in equity				
Dividends	9	-	(102.8)	(102.8)
Acquisition of a subsidiary with a non-controlling interest	2	-	0.2	0.2
Total contributions by and distributions to owners		-	(102.6)	(102.6)
Balance at 30 June 2017		160.6	672.2	832.8

Included in retained earnings are £562.3m of un-distributable reserves (2016 - £561.0m) created on first time adoption of IFRS when restating infrastructure assets to fair value.

Statement of Changes in Equity
For the year ended 30 June 2017

Company

	Note	**Share capital £m**	**Retained earnings £m**	**Total equity £m**
Balance at 1 July 2015		160.6	5.3	165.9
Total comprehensive income for the year				
Profit for the year		-	105.7	105.7
Other comprehensive income		-	-	-
Total comprehensive income for the year		-	105.7	105.7
Transactions with owners, recorded directly in equity				
Dividends	9	-	(107.2)	(107.2)
Total contributions by and distributions to owners		-	(107.2)	(107.2)
Balance at 30 June 2016		160.6	3.8	164.4
Balance at 1 July 2016		160.6	3.8	164.4
Total comprehensive income for the year				
Profit for the year		-	100.5	100.5
Other comprehensive income		-	-	-
Total comprehensive income for the year		-	100.5	100.5
Transactions with owners, recorded directly in equity				
Dividends	9	-	(102.8)	(102.8)
Total contributions by and distributions to owners		-	(102.8)	(102.8)
Balance at 30 June 2017		160.6	1.5	162.1

Cash Flow Statements
For year ended 30 June 2017

	Note	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Cash flows from operating activities					
Profit for the year		**154.7**	174.6	**100.5**	105.7
Adjustments for:					
Depreciation and amortisation		**108.2**	104.6	**-**	-
Financial income		**(2.3)**	(2.3)	**(103.1)**	(107.6)
Financial expense		**77.4**	74.6	**0.5**	0.1
Taxation		**7.6**	(9.2)	**-**	-
		345.6	342.3	**(2.1)**	(1.8)
(Increase) / decrease in trade and other receivables		**(31.4)**	4.7	**(33.4)**	(4.4)
Decrease in inventories		**0.1**	0.9	**-**	-
Increase / (decrease) in trade and other payables		**17.7**	-	**(4.8)**	2.7
(Decrease) in provisions and employee benefits		**(3.7)**	(7.5)	**-**	-
		(17.3)	(1.9)	**(38.2)**	(1.7)
Tax paid		**(23.6)**	(14.2)	**-**	-
Net cash from operating activities		**304.7**	326.2	**(40.3)**	(3.5)
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		**2.8**	3.3	**-**	-
Interest received		**2.2**	2.1	**1.2**	1.4
Dividends received		**-**	-	**101.8**	106.2
Acquisition of subsidiary, net of cash acquired		**0.5**	-	**(0.2)**	-
Acquisition of property, plant and equipment		**(196.1)**	(181.6)	**-**	-
Proceeds from infrastructure charges and capital contributions		**10.0**	9.7	**-**	-
Acquisition of other intangible assets		**(2.1)**	-	**-**	-
Net cash from investing activities		**(182.7)**	(166.5)	**102.8**	107.6
Cash flows from financing activities					
Proceeds from new loan		**42.5**	50.0	**33.8**	1.1
Interest paid		**(74.4)**	(60.6)	**(0.6)**	(0.1)
Repayment of borrowings		**-**	(0.9)	**-**	(0.9)
Payment of finance lease liabilities		**(5.0)**	(4.5)	**-**	-
Dividends paid		**(102.5)**	(103.0)	**(102.5)**	(103.0)
Net cash from financing activities		**(139.4)**	(119.0)	**(69.3)**	(102.9)
(Decrease) / increase in cash and cash equivalents		**(17.4)**	40.7	**(6.8)**	1.2
Cash and cash equivalents at 1 July		**114.5**	73.8	**7.2**	6.0
Cash and cash equivalents at 30 June	*15,16*	**97.1**	114.5	**0.4**	7.2

Notes to the financial statements

1 Accounting policies

1.1 Basis of preparation

Wessex Water Limited (the "Company") is a private company incorporated, domiciled and registered in England in the UK. The registered number is 2366633 and the registered address is Wessex Water Operations Centre, Claverton Down Road, Bath, BA2 7WW.

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

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

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these consolidated financial statements.

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

1.2 Measurement convention

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

1.3 Going concern

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

1.4 Foreign currency

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

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

1.5 Financial instruments

Investments

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

Cash and cash equivalents

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

Interest-bearing borrowings

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

Notes to the financial statements (continued)

1. Accounting policies *(continued)*

1.6 Property, plant and equipment

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

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

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

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

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

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

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

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

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

1.7 Intangible assets and goodwill

Goodwill

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

Research and development

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

Other intangible assets

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

Amortisation

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

1.8 Inventories

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

Notes to the financial statements (continued)

1. Accounting policies *(continued)*

1.9 Impairment excluding inventories and deferred tax assets

Financial assets (including receivables)

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

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

Non-financial assets

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

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

1.10 Employee benefits

Defined benefit plans

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

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

Defined contribution plans

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

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

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

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

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

Notes to the financial statements (continued)

1. Accounting policies *(continued)*

1.10 Employee benefits (continued)

Short-term benefits

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

Share-based payment transactions

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

1.11 Provisions

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

1.12 Revenue

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

1.13 Deferred income

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

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

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

1.14 Bad debt policy

Debt is written off for one of four reasons;

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

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

Notes to the financial statements (continued)

1. Accounting policies *(continued)*

1.15 Expenses

Operating lease payments

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

Finance lease payments

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

Financing income and expenses

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

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

1.16 Taxation

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

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

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

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

1.17 Adopted IFRS not yet applied

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

- Disclosure initiative – Amendments to IAS7 (Mandatory for years commencing on or after 1 January 2017)
- Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS12 (Mandatory for years commencing on or after 1 January 2017)
- IFRS 9 Financial Instruments (Mandatory for years commencing on or after 1 January 2018)
- IFRS 15 Revenue from Contracts with Customers (Mandatory for years commencing on or after 1 January 2018)
- IFRS 16 Leases (Mandatory for years commencing on or after 1 January 2019)
- Classification and Measurement of Share-Based Payment Transactions – Amendments to IFRS 2
- Annual Improvements to IFRSs – 2014-2016 Cycle

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

Notes to the financial statements (continued)

1. Accounting policies *(continued)*

1.18 Dividends

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

1.19 Basis of consolidation

Subsidiaries

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

Jointly controlled entities

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

1.20 Construction contract debtors

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

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

Notes to the financial statements (continued)

2 Acquisitions of subsidiaries

a) Albion Water Limited

On 22nd September 2016, the Company acquired 51% of the ordinary shares in Albion Water Limited for £0.2m, satisfied in cash. Albion Water's principal activity is to win water and sewerage inset appointments in the competitive market in England and Wales. Two existing inset appointments in the South of England operated by Albion Water have been acquired. In the 9 months to 30th June 2017, the subsidiary contributed a net loss of £0.6m to the consolidated net profit for the year. If the acquisition had occurred on 1st July 2016, Group revenue would have been £571.5m and net profit would have been £161.8m. In determining these amounts, management has assumed that fair value adjustments that arose on the date of acquisition would have been the same if the acquisition occurred on 1st July 2016.

The acquisition had the following effect on the Group's assets and liabilities:

	Recognised values on Acquisition £m
Albion Water Limited net assets on acquisition date:	
Property, plant and equipment	**11.3**
Inventories	**-**
Trade and other receivables	**0.5**
Cash and cash equivalents	**0.7**
Interest-bearing loans and borrowings	**(0.5)**
Trade and other payables	**(0.5)**
Deferred income	**(11.5)**
Provisions	**(0.3)**
Net identifiable assets and (liabilities)	**(0.3)**
Consideration paid:	
Total consideration	**0.2**
Add: Non-controlling interest (49%)	**(0.1)**
Less: Net liabilities at acquisition	**0.3**
Goodwill on acquisition	**0.4**

Goodwill on acquisition represents the future trading profits of existing inset appointments and future opportunities.

Goodwill on acquisition of £0.4m above was impaired by £0.2m (see note 11).

The following fair values have been made on a provisional basis:

	2017 £m
Property plant and equipment	**11.3**
Deferred income	**(11.5)**

Acquisition related costs

The Group incurred acquisition related cost of £293,426 related to due diligence, legal fees and stamp duty. These costs have been included in administrative expenses in the Group's consolidated income statement.

Acquired receivables

The fair value of acquired receivables was £512,805. The gross contractual amounts receivable are £576,075 and, at the acquisition date, £63,270 of contractual cash flows were not expected to be received.

Notes to the financial statements (continued)

2 Acquisitions of subsidiaries (continued)

b) Flipper Limited

On 20 June 2017 the Company incorporated Wessex Concierge Ltd and its subsidiary company Wessex Concierge Services Ltd for the purpose of acquiring the trade of Flipper Ltd. On 20 June 2017 Wessex Concierge Services Ltd acquired the trade and assets of Flipper Ltd for consideration of £0.7m. The consideration paid was deemed to be the fair value of the assets acquired, with no additional fair value adjustments booked.

Flipper Ltd is an energy switching company operating in the United Kingdom. The acquisition was made to develop the energy market switching software and to seek synergies with other utility billing activities in the wider YTL Group.

As at 30 June 2017 there had not been any trading recognised in the accounts, but £0.7m of assets, and no liabilities, have been booked within the Group balance sheet.

3 Segmental analysis

	2017	2016
	£m	£m
Turnover		
Regulated	**522.7**	513.8
Unregulated	**48.6**	33.7
	571.3	547.5
Operating profit		
Regulated	**233.5**	230.6
Unregulated	**3.9**	7.1
	237.4	237.7
Net assets		
Regulated	**760.5**	732.8
Unregulated	**72.3**	79.1
	832.8	811.9

4 Expenses and audit fee information

Included in profit are the following:		
Impairment loss on other trade receivables and prepayments	**11.9**	11.7
Research and development expensed as incurred	**0.2**	0.1

	2017	2016
	£'000	£'000
Auditor's remuneration:		
Audit of these financial statements	**120**	136
Audit of financial statements of subsidiaries pursuant to legislation	**184**	156
Taxation compliance services	**7**	9
Other tax advisory services	**20**	6
Other costs	**-**	3
	331	310

Notes to the financial statements (continued)

5 Staff numbers and costs

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

	Number of employees	
	2017	2016
Wessex Water Services Ltd	**2,151**	2,012
Billing joint venture – Bristol Wessex Billing Services Ltd	**364**	319
Wessex Water Enterprises Ltd	**30**	23
Geneco Food Waste	**7**	6
Enterprise Laundry	**13**	12
SC Technology AG	**15**	19
Wessex Water Ltd	**6**	4
Average number of employees	**2,586**	2,380

The aggregate payroll costs of these employees was:

	2017	2016
	£m	£m
Wages and salaries	**86.7**	75.2
Social security costs	**9.0**	7.4
Pension costs	**12.1**	11.0
	107.8	93.6
These costs were allocated as follows:		
Capital schemes	**40.1**	33.2
Operating expenses	**67.7**	60.4
	107.8	93.6

6 Directors' remuneration

	2017	2016
	£'000	£'000
Total Directors' remuneration including benefits in kind	**2,198**	1,958
Remuneration of highest paid Director	**771**	754

Details of Directors' remuneration can be found in the Directors' Report. Directors' remuneration is in respect of four Executive Directors and six YTL appointed Directors (2016 - four Executive Directors and five YTL appointed Directors).

Notes to the financial statements (continued)

7 Finance income and expense

Recognised in the income statement

	2017	2016
	£m	£m
Finance income		
Interest receivable on short-term bank deposits	2.3	2.3
Total finance income	2.3	2.3
Finance expense		
Net interest on net defined benefit pension plan liability	(4.7)	(4.6)
On bank loans and leases	(72.7)	(70.0)
	(77.4)	(74.6)
Net interest payable	(75.1)	(72.3)

In accordance with IAS 23 borrowing costs of £1.7m (2016 - £1.5m) associated with the funding of eligible capital projects have been capitalised at an interest rate of 3.9% (2016 – 3.9%).

8 Taxation

Recognised in the income statement

	2017	2016
	£m	£m
Current tax expense		
Current year	26.7	27.8
Overseas taxation	0.3	-
Adjustments for prior years	(0.6)	(3.1)
Current tax expense	26.4	24.7
Deferred tax expense		
Origination and reversal of temporary differences	4.4	2.2
Reduction in tax rate	(20.7)	(38.3)
Adjustments for prior years	(2.5)	2.2
Deferred tax (credit)	(18.8)	(33.9)
Tax expense / (credit) in income statement	7.6	(9.2)

Recognised in other comprehensive income

	2017	2016
	£m	£m
Re-measurements of defined benefit liability	6.1	6.8
Change in tax rate	(1.6)	-
Tax credit	4.5	6.8

Notes to the financial statements (continued)

8 Taxation (continued)

Reconciliation of effective tax rate

	2017	2016
	£m	£m
Profit for the year	154.7	174.6
Total tax expense / (credit)	7.6	(9.2)
Profit excluding taxation:	162.3	165.4
Tax using the UK corporation tax rate of 19.75% (2016 - 20%)	32.1	33.1
Reduction of tax rate on deferred tax balances	(20.7)	(38.3)
Non-deductible expenses	1.2	0.1
(Over) provided in prior years	(3.1)	(0.9)
Group relief for nil consideration	(2.2)	(2.7)
Other	0.3	(0.5)
Total tax (credit) / expense	7.6	(9.2)

Reductions in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) and 18% (effective from 1 April 2020) were substantively enacted in October 2015. A further reduction to the UK Corporation Tax rate to 17% (effective from 1 April 2020) was substantively enacted in September 2016. Consequently, the deferred tax balances at the balance sheet date have been remeasured at that date. This has resulted in a credit to the income statement of £20.7m and a charge in reserves of £1.6m.

9 Dividends

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

	2017	2016
	£m	£m
Dividends for the current year	78.8	83.5
Final dividend	24.0	23.7
	102.8	107.2

Notes to the financial statements (continued)

10 Property, plant and equipment – Group

	Land & buildings £m	Infra-structure assets £m	Plant, equipment & vehicles £m	Office & IT equipment £m	Group total £m
Cost					
Balance at 1 July 2015	853.7	1,929.4	1,533.7	25.0	4,341.8
Additions	15.3	74.1	120.7	1.8	211.9
Disposals	(1.0)	(1.5)	(11.3)	-	(13.8)
Foreign exchange movements	0.1	-	2.2	-	2.3
Balance at 30 June 2016	868.1	2,002.0	1,645.3	26.8	4,542.2
Balance at 1 July 2016	868.1	2,002.0	1,645.3	26.8	4,542.2
Acquisitions through business combinations	0.3	10.9	-	0.1	11.3
Additions	6.5	66.8	118.4	4.3	196.0
Disposals	(0.3)	(1.5)	(11.4)	(0.1)	(13.3)
Foreign exchange movements	(0.1)	-	(0.8)	-	(0.9)
Balance at 30 June 2017	**874.5**	**2,078.2**	**1,751.5**	**31.1**	**4,735.3**
Depreciation and impairment					
Balance at 1 July 2015	(258.0)	(31.9)	(760.8)	(12.4)	(1,063.1)
Depreciation charge for the year	(14.3)	(17.6)	(71.1)	(2.7)	(105.7)
Disposals	0.4	-	10.4	-	10.8
Foreign exchange movements	-	-	(1.9)	-	(1.9)
Balance at 30 June 2016	(271.9)	(49.5)	(823.4)	(15.1)	(1,159.9)
Balance at 1 July 2016	(271.9)	(49.5)	(823.4)	(15.1)	(1,159.9)
Depreciation charge for the year	(14.3)	(18.1)	(73.4)	(2.8)	(108.6)
Disposals	0.2	-	8.9	-	9.1
Foreign exchange movements	-	-	0.8	-	0.8
Balance at 30 June 2017	**(286.0)**	**(67.6)**	**(887.1)**	**(17.9)**	**(1,258.6)**
Net Book Value					
At 1 July 2015	595.7	1,897.5	772.9	12.6	3,278.7
At 30 June 2016	596.2	1,952.5	821.9	11.7	3,382.3
At 30 June 2017	**588.5**	**2,010.6**	**864.4**	**13.2**	**3,476.7**

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

There is no impairment loss recognised in these financial statements.

Notes to the financial statements (continued)

10 Property, plant and equipment – Group *(continued)*

At 30 June 2017 the net carrying amount of leased plant and machinery was £9.9m (2016 - £13.5m). The leased equipment secures lease obligations (see note 16).

Assets under construction included in the values above were £248.0m (2016 - £193.7m).

Cumulative borrowing costs capitalised and included above were £6.7m (2016 - £5.0m).

Included in freehold land and buildings above is an amount of £13.7m (2016 - £13.2m) in respect of land which is not depreciated.

11 Intangible assets – Group

	Goodwill	External customer lists	Contractual trading rights	Total intangible assets
	£m	£m	£m	£m
Cost				
Balance at 1 July 2015	-	-	4.4	4.4
Acquisitions through business combinations	-	-	-	-
Balance at 30 June 2016	-	-	4.4	4.4
Balance at 1 July 2016	-	-	4.4	4.4
Acquisitions through business combinations	0.4	-	-	0.4
Other acquisitions – externally purchased	-	2.1	-	2.1
Balance at 30 June 2017	**0.4**	**2.1**	**4.4**	**6.9**
Amortisation and impairment				
Balance at 1 July 2015	-	-	(0.2)	(0.2)
Amortisation for the year	-	-	(0.4)	(0.4)
Balance at 30 June 2016	-	-	(0.6)	(0.6)
Balance at 1 July 2016	-	-	(0.6)	(0.6)
Amortisation for the year	-	-	(0.3)	(0.3)
Impairment charge	(0.2)	-	-	(0.2)
Balance at 30 June 2017	**(0.2)**	**-**	**(0.9)**	**(1.1)**
Net Book Value				
At 30 June 2015	-	-	4.2	4.2
At 30 June 2016	-	-	3.8	3.8
At 30 June 2017	**0.2**	**2.1**	**3.5**	**5.8**

Amortisation and impairment charge

The amortisation charge is recognised in the depreciation and amortisation line in the income statement.

The acquisition and impairment of goodwill related to Albion Water Ltd (see note 2).

Notes to the financial statements (continued)

12 Investments in subsidiaries and jointly controlled entities

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

	Country	Number	Principal activity	Shares held	2017 %	2016 %
Company - subsidiary						
Albion Water Ltd	United Kingdom	03102176	Water & Sewerage inset appointments	£1 ordinary	51	-
SC Technology GmbH	Switzerland	-	Waste treatment processes	CHF ordinary	100	100
Water 2 Business Ltd	United Kingdom	8518831	Billing services	£1 ordinary	70	70
Wessex Concierge Ltd	United Kingdom	10826537	Energy switching	£1 ordinary	100	-
Wessex Concierge Services Ltd	United Kingdom	10826922	Energy switching	£1 ordinary	100	-
Wessex Engineering & Construction Services Ltd	United Kingdom	3652435	Engineering services	£1 ordinary	100	100
Wessex Logistics Ltd	United Kingdom	2306465	Dormant	£1 ordinary	100	100
Wessex Promotions Ltd	United Kingdom	5421311	Dormant	£1 ordinary	100	100
Wessex Property Services Ltd	United Kingdom	2277590	Dormant	£1 ordinary	100	100
Wessex Spring Water Ltd	United Kingdom	2881033	Dormant	£1 ordinary	100	100
Wessex Water Commercial Ltd	United Kingdom	2372795	Dormant	£1 ordinary	100	100
Wessex Water Engineering Services Ltd	United Kingdom	2286860	Dormant	£1 ordinary	100	100
Wessex Water Enterprises Ltd	United Kingdom	2279151	Water supply and waste water services	£1 ordinary	100	100
Wessex Water Pension Scheme Trustee Ltd	United Kingdom	3913589	Dormant	£1 ordinary	100	100
Wessex Water Services Ltd	United Kingdom	2366648	Water supply and waste water services	£1 ordinary	100	100
Wessex Water Trustee Company Ltd	United Kingdom	2278257	Dormant	£1 ordinary	100	100
YTL Engineering Ltd	United Kingdom	3696600	Dormant	£1 ordinary	100	100
YTL Services Ltd	United Kingdom	2277608	Dormant	£1 ordinary	100	100
Company – joint venture						
Bristol Wessex Billing Services Ltd	United Kingdom	4143955	Billing services	£1 A ordinary	50	50
Group - subsidiary						
Enterprise Laundry Services Ltd	United Kingdom	8488681	Laundry services	£1 ordinary	100	100
GENeco Ltd	United Kingdom	06842738	Waste water services	£1 ordinary	100	100
GENeco South West Ltd	United Kingdom	09326393	Waste water services	£1 ordinary	100	100
SC Technology Nederlands BV	Netherlands	-	Waste treatment	Euro ordinary	100	100
SC Technology Deutschand GmbH	Germany	-	Waste treatment	Euro ordinary	100	100
Wessex Electricity Utilities Ltd	United Kingdom	06718971	Dormant	£1 ordinary	100	100
Wessex Utility Solutions Ltd	United Kingdom	06718997	Engineering services	£1 ordinary	100	100
Wessex Water Services Finance PLC	United Kingdom	3704265	Issue of bonds	£1 ordinary	100	100
Group – joint venture						
Searchlight Collections Ltd	United Kingdom	07940022	Billing services	£1 ordinary	50	50

The registered address of the United Kingdom subsidiary companies is Wessex Water Operations Centre, Claverton Down Road, Bath, BA2 7WW apart from Water 2 Business Ltd which is 21e Somerset Square, Nailsea, Bristol BS48 1RQ.

Notes to the financial statements (continued)

12 Investments in subsidiaries and jointly controlled entities *(continued)*

Bristol Wessex Billing Services Ltd is considered a Jointly Controlled Entity because Wessex Water Ltd and Bristol Water Holdings Ltd each hold 50% of the equity share capital and voting rights of the company and as a result, it has no single controlling party. The registered address is 1 Clevedon Walk, Nailsea, Bristol BS48 1WA.

Searchlight Collections Ltd is considered a Jointly Controlled Entity because it is a 100% owned subsidiary of Bristol Wessex Billing Services Ltd. The registered address is PO Box 930, Galmington Trading Estate, Cornishway West, Taunton, Somerset TA1 9LQ.

Summary aggregated financial information on jointly controlled entity

	2017	2016
	£000	£000
Bristol Wessex Billing Services Ltd		
Assets	**1,616**	880
Liabilities	**(1,616)**	(880)
Net assets	**-**	-

Investment in Subsidiaries - Company

	2017	2016
	£m	£m
Carrying value at 1 July	**82.5**	82.5
Additions (see note 2)	**0.2**	-
Written off in the year	**-**	-
Carrying value at 30 June	**82.7**	82.5

13 Inventories

	Group		**Company**	
	2017	2016	**2017**	2016
	£m	£m	**£m**	£m
Raw materials and consumables	**3.3**	3.3	**-**	-
Work in progress	**7.1**	7.2	**-**	-
	10.4	10.5	**-**	-

Raw materials, consumables and work in progress recognised as cost of sales in the year amounted to £3.4m (2016 - £3.2m). There was no write-down of inventories to net realisable value in either year.

14 Trade and other receivables

	Group		**Company**	
	2017	2016	**2017**	2016
	£m	£m	**£m**	£m
Trade receivables	**78.9**	65.4	**0.3**	0.5
Owed by subsidiary companies	**-**	-	**61.2**	27.0
Owed by other group companies	**4.8**	2.3	**2.3**	2.3
Owed by parent company	**89.5**	89.5	**89.5**	89.5
Prepayments and accrued income	**102.4**	87.2	**7.3**	7.4
Other debtors	**5.7**	6.0	**0.8**	0.9
	281.3	250.4	**161.4**	127.6

Notes to the financial statements (continued)

15 Cash and cash equivalents

	Group 2017 £m	2016 £m	Company 2017 £m	2016 £m
Short-term bank deposits	**90.0**	112.0	**-**	-
Cash at bank	**7.1**	14.6	**0.4**	7.2
	97.1	126.6	**0.4**	7.2

16 Other interest-bearing loans and borrowings

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

	Group 2017 £m	2016 £m	Company 2017 £m	2016 £m
Non-current liabilities				
Bank loans	**449.3**	415.0	**33.8**	-
Finance lease liabilities	**1.4**	6.9	**-**	-
Inter-company loans	**1,584.1**	1,572.1	**-**	-
	2,034.8	1,994.0	**33.8**	-
Current liabilities				
Bank overdraft	**-**	12.1	**-**	-
Short term bank borrowing	**8.2**	-	**-**	-
Current portion of finance lease liabilities	**5.5**	5.0	**-**	-
Loan from parent company	**3.3**	3.3	**3.3**	3.3
	17.0	20.4	**3.3**	3.3

Terms and debt repayment schedule

	Currency	Nominal interest rate	Year of maturity	Face value 2017 £m	Carrying amount 2017 £m	Face value 2016 £m	Carrying amount 2016 £m
Bank loans	Sterling		2018-2024	**449.3**	**449.3**	**415.0**	**415.0**
Inter-company loans							
Bond	Sterling	5.375%	2028	**198.8**	**198.4**	**198.7**	**198.3**
Bond	Sterling	5.75%	2033	**347.1**	**346.1**	**346.9**	**345.9**
Bond	Sterling	4.00%	2021	**198.9**	**198.9**	**198.6**	**198.6**
Bond	Sterling	4.00%	2021	**103.9**	**103.9**	**104.8**	**104.8**
Index Linked Bond	Sterling	3.52%	2023	**75.5**	**75.5**	**74.4**	**74.4**
Index Linked Bond	Sterling	2.186%	2039	**62.9**	**62.9**	**61.0**	**61.0**
Index Linked Bond	Sterling	1.75%	2046	**101.6**	**101.6**	**100.1**	**100.1**
Index Linked Bond	Sterling	1.75%	2051	**101.6**	**101.6**	**100.0**	**100.0**
Index Linked Bond	Sterling	1.369%	2057	**101.6**	**101.6**	**100.0**	**100.0**
Index Linked Bond	Sterling	1.374%	2057	**101.6**	**101.6**	**100.0**	**100.0**
Index Linked Bond	Sterling	1.489%	2058	**64.0**	**64.0**	**63.0**	**63.0**
Index Linked Bond	Sterling	1.495%	2058	**64.0**	**64.0**	**63.0**	**63.0**
Index Linked Bond	Sterling	1.499%	2058	**64.0**	**64.0**	**63.0**	**63.0**
				2,034.8	**2,033.4**	**1,988.5**	**1,987.1**

Notes to the financial statements (continued)

16 Other interest-bearing loans and borrowings *(continued)*

Finance lease liabilities

Finance lease liabilities are payable as follows:

	Minimum lease payments 2017 £m	**Interest 2017 £m**	**Principal 2017 £m**	Minimum lease payments 2016 £m	Interest 2016 £m	Principal 2016 £m
Less than one year	**5.8**	**(0.3)**	**5.5**	5.4	(0.4)	5.0
Between one and five years	**1.5**	**(0.1)**	**1.4**	7.3	(0.4)	6.9
	7.3	**(0.4)**	**6.9**	12.7	(0.8)	11.9

17 Trade and other payables

	Group 2017 £m	2016 £m	**Company 2017 £m**	2016 £m
Current				
Amounts payable to parent company	**0.6**	0.6	**-**	-
Amounts payable to subsidiary companies	**-**	-	**21.0**	25.4
Amounts payable to other group companies	**-**	0.4	**-**	0.4
Amounts owed to associate companies	**(0.3)**	0.7	**-**	-
Trade payables	**18.1**	15.5	**-**	-
Dividend	**24.0**	23.7	**24.0**	23.7
Other creditors	**1.7**	2.6	**-**	-
Corporation tax	**16.8**	14.1	**-**	-
Taxation and social security	**2.6**	2.6	**-**	-
Accruals and deferred income	**138.1**	130.9	**0.3**	0.1
	201.6	191.1	**45.3**	49.6
Non-current				
Other payables	**0.2**	0.4	**-**	-
	201.8	191.5	**45.3**	49.6

18 Employee benefits

Pension plans

	2017 £m	2016 £m
Fair value of scheme assets	**593.3**	544.1
Present value of defined benefit obligations	**(788.9)**	(702.8)
Net (liability) for defined benefit obligations	**(195.6)**	(158.7)
Unfunded and compensatory added years pension	**(1.2)**	(1.2)
Total employee benefits	**(196.8)**	(159.9)

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

Notes to the financial statements (continued)

18 Employee benefits *(continued)*

Under the plan, employees are entitled to annual pensions on retirement using an accrual rate, final pensionable salary and service. Benefits are also payable on death and following other events such as withdrawing from active service. No other post-retirement benefits are provided to these employees.

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

a. Profile of the Scheme

The defined benefit obligation includes benefits for current employees, former employees and current pensioners. Broadly, about 34% of the liabilities are attributable to current employees, 17% to former employees and 49% to current pensioners. The Scheme duration is an indicator of the weighted-average time until benefit payments are made. For the Scheme as a whole, the duration is around 20 years reflecting the approximate split of the defined benefit obligation between current employees (duration of 25 years), deferred members (duration of 25 years) and current pensioners (duration of 15 years).

b. Funding requirements

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

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

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

There was a funding valuation at 30 September 2016, which is in the course of being finalised, and during which the progress towards full funding is being reviewed.

The Company also pays contributions of 18.2% of pensionable salaries in respect of current accrual and non-investment related expenses, with active members paying a further 7.3% of pensionable salaries on average. A contribution of £7.6m is expected to be paid by the Company during the year ending on 30 June 2018.

c. Risks associated with the Scheme

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

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

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

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

The Trustees insure certain benefits payable on death before retirement.

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

Notes to the financial statements (continued)

18 Employee benefits *(continued)*

d. Reporting at 30 June 2017

The results of the latest funding valuation at 30 September 2016 have been adjusted to the balance sheet date taking account of experience over the period since 30 September 2016, changes in market conditions, and differences in the financial and demographic assumptions. The present value of the defined benefit obligation, and the related current service cost, were measured using the Projected Unit Cost Method.

The principal assumptions used to calculate the liabilities under IAS 19 are set out below. The major assumptions used by the actuary were:

	30.06.17	30.06.16
Rate of increase in salaries – year 1	**3.2%**	1.6%
Rate of increase in salaries – years 2 (2016 years 2 to 3)	**3.2%**	2.8%
Rate of increase in salaries – long term	**3.7%**	3.3%
Rate of increase in pensions in payment	**2.2% or 3.1%**	1.8% or 2.7%
Rate of increase in pensions in payment - reduced level members	**2.2%**	2.0%
Discount rate	**2.6%**	2.9%
Inflation assumption – RPI	**3.2%**	2.8%
Inflation assumption – CPI	**2.2%**	1.8%

The mortality assumptions are based upon the recent actual mortality experience of Scheme members, and allow for expected future improvements in mortality rates. The assumptions are that a member currently aged 60 will live, on average, for a further 27.0 years (2016 – 27.0 years) if they are male, and for a further 29.1 years (2016 – 29.3 years) if they are female. For a member who retires in 2037 at age 60 the assumptions are that they will live, on average, for a further 28.2 years (2016 – 28.4 years) after retirement if they are male, and a further 30.4 years (2019 – 30.9 years) after retirement if they are female.

The mortality table adopted is based upon 95% of standard tables S2P(M/F)A adjusted to allow for individual years of birth. Future improvements are assumed to be in line with the CMI 2016 core projection, with a long term improvement rate of 1.0% p.a. for all members.

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

- A reduction in the discount rate of 0.1% from 2.6% to 2.5% would increase the scheme liabilities by £15.1m from £788.9m to £804.0m, increasing the scheme deficit to £210.7m
- An increase in the inflation assumption of 0.1% (from 2.2% to 2.3% for CPI and 3.2% to 3.3% for RPI) would increase the scheme liabilities by £14.5m from £788.9m to £803.4m, increasing the scheme deficit to £210.1m
- An increase in life expectancy of 1 year would increase the scheme liabilities by £32.5m from £788.9m to £821.4m, increasing the scheme deficit to £228.1m.

e. The value of the assets as follows:

	2017	2016
	£m	£m
Equities	**260.8**	251.9
Property	**35.8**	28.8
Government Bonds	**144.1**	145.1
Corporate Bonds	**127.5**	117.4
Other	**25.1**	0.9
	593.3	544.1

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

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

	2017 £m	2016 £m
Operating cost – service cost		
Current service cost	12.0	10.9
Administration expenses	0.6	0.5
Past service cost	0.1	0.1
Financing cost		
Interest on net benefit liability	4.7	4.6
Pension cost recognised in profit and loss	17.4	16.1
Re-measurements in Other Comprehensive Income (OCI)		
Return on plan assets in excess of that recognised in net interest	(41.9)	(12.0)
Actuarial losses due to changes in financial assumptions	100.7	64.0
Actuarial gains due to changes in demographic assumptions	(6.5)	(7.8)
Actuarial gains due to liability experience	(16.7)	(6.4)
Pension cost recognised in OCI	35.6	37.8
Total amount recognised in profit and loss and OCI	53.0	53.9

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

	2017 £m	2016 £m
Opening defined benefit obligation	702.8	638.2
Current service cost	12.0	10.9
Interest expense on defined benefit obligation	20.5	24.1
Contributions by scheme participants	0.2	0.2
Actuarial gains due to changes in demographic assumptions	(6.5)	(7.8)
Actuarial losses due to changes in financial assumptions	100.7	64.0
Actuarial gains due to liability experience	(16.7)	(6.4)
Net benefits paid out	(24.2)	(20.5)
Past service cost	0.1	0.1
Closing defined benefit obligation	788.9	702.8

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

	2017 £m	2016 £m
Opening fair value of scheme assets	544.1	516.1
Interest income on scheme assets	15.8	19.5
Re-measurement gains on scheme assets	41.9	12.0
Contributions by employer	16.1	17.3
Contributions by scheme participants	0.2	0.2
Net benefits paid out	(24.2)	(20.5)
Administration costs incurred	(0.6)	(0.5)
Closing fair value of scheme assets	593.3	544.1

Notes to the financial statements (continued)

18 Employee benefits *(continued)*

i. Additional analysis:

	2017 £m	2016 £m
Actual return on scheme assets		
Interest income on scheme assets	**15.8**	19.5
Re-measurement gains on scheme assets	**41.9**	12.0
Actual return on scheme assets	**57.7**	31.5
Analysis of amounts recognised in Other Comprehensive Income		
Total re-measurement losses	**(35.6)**	(37.8)
Total loss	**(35.6)**	(37.8)

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

	30.06.17 £m	30.06.16 £m	30.06.15 £m	30.06.14 £m	30.06.13 £m
Fair value of scheme assets	**593.3**	544.1	516.1	467.7	422.1
Defined benefit obligation	**(788.9)**	(702.8)	(638.2)	(566.5)	(536.0)
Deficit in the scheme	**(195.6)**	(158.7)	(122.1)	(98.8)	(113.9)
Experience gains on scheme assets	**41.9**	12.0	30.1		
Experience gains on scheme liabilities	**16.7**	6.4	6.9		

Defined contribution plans

The Group also operates a defined contribution pension plan.

The total expense relating to this plan in the current year was £3.1m (2016 - £2.0m).

Share-based payments

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

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

2011 UK Plan

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

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

Notes to the financial statements (continued)

18 Employee benefits *(continued)*

Under IFRS 2 equity settled share-based payments are measured at the fair value at the date of the grant, and the fair value is expensed on a straight line basis over the vesting period. There was no charge recognised in the profit and loss account for IFRS 2 as the share options have passed their vesting date. The key assumptions were as follows:

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

The following options were outstanding at 30 June 2016 and 30 June 2017:

Granted – Ordinary shares of RM0.50 each	Outstanding at 30 June 2016	Granted	Forfeited	Exercised	Outstanding at 30 June 2017
01/06/2012 Unapproved	7,895,000	0	(52,000)	-	7,843,000
01/06/2012 Approved	38,036,000	0	(602,000)	-	37,434,000
TOTAL	45,931,000	0	(654,000)	-	45,277,000

The share price at 30 June 2017 was RM1.45 or £0.26.

19 Deferred income

	Group Above ground grants £m	Below ground grants £m	Sewer adoptions £m	Total £m
Balance at 1 July 2015	8.3	153.6	56.2	218.1
Acquisitions through business combinations	-	-	-	-
Received during the year	1.0	8.7	25.9	35.6
Amortisation	(0.3)	(1.5)	(0.7)	(2.5)
Balance at 30 June 2016	9.0	160.8	81.4	251.2
Balance at 1 July 2016	9.0	160.8	81.4	251.2
Acquisitions through business combinations	-	2.8	8.7	11.5
Received during the year	0.3	9.4	(3.5)	6.2
Amortisation	(0.4)	(1.2)	(0.7)	(2.3)
Balance at 30 June 2017	**8.9**	**171.8**	**85.9**	**266.6**

Sewer adoptions received in the year include a reduction for the revision of previous estimates.

Notes to the financial statements (continued)

20 Provisions

Group

	Restructuring costs £m	Total £m
Balance at 1 July 2016	0.2	0.2
Provisions used during the year	(0.2)	(0.2)
Amounts arising from acquisitions	0.3	0.3
Balance at 30 June 2017	**0.3**	**0.3**
Non-current	-	-
Current	0.3	0.3
	0.3	**0.3**

The restructuring provision is in respect of a reorganisation announced before the prior year-end, delivering efficiencies in the first year of the AMP 6 price review period.

21 Deferred tax assets and liabilities – Group

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Liabilities		Assets		Net	
	2017	2016	**2017**	2016	**2017**	2016
	£m	£m	**£m**	£m	**£m**	£m
Property, plant and equipment	**378.4**	543.2	**(23.9)**	(169.8)	**354.5**	373.4
Employee benefits	-	-	**(33.3)**	(28.8)	**(33.3)**	(28.8)
Provisions	-	(0.1)	-	-	-	(0.1)
Tax liabilities / (assets)	**378.4**	543.1	**(57.2)**	(198.6)	**321.2**	344.5
Net of tax liabilities / (assets)	-	-	-	-	-	-
Net tax liabilities / (assets)	**378.4**	543.1	**(57.2)**	(198.6)	**321.2**	344.5

Movement in deferred tax during the year

	1 July 2016 £m	Recognised in income £m	Recognised in equity £m	30 June 2017 £m
Property, plant and equipment	373.4	(18.9)	-	**354.5**
Employee benefits	(28.8)	-	(4.5)	**(33.3)**
Provisions	(0.1)	0.1	-	-
	344.5	(18.8)	(4.5)	**321.2**

Notes to the financial statements (continued)

21 Deferred tax assets and liabilities – Group (continued)

Movement in deferred tax during the prior year

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

22 Capital and reserves

Share capital – Group and Company

Ordinary shares - Authorised

	2017 £m	2016 £m
346,666,670 ordinary shares at £0.60 each	**208.0**	208.0
	208.0	208.0
Allotted, called up and fully paid		
219,585,986 ordinary shares of £0.60 each	**131.8**	131.8
Shares classified in shareholders' funds	**131.8**	131.8

Share premium – Group and Company

	2017 £m	2016 £m
Share premium	**28.8**	28.8
	28.8	28.8
Total Share capital and Share premium	**160.6**	160.6

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

23 Financial instruments

(a) Fair values of financial instruments

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

The fair value of long term fixed rate inter-company loans are classified as level 1 in the IFRS 13 fair value hierarchy and have a carrying value of £1,584.1m and a fair value of £2,240.9m. Short term and floating rate borrowings have a carrying value and fair value of £467.7m.

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

Notes to the financial statements (continued)

23 Financial instruments *(continued)*

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

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

	Carrying amount 2017 £m	**Fair Value 2017 £m**	**Level 1 2017 £m**	Carrying amount 2016 £m	Fair Value 2016 £m	Level 1 2016 £m
Loans and receivables						
Cash and cash equivalents (note 15)	**(97.1)**	**(97.1)**	**(97.1)**	(126.6)	(126.6)	(126.6)
Total financial assets	**(97.1)**	**(97.1)**	**(97.1)**	(126.6)	(126.6)	(126.6)
Bank overdraft (note 16)	-	-	-	12.1	12.1	12.1
Other interest-bearing loans and borrowings (note 16 current)	**17.0**	**17.0**	**17.0**	8.3	8.3	8.3
Other interest-bearing loans and borrowings (note 16 non-current)	**2,034.8**	**2,691.6**	**2,691.6**	1,994.0	2,377.2	2,377.2
Total financial liabilities	**2,051.8**	**2,708.6**	**2,708.6**	2,014.4	2,397.6	2.397.6
Total financial instruments	**1,954.7**	**2,611.5**	**2,611.5**	1,887.8	2,271.0	2,271.0

(b) Credit risk

Financial risk management

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and investment securities. Cash and cash equivalents are short term deposits with counterparties that have a credit rating of A1+/P1 or A1/P1, and hence there is no exposure to credit risk for these values.

	2017 £m	2016 £m
Cash and cash equivalents	**97.1**	126.6
	97.1	126.6

The concentration of credit risk for trade receivables (see note 14) at the balance sheet date by geographic region was:

South West England	**78.5**	64.9
Netherlands	**0.4**	0.5
	78.9	65.4

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

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

	Gross *2017* £m	**Impairment *2017* £m**	Gross *2016* £m	Impairment *2016* £m
Less than 1 year	**59.5**	**(6.7)**	43.4	(4.3)
1 to 2 years	**18.5**	**(5.9)**	20.4	(7.5)
2 to 3 years	**15.0**	**(6.3)**	16.5	(7.6)
3 to 4 years	**12.0**	**(7.2)**	12.0	(7.5)
More than 4 years	**13.3**	**(13.3)**	17.8	(17.8)
	118.3	**(39.4)**	110.1	(44.7)

Notes to the financial statements (continued)

23 Financial instruments *(continued)*

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

	2017	2016
	£m	£m
Balance at 1 July	**(44.7)**	(44.1)
Written off	**17.2**	11.1
Charge to profit and loss	**(11.9)**	(11.7)
Balance at 30 June	**(39.4)**	(44.7)

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

(c) Cash flow hedges

The Company does not have any cash flow hedges (2016 – none).

(d) Liquidity risk

Financial risk management

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

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

	Carrying amount	**Contractual cash flows**	**Year 1**	**Years 2 to 5**	**Over 5 years**
	2017	**2017**	**2017**	**2017**	**2017**
	£m	**£m**	**£m**	**£m**	**£m**
Non derivative financial instruments					
Finance lease liabilities	**6.9**	**7.3**	**5.8**	**1.5**	**-**
Secured bank loans	**457.5**	**475.0**	**38.6**	**230.3**	**206.1**
Inter-company loans	**1,587.4**	**3,854.0**	**56.7**	**530.3**	**3,267.0**
Total financial instruments	**2,051.8**	**4,336.3**	**101.1**	**762.1**	**3,473.1**

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

Notes to the financial statements (continued)

23 Financial instruments *(continued)*

(e) Market risk

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

Interest rate risk

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

	2017	2016
	£m	£m
Fixed rate instruments	**947.3**	947.6
Floating rate instruments	**367.7**	342.3
Index linked instruments	**736.8**	724.5
	2,051.8	2,014.4

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

Sensitivity

The floating rate instruments are sensitive to interest rate movements. If there was a 1% increase in interest rates on those floating rate instruments at the balance sheet date, there would be an additional interest charge to the income statement of £3.7m.

24 Operating leases

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

During the year £2.3m was recognised as an expense in the income statement in respect of operating leases (2016 - £1.8m).

During the year £1.0m (2016 - £1.0m) was recognised as rental income by the Group.

25 Commitments

Capital commitments

Group

Capital expenditure contracted but not provided at 30 June 2017 was £65.6m (2016 - £108.6).

The Company has guaranteed Bonds of £1,584.1m (2016 - £1,572.1m) issued by its wholly owned subsidiary company Wessex Water Services Finance Plc.

Wessex Water Ltd provided performance guarantees on behalf of subsidiary companies of £0.8m (2016 - £0.8m).

26 Contingencies

Claims under the Environmental Information Regulations 2001 (EIR)

The Company has been notified of potential claims under the EIR relating to charges levied for drainage and water searches carried out since 2004, by a subsidiary company Wessex Water Enterprises Ltd, which it is argued should have been provided free of charge. The potential value of the claims is unclear, as very little detail has been provided, however we intend to defend all of the claims.

27 Related parties

There were no transactions with key management personnel.

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

There have been no transactions with pre-penultimate, penultimate and ultimate holding companies described in note 28.

Notes to the financial statements (continued)

28 Ultimate parent company and parent company of larger group

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

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

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

29 Subsequent events

There are no subsequent events requiring disclosure in these financial statements. The final dividend for the year was declared in June 2017 and paid in July 2017.

30 Accounting estimates and judgements

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

a) Defined benefit pension scheme deficit

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

b) Bad debt provision

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

c) Classification of capital expenditure

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