

# YTL UTILITIES (UK) LIMITED

## Annual Report and Financial Statements 30 June 2019

Registered in England & Wales No. 04341837

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## STRATEGIC REPORT

### Principal Activities

The principal activity of the Group is the supply of clean water and treatment and disposal of waste water.

The principal activity of the Company is that of a holding company.

The principal subsidiary of the Company is Wessex Water Ltd (WWL), also a holding company and a 100% subsidiary. WWL owns 100% of the share capital of 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. From 1 April 2017 there was a change in the regulated activity of WWSL with the retail element of non-household companies being open to competition. To enter into that competitive market WWL set up with Bristol Water Holdings Ltd a new company Water 2 Business Ltd.

WWL owns 100% of the share capital of Wessex Water Enterprises Ltd, which undertakes unregulated water and waste water activities in the WWSL region.

WWL also owns SC Technology GmbH, another 100% subsidiary company which is registered in Switzerland, installs and operates sludge drying equipment with the principal contracts being in the Netherlands.

WWL has two further subsidiaries, Albion Water Ltd and Flipper Ltd, see sections D and E of Strategic Report.

In 2016 the Company acquired YTL Property Holdings (UK) Ltd for the purpose of developing Filton Airfield near Bristol into a mixed housing and commercial property portfolio.

All subsidiary companies are listed in note 14.

### Financial performance

Profit after tax decreased by £13.9m from £118.0m to £104.1m, due to the factors shown below.

Turnover increased by £31.3m or 5.1% to £644.8m. 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, before exceptional items and excluding depreciation and amortisation, increased by £35.8m from £275.6m to £311.4m. 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 reduced by £0.7m from £111.1m to £110.4m.

The exceptional operating item in the prior year was a credit of £35.9m relating to changes in the defined benefit pension scheme. Further details can be found in Note 5 of the Accounts on page 46.

Interest charges, including other finance charges, increased by £6.4m from £97.2m to £103.6m. There was an increase in the level of debt and the cost of debt rose to 4.4%.

There was a £22.6m reduction in taxation from a charge last year of £47.9m to a charge of £25.3m this year. The main item explaining this difference relates to deferred tax item. Last year the Group decided to align its deferred tax accounting in relation to historical buildings with the parent company methodology. This resulted in a £16.6m deferred tax charge which was disclosed as an exceptional item as described in Note 5 of the Accounts on page 46.

Net debt (Total Financial Instruments as disclosed in note 26a) increased from £2,304.1m to £2,403.7m, a movement of £99.6m and comprised:

- cash flow from operating activities of £346.5m
- less net interest payments of £66.9m
- less tax payments of £18.8m
- less net capital investment of £236.2m
- less dividend payments of £85.8m, less a working capital and bond accrual outflow of £38.4m.

Dividends declared in the year amounted to £86.3m compared to £87.1m last year.

## STRATEGIC REPORT (continued)

Under IAS 19 the pension scheme deficit of £125.7m at the start of the year has increased to £130.0m at 30 June 2019, the increase in the liabilities of £36.8m being offset by the £32.5m 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 (before exceptional items) as a percentage of turnover was 36.1% (2018 – 37.0%), the fall was due to the profit reduction in WWSL, resulting from increasing cost pressures and the regulatory price cap. Interest cover (before exceptional items) fell to 2.2 times (2018 – 2.3 times) as net interest costs rose from the previous year.

### A. WESSEX WATER SERVICES LTD

#### Introduction

At Wessex Water, our aim is to give all customers excellent standards of service by providing high quality water and environmental services that protect health, improve the environment and give customers good value for money. We work hard to deliver the best levels of service and continually challenge ourselves to find better, cheaper ways of achieving this.

A great example is our introduction of the Wessex Water Marketplace, a hub where we publish the outcomes we need to achieve as an open question, allowing the market to propose solutions rather than asking for a price for a pre-determined answer. We'll work with the market to determine the best blend of solutions, sharing our data and being open and transparent in our assessment of the solutions.

Opening up our data, our challenges and our systems will mean that our customers, stakeholders and suppliers can be part of the solution to our future challenges.

#### *Our customers and communities*

We have recently published our plans for the period 2020-2025. This process started by asking all our customers what they wanted us to achieve in looking after the environment, delivering water efficiency, ensuring the highest water quality and minimising sewer flooding.

We received responses from more than 140,000 customers, which provided an excellent foundation for our plans. This prompted, for example, our ambition to be in the top 20 service providers in the UK, which is testament to the stretching nature of our plans.

It's critical that the communities we serve feel part of what we do and who we are – without their help and involvement, we cannot meet our stretching performance targets.

One area where we particularly need our communities to help us is in reducing blockages in our sewers. The vast majority of these are caused by people flushing wet wipes down their toilet or pouring fats down their kitchen sink. We need everyone to help us spread the message that we should only flush the three Ps – pee, poo and paper.

#### *Our natural environment*

Our region contains a wealth of rivers, streams, beaches and natural landscapes and is rich in wildlife with many areas protected by national and international designations. We work hard to protect and enhance the aquatic environment and our wider natural habitats.

As well as investing more than £105m in environmental improvements over the past year, we continue to make greater use of catchment-based approaches to understand and manage nutrients in the environment.

In the Poole Harbour catchment we have been working with farmers to offset our nitrogen contributions from Dorchester water recycling centre. Through our EnTrade auctions we have consistently beaten our target of 40 tonnes reduced per year over the last three years. We also continue to support catchment partnerships across our whole region, involving dozens of projects and partners and hundreds of farmers and landowners.

We were rated as 'good' in the Environment Agency's annual environmental performance assessment for 2018, with all agreed National Environment Programme schemes completed and 100% compliance with both discharge permits and sewage sludge standards. The proportion of pollution incidents reported by us rather than other parties fell to 74%. This is just below the 75% threshold for an 'industry leading' rating. We have already made improvements to return us to 'industry leading' for 2019.

## **STRATEGIC REPORT (continued)**

In the last year, we have also continued to make ourselves more resilient to external shocks by starting work on the second stage of our north Bristol sewer scheme – a major project that will support economic development and housing growth by transporting waste water for treatment at our Avonmouth water recycling centre.

### *Our people*

We have a great team at Wessex Water – they live our ethics and values every day, treat our customers, the wider community, the environment and one another with respect.

Our long-term nature can be seen in the number of people who work with us for their entire career – we greatly value the experience and knowledge that comes from 30 or more years' work at Wessex Water. As these colleagues retire, they are passing on their skills and experience to new generations of apprentices. Our very successful apprentice programme has continued to grow and more than 90 young people have now joined our scheme this year.

### *Our financial stewardship*

Under YTL's long-term stewardship we have always been structured and financed in a simple and transparent way that ensures we are financially resilient. Our gearing will continue at under 70% and we will continue to maintain a straightforward corporate structure. We pay our taxes, contributing more than £60m last year in corporation tax and business rates and other taxes, and are classed by HMRC as low risk.

### *The future*

The coming years present opportunities that are both exciting and critical for the ongoing success of the UK's water industry.

We must work hard to bridge gaps in knowledge and lifestyle, bringing our local communities together to fight against plastics, pollutions and sewer blockages, and ensuring we value our water and use it wisely.

We must continue to invest in critical infrastructure, delivering the highest quality of service and performance at a price that offers value for money to all our customers.

### **Our customers and communities**

We put customers at the heart of everything we do and encourage our people to go the extra mile whenever they can. Our customer service vision remains 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've spoken to more than 140,000 customers recently to make sure we are focusing on what's 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 using their channel of choice
- checking they are happy with the outcome if they have a problem
- compensating without quibble if things go wrong.

### *Customer experience*

We remain one of the top performers in the water sector for customer service. This is the final year of Ofwat's service incentive mechanism (SIM) and we are aiming to achieve top spot for this five-year period.

We consistently perform well on both satisfaction surveys and complaints handling, and we have exceeded our performance commitment target for this year on SIM. 92% of customers found it easy to resolve their problem this year, a slight drop on last year's score of 93%. Our customer excellence programme will conclude in the autumn of 2019 with new processes and IT systems fully implemented. These improvements will allow our teams to deliver improved customer experience, both in our call centres and face to face, and make it easier for customers to resolve any problems they have.

## STRATEGIC REPORT (continued)

But we do not simply want to be the best for customer service in the water sector; we want customers to be as satisfied with our service as they are with the top household names. We have set ourselves the challenge of being both a top performer on Ofwat's new measure of customer experience (C-MeX), and being in the top 20 UK service providers by 2025 on the Institute of Customer Service's UKCSI survey.

To achieve this, we will deliver a more personalised and effortless service. To many we remain a silent provider, so we need to build stronger relationships with our communities and maximise engagement through bills, our website, magazine, literature, social media, signage and livery.

Going the extra mile remains our mantra for customer service and our own feedback surveys show that customers continue to score us highly on satisfaction, first-time resolution, employee conduct, knowledge and effort - 96% of customers rate our service as very good or good.

In September, the Consumer Council for Water confirmed that we still have the lowest number of complaints of the water and sewerage companies. Our teams have delivered a 2.7% reduction in unwanted contacts, a 4% reduction in billing complaints this year and we are resolving 95% of our complaints first time.

We continue to offer a full range of communication channels including personal telephone answering and, most importantly, choice for our customers. The number of customers opting for self-service, text messaging and web chat keeps growing. Our new look website went live at the start of 2019 and the number of customers signed up to e-billing is also growing, with more than 90,000 customers now using the service.

Our customer excellence programme will conclude during 2019 with new processes and IT systems introduced. This will allow our teams to deliver improved customer experience, both in our call centres and face to face.

We launched our new look bill in 2018 and this year we've made further improvements based on feedback from our online customer panel.

Keeping customers informed through proactive calls or text messages when we have problems on our network, such as a burst water main or when we are fixing a problem at their home or business, remains one of our key drivers of satisfaction.

We have recently increased our compensation levels for customers affected by supply interruptions, which has been praised by the Consumer Council for Water.

Our value for money score has remained stable with 69% of customers rating our service as very good or good value for money. While this is still a strong score, it is lower than we have achieved in the past. As there have been no significant changes in our bills, we put this down to the negative media attention on the water industry over recent months, particularly around nationalisation.

Compared to sectors outside water, our net promoter score is higher than many of the top UK 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.

### *Customer engagement*

We engage extensively with our customers and stakeholders, both in day-to-day business and for specific programmes of work. Our challenge group, the Wessex Water Partnership, oversees all our engagement and how it is used.

Our innovative engagement strategy – Your say, your future – continued last year as we finalised our business plan. We ran focus group discussions with customers on water quality measures and a larger scale online survey on the level of support for outperformance payments.

Our Young People's Panel of sixth formers recruited from schools and colleges across our region has just completed its third year. Last year's panel helped us design an innovative campaign to encourage younger people to care about the waste water system. We used their sewer misuse video and various other materials at several student events across the autumn. This year's panel focused on engaging communities and, in particular, how we can encourage younger people to drink tap water and how to develop and promote our water refill strategy.

## STRATEGIC REPORT (continued)

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

- acceptability and affordability of our business plan
- days, times and methods of contacting us
- our new bill design.

We follow up each survey with a newsletter to participants, published on our website, explaining the findings and what we are doing as a result. We have recently launched Trust Pilot for customers to provide direct feedback on our service.

### *Customers in vulnerable circumstances*

Anyone can find themselves vulnerable at any time and we remain committed to providing extra care and help when and where it's most needed. Our approach to supporting customers in vulnerable circumstances has enabled us to retain the British Standard for Inclusive Service Provision, one of our performance commitments, for another year, along with the Louder than Words charter mark.

Every Customer Matters, our new look vulnerability strategy, was published alongside our business plan. Customer organisations and charities continue to endorse our model of customer care and the variety of support schemes available for their clients.

We continue to deliver the many and varied initiatives contained within the strategy to raise awareness of the support we offer, and increase take up. We have seen a 15% increase in the number of customers receiving support with their bills or debt and a 15% increase in the number of customers registered for Priority Services.

Making sure our people are able to deal with often complex situations is vital so we continuously update our specialist training in areas such as mental health. We have committed to be a dementia friendly utility and more than 800 of our employees are now Dementia Friends, the remainder due to be trained by the end of 2019.

We have developed strong partnerships with the two energy distribution network operators that cover our region, SSEN and WPD, and started a number of local data sharing projects with both. This means mutual customers who need Priority Services only need to register once. We continue to play an active role in the wider work to introduce data sharing at a national level by April 2020.

Our tap programme offers customers tailored solutions to their affordability problems via a range of schemes, and low rate tariffs to help them afford their charges and repay their debts, along with practical help to reduce their water and energy use. We deliver tap through longstanding and very effective partnerships with the debt advice sector, either face to face, or via telephone or online providers.

Under the guidance of our expert affordability advisory group, we are now helping more than 43,000 customers through tap. Just under 13,000 are receiving discounts of up to 90% through our main social tariff, Assist, and just over 17,000 low income pensioners are receiving a discount of around 20% on their bills through our Pension Credit discount.

We have launched nine new projects in hard to reach areas, predominantly working with foodbanks this year. We partner with the Quartet Community Foundation to deliver our Money Matters awards, which are now in their sixth year, and this year have provided grants to 10 different organisations delivering financial capability and money management projects across our region.

We are keen advocates of partnership working, not only with the debt advice community but also with other organisations and charities across our region who work with customers in vulnerable circumstances. We now have more than 100 partners.

Our online partner hub is, therefore, proving very popular, allowing partners to:

- obtain information on the support we offer
- request resources and application forms
- apply for schemes on behalf of their clients
- advertise and request our attendance at community events.

## **STRATEGIC REPORT (continued)**

### *Community engagement*

Our community engagement, aimed at keeping customers informed about what we do and involving them in our work, has expanded considerably over the last year to include a range of new initiatives.

#### *Hydrate Feel Great*

Our Hydrate Feel Great campaign has been promoting drinking tap water for healthy living with local public health organisations, foodbanks and Citizens Advice in Bath, Dorset, Somerset and Wiltshire.

We have supported and sponsored youth sports teams and dozens of locally organised five and 10km races with water and water refill bottles. Working in partnership with local communities and councils, we helped to provide public access to water refill points in Freshford and Bradford on Avon, Bath, Salisbury, Trowbridge and Weymouth.

#### *Wild about Wessex*

The Wild about Wessex scheme, set up to protect our natural environment for customer health, wellbeing and enjoyment, has supported the local Yellow Fish campaign to raise public awareness of drains connected directly to rivers and streams, protecting local river health.

And we supported Dorset Wildlife Trust to protect and encourage biodiversity through promoting water efficient planting for pollinators and insects

#### *Wessex Water Force*

More than 400 colleagues took part in the first year of the Wessex Water Force employee volunteer programme, using their day of volunteering to work with local charities across the region on everything from beach cleans, to painting a local school classroom and collecting Christmas trees for charity recycling.

The scheme was successfully relaunched for 2019 with a marketplace, attended by several of the charities we work with, to recruit new volunteers. Feedback was very positive both from the charities that benefit from support and the employees taking part in team days.

#### *Community champions*

As part of our community engagement programme, we identified members of our team willing to be a representative both for and to their local communities on our behalf in Wiltshire, Somerset, Dorset, South Gloucestershire, Bristol, Bath and BANES.

#### *Community and environmental funding*

Our community and environmental funding supported 46 groups across our region in the last year.

Our environmental Watermark awards included Curry Rivel in Bloom who received a grant of £300 towards a water supply, and the Companion Planting community organisation in Bristol who received £1,000 towards their Water Stories project. And we helped support stronger communities through our partnership work with local community foundations in Bristol, Wiltshire, Dorset and Somerset.

#### *Recreation and events*

We are reviewing all our recreational sites to ensure they are as accessible as possible, including working with organisations such as Dementia Adventure, reviewing signage and improving understanding and interpretation. We introduced family fishing sessions in association with the Angling Trust and organised events, such as the Clatworthy family and fishing day, attended by several local organisations

#### *Education*

Our longstanding free education service to schools continues to deliver topics associated with water, sewage, public health and environment.

Our three education advisers cover Bristol, Bath, Somerset, Wiltshire, South Gloucestershire and Dorset and not only visit schools, but also offer sessions at our education centres. Last year 35,212 children and students benefited from school visits and trips to water treatment and water recycling centres, where sessions included interactive presentations, demonstrations and hands-on science investigations. And as part of Wild about Wessex, our advisers promoted educational access for young people to our reservoirs.



## **STRATEGIC REPORT (continued)**

### *Business retail market*

The retail market enabling business customers to choose their retailer for water services has been running for two years. There are now 20 retailers active in our region, which includes five self-supply licensees and many national retailers.

Our performance as a wholesaler against the market performance framework has been strong with the company achieving all its targets. We are now looking at ways we can stretch our performance further during 2019-20.

The wholesale services team are enhancing experiences for retailers and their customers. Its focus on high standards of customer service and continuous improvement cycles has led to big improvements. The team has worked with retailers, the market operator and other key stakeholders on data and service improvements.

### *Water and sewerage*

Through innovation we are helping to improve the resilience of our services and reduce disruption. Examples include:

- billion-point cloud – photographic surveying enabling underground shafts to be dug with high accuracy. This is a technique we used successfully on the recent Bournemouth coastal interceptor sewer
- sewer re-rounder – a device we helped develop that fixes partially collapsed pipes in situ, much like an arterial stent. Earlier this year this won the 2019 South West Institute of Water Innovation award.

### *Drinking water*

We are committed to providing the highest quality drinking water to our customers. Our overall compliance with drinking water standards in 2018 was 99.96%.

Of the regulatory samples taken from customer taps, there were only nine failures out of approximately 26,000 tests for drinking water quality. These failures were all attributed to customers' internal plumbing and service pipes.

The number of customers contacting us about acceptability of water (taste, odour, illness and appearance contacts) fell slightly. It stands at just over 2,000 contacts from our 1.3 million customers to whom we supply water. This is above our target of 1,608 contacts. We aim to further reduce this figure through our ongoing mains rehabilitation work and optimising the way we supply water through our network.

Last year was the 42nd since we imposed any customer restrictions, such as hosepipe bans, on water use.

### *Sewage flooding minimised*

When sewage escapes from sewers it can be devastating for our customers so reducing it remains one of our key objectives. Thankfully it is a very rare occurrence – the number of internal flooding incidents from our sewers last year was 1.43 incidents per 10,000 properties, compared to our target of 1.68.

This was the result of:

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

As most flooding incidents occur due to blockages caused by inappropriate substances poured down the sink (such as fat) or flushed down the toilet (such as wet wipes), we continue to focus on customer awareness and information.

In January 2019 the water industry introduced a new standard for wipes that can be labelled as 'Fine to Flush'. Only one manufacturer has to date produced a wipe that disintegrates quickly enough to gain this accreditation and we are encouraging others to follow. We have also written to all the major supermarkets requesting they only stock wet wipes that meet this new standard or are clearly marked with 'Do Not Flush'.

## STRATEGIC REPORT (continued)

### Our natural environment

Our region contains 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.

We work hard to protect the environment in several ways:

- managing abstraction of water by cutting leakage, helping customers reduce usage and working with local communities
- surveying our wildlife-rich land and developing management plans to improve biodiversity, conservation and recreation
- working carefully to avoid harming wildlife as we undertake any projects
- offering grants to partners which help improve our catchment management
- introducing the Wessex Water Marketplace, a hub where we publish the outcomes we need to achieve as an open question, allowing the market to propose solutions rather than asking for a price for a pre-determined answer.

Our water citizenship project in Chippenham successfully engaged with the local community to enhance their relationship with their local water environment. The project involved workshops with local employees and community leaders, Home Check water efficiency visits and education on river water quality through a Yellow Fish volunteering day.

#### *Wessex Water Marketplace*

In April this year we launched the Wessex Water Marketplace, a hub to allow us to champion new, innovative ideas from within Wessex Water and outside, helping us to deliver the open system concept in our business plan. This will inspire innovation and encourage collaboration to deliver the best value for our customers and the environment.

At the heart of the Marketplace is an online platform [marketplace.wessexwater.co.uk](https://marketplace.wessexwater.co.uk) that allows us to interact with wider markets and share our data, posing challenges to the market as an open question. We'll work with the market to determine the best blend of solutions, sharing our data and being open and transparent in our assessment of the solutions.

Opening up our data, our challenges and our systems will mean that our customers, stakeholders and suppliers can be part of the solution to our future challenges. We will operate and procure solutions transparently, working with other providers where we can to develop sustainable answers to our challenges.

Our first two challenges have been published on the Marketplace platform. The first links to a proposed PR19 performance commitment, where we are asking for the market's help in reducing phosphorous levels in rivers in the Hampshire Avon catchment.

The second asks how best to communicate with our sites, now and into the future, as technology changes and previous infrastructure becomes obsolete in 2025. Future challenges will cover areas across the business, from leakage and water efficiency to waste water treatment options.

This builds on our work in the past, such as our industry leading approach to catchment management using EnTrade to partner with farmers to deliver environmental improvements, our participation in the bioresources market through GENeco and the partners we work with to serve our customers.

As a private company delivering essential public services, we want the way that we deliver to add much wider value to society. The Wessex Water Marketplace is our next step on this journey and we hope you will join us by bringing ideas and solutions that continue to improve services for current and future generations.

## STRATEGIC REPORT (continued)

### *Water resources*

Last year was characterised by a dry and hot summer and autumn. Catchment soils reached record levels of dryness, delaying the start of reservoir and groundwater refill and over the year we received only 80% of the rainfall we expect. At the start of 2019-20 reservoirs are full but some groundwater aquifers are at below average storage levels.

We met our performance commitment for the abstraction incentive mechanism at Mere. We didn't export any water from the catchment when groundwater was below the trigger threshold.

Following public consultation on our draft water resources management plan, in September 2018 we submitted a final version to Defra that is aligned with our business plan. The water resources plan sets out how we will maintain a balance between supply and demand while protecting the environment for the next 25 years.

We forecast a surplus for the full planning period and set out ambitious proposals to extend our water efficiency work with customers, pursue greater levels of metering and deliver leakage reductions of 15% in the first five years of the plan.

Our work with neighbouring companies and the Environment Agency on regional water resources planning through the West Country Water Resources group has gained momentum in 2018-19. We've developed a work programme to explore the most efficient use of water across company boundaries and are reviewing opportunities for new trading opportunities with Southern Water, supported by modelling and knowledge sharing.

### *Tackling leakage and improving water efficiency*

Our Money Back guarantee scheme to encourage customers to switch to a meter has been in place for over a year now. More than 90% of customers have saved money as a result of changing to metered charges and we have been proactively contacting those who have paid more to offer water efficiency support to help bring their bills down.

We are committed to reducing the amount of treated water that is used unnecessarily or lost through leaks from our pipework. This maintains the resilience of our services, helps to keep bills affordable and leaves more water in the environment.

During 2018-19 we reduced leakage to below 67 MI/d, which meets our target for the year and we met our target of fixing 80% of leaks reported to us in the same day.

We continued delivery of our Home Check water efficiency programme and made more than 6,000 visits to customer properties to fit water saving devices, fix simple plumbing leaks and offer tailored behavioural advice. We repaired nearly 5,000 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 147 litres per person, which is above our target. Per capita consumption is influenced by many variables which are outside our control, not least the weather – the heatwave conditions during much of summer 2018 saw demands rise by around 20%.

We will continue to update our leakage management practices as we seek to reduce leakage to 66.5 MI/day by 2020 and, looking further ahead, deliver a 15% reduction by 2025 as pledged in our business plan.

### *Catchment-based approach*

We use catchment-based strategies to deliver sustainable, cost effective solutions; this often means we can 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 have also taken a more catchment-based approach to understanding and managing nutrients (phosphorus and nitrogen) in the environment.

As part of our catchment permitting trial in the Bristol Avon catchment, we have been assessing the impact from our assets across the catchment rather than at specific sites. This has enabled us to deliver a greater level of phosphorus reduction – 40 tonnes against a target of 31 tonnes this year – at a lower overall capital cost.

## **STRATEGIC REPORT (continued)**

In the Poole Harbour catchment we have been working with farmers to offset our nitrogen contributions from Dorchester water recycling centre. Through our EnTrade auctions we have consistently beaten our target of 40 tonnes reduced per year over the last three years.

### *Catchment partnerships*

We support four catchment partnerships within our region, including co-hosting the Bristol Avon and Dorset partnerships. Since 2016, 14 projects have been delivered via the Bristol Avon catchment fund and have restored 64ha of habitat, improved 15km of river and engaged or supported more than 30 farmers.

Over the last year the Dorset catchment partnership has been involved in 38 projects across the three catchments – Poole Harbour, Stour and West Dorset Rivers and Coastal Streams. There are more than 20 partners involved with further engagement from over 500 people across the catchment, including more than 100 farmers/land owners.

We support Litter Free Coast and Sea project officers in both Dorset and Somerset. They deliver innovative engagement and awareness campaigns promoting behaviour change to residents, tourists and businesses on actions which can be taken to improve bathing water and beach quality.

### *Environmental performance*

While 2018 was not a year of many extreme rainfall events, we have continued to invest in new major sewers in the north of Bristol as part of our plan to respond to climate change, as well as accommodating significant levels of new housing development.

The final phase of the £25m Frome Valley relief sewer was completed in 2018 and is now available to redirect flows from Yate around the north of Bristol to our water recycling centre at Avonmouth. Design work and consultation for the Trym relief sewer is well underway. This £60m investment, which will be completed during 2022-23, will provide additional storage and conveyance capacity to the west of Bristol and facilitate new development.

We have been delivering a programme to monitor overflows throughout our region by 2020 and have now installed event duration monitoring at 665 overflows, significantly ahead of the target of 498.

We were rated as 'good' in the Environment Agency's annual environmental performance assessment (EPA) with all agreed National Environment Programme (NEP) schemes completed and 100% compliance with both discharge permits and sludge standards.

We also achieved a reduction in total pollution incidents, but the proportion reported by us rather than other parties fell to 74%. This is just below the 75% threshold for an 'industry leading' rating. We have already made changes with the aim of returning us to 'industry leading' for 2019.

This year 96% of our bathing waters passed strict environmental standards. This is below our aspirational 100% target. Two beaches (Weston Main and Burnham Jetty) were assessed as having below standard water quality. Much of this is outside of our control but we have completed schemes in 2018-19 that could help the bathing water quality including constructing a 2,500m<sup>3</sup> underground storage tank at West Quay car park and a 5,000m<sup>3</sup> storage tank at Colley Lane, both in Bridgwater.

### *Environmental investigations*

Our environmental investigations programme includes trials of novel techniques such as at Sutton Bingham reservoir where we are using radio frequency tags and time-lapse photography to monitor sediment movement.

Our programme of investigations enables us to better understand our regional environment and the effects of our activities. This means we can base any future investment decisions on sound data and evidence. We modelled the contribution of our assets to help with alternative catchment solutions such as catchment nutrient balancing in the Dorset Stour and Parrett and Tone.

Between 2015 and 2020 we are delivering 45 environmental investigations, with nine outputs delivered in 2018-19, seven relating to the chemical investigations programme, one water resources investigation and one water resources implementation scheme.

## **STRATEGIC REPORT (continued)**

Many of our investigations are concluding and resultant data has been used as evidence to support improvements in our business plan for 2020-2025.

### *Wildlife and conservation*

Before construction starts, we investigate any potential impact on the environment, wildlife, archaeology and geology. This includes checking for the presence of protected and rare species. The latest innovation has been to develop the ability to use a sniffer dog to support terrestrial great crested newt surveys.

Our proactive conservation programme is set out in our Biodiversity Action Plan (BAP), through which we aim to halt or reverse biodiversity loss on our land. Our compliance with the national Site of Special Scientific Interest (SSSI) target is now at 99.5% of SSSI-designated land in favourable or recovering condition of which 62.5% is in favourable condition. This exceeds the national target of 95% favourable or recovering with at least 50% favourable.

This year we continued work to achieve a company performance commitment to assess 100% of our eligible landholding for its biodiversity value by 2020. By the end of the financial year we had brought the total land assessed to more than 95% of over 2,000 ha of eligible land.

### *Reduced carbon footprint*

Through our partnership with the University of Bath (the Water Innovation Research Centre), we currently have links with 12 PhD students. Projects include using computer modelling, fluid dynamics and advanced computer graphics to optimise aeration used in waste water treatment and improving plastics recovery from food waste and sewage.

One of our long-term sustainability goals is to be carbon neutral in our operations. Our net greenhouse gas emissions fell to 119 kilo-tonnes carbon dioxide equivalent in 2018-19.

This continues a trend of reductions that began 10 years ago and is our lowest annual operational carbon footprint since we began reporting in 1997. It also meant that we met our performance commitment for the year. As in previous years, it was achieved through a combination of energy efficiency improvements, renewable energy generation and the rapidly falling carbon dioxide intensity of UK grid electricity.

Our electricity use fell slightly from 2017-18 but remained close to the long-term average, mainly due to energy efficiency work cancelling out increasing energy use caused by tighter water and sewage treatment standards, and the operation of our regional water supply grid. This year, 25% of our electricity demand came from renewable energy generation on our sites.

### **Our people**

We aim to be an employer of choice providing opportunities for people at all stages of their careers and providing development for all levels of talent.

Mental health first aiders (MHFA) have been trained to spot early signs and symptoms of mental health issues, offer initial help and guide a person towards support. We currently have around 100 qualified MHFAs across the business.

We actively provide learning and development opportunities for our people at all levels within our business to consolidate their learning and upskilling through further education and professional development programmes.

Promoting and encouraging diversity and inclusion has again been a key focus this year. We firmly believe the diversity of our workforce should reflect the diversity of the communities we serve.

- We develop leadership capability, nurturing and further developing talent from across the business
- We continue to enhance our early careers and graduate community, which is our talent pipeline for the future
- Apprenticeships remain a key element of our resourcing strategy to build and maintain a sustainable workforce
- We support local businesses by sharing our good practice and the success of our apprenticeship programmes

## STRATEGIC REPORT (continued)

- Our People Programme is now embedded into our business with focus this year on mental health awareness and training of colleagues in mental health first aid
- We recognise that difference in personal characteristics is positive and brings a richness to our work environment that is essential to our continued success

### *Training*

We have delivered 800 courses with an average of 3.4 days' development training per colleague.

A partnership with Weston College enables Wessex Water colleagues to achieve leadership and management qualifications in line with the National Apprenticeship Standards and this year 45 people leaders have started their studies.

Leadership and management training programmes continue to provide managers with the opportunity to develop their skills in this area. We run in-house development programmes for new and experienced managers as well as a full soft skills training programme and coaching and mentoring initiatives.

To support colleagues' physical and mental health wellbeing, we developed and launched our internal resilience building training programme. This has provided more than 300 leaders and colleagues with the skills to identify and manage their own stress levels and how best to support others.

This year we have focused on further developing our e-learning platform, iLearn, and through delivering a blended approach to learning we have delivered a record amount of training. Training is more accessible than ever before, offered through a mix of interactive courses, learning bites, video content and online training programmes.

### *Early careers*

In March 2019, we welcomed the Minister of Skills and Apprenticeships as part of National Apprenticeship Week, during which we highlighted the need for schools to have a greater understanding of the employment opportunities within the water industry.

Encouraging widening participation in our early careers opportunities has been a key focus this year. To support social mobility we engage with young people excluded from traditional education through activities with pupil referral units and secure units.

We have significantly increased the appointment of people from BAME backgrounds to our early careers opportunities and supported the BAME 5 Cities Project with Bristol City Council.

Apprenticeship recruitment has been successful across the region with widespread interest and a significant increase in applicants for our technical apprenticeship roles. Almost 10% of our workforce currently undertake learning and development through apprenticeships, further or higher education. We work with the local community to promote apprenticeships as a valued and respected career pathway.

Of our technical apprenticeship applications, we have seen a significant increase over three years in our numbers of female graduates. Our work to engage larger numbers of women in the water industry continues.

We work closely with our education providers, Weston College and Bridgwater & Taunton College to develop the skills, knowledge and behaviours of colleagues to increase service quality and productivity within the business.

### *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 support and encourage flexible working where operationally feasible, ensuring it is accessible to our staff, increases motivation, promotes a better work-life balance and improves both performance and productivity.

This year we have undertaken a significant project on diversity and inclusion across the organisation, canvassing the views of more than 200 colleagues via workshops and interviews, assessing our gaps against best practice and formulating plans to continue improving our diversity and integration.

## STRATEGIC REPORT (continued)

### *Culture*

We have a strong, friendly and engaging culture, and colleagues enjoy working for us and with each other. We held an employee survey this year and 88% of colleagues rated us a good company to work for and 79% rated us a great place to work. Our employee engagement increased to 81%. Our people are important to us and we listen to their feedback and put action plans in place to address key areas of feedback.

### *Gender pay gap*

All companies employing more than 250 employees are required to disclose their gender pay gap at 5 April each year.

The gender pay gap is the difference in average hourly pay received by men and women. The following data represents our gender pay gap figures as at 5 April 2019. It should be noted that the gender pay gap is different to equal pay, the right for men and women to be paid the same rate of pay for doing work that is of equal value.

Gender pay data	2019
Mean gender pay gap	4.9%
Median gender pay gap	4.6%
Mean gender bonus gap	20.7%
Median gender bonus gap	9.6%
Proportion of men paid a bonus	74.5%
Proportion of women paid a bonus	59.4%

### *What is the mean?*

The mean gender pay gap is the difference in average hourly pay for men compared to women at all levels across Wessex Water.

### *What is the median?*

The median represents the midpoint across a list of values in numerical order. If we list the average hourly pay in numerical order, the median is the middle number. The median pay gap is the percentage difference in average hourly pay for the middle man compared to the middle woman across Wessex Water.

### *Pay quartiles by gender*

Our gender pay gap remains significantly lower than the UK average \* and reflects gender distribution in job roles across our workforce rather than any equal pay issues. But, we recognise that there is further room for improvement.

We have a robust job evaluation process. We operate a framework of grades and pay ranges within each grade, and we are confident our approach on pay is not influenced by gender.

In common with many businesses with a predominance of STEM skills, the water industry is heavily male dominated. We recognise that diversity is a strength and we continue our efforts to create a diverse and inclusive environment to improve the representation of women within the industry and our business and the industry.

We value the differences a diverse workforce brings and are committed to creating and promoting an inclusive workplace for employees and all those who work with the company. We have clear areas of focus which we believe will contribute to reducing our gender pay gap. Current areas of focus include:

- reflecting the diversity of the community we serve
- community education
- apprenticeships, graduates and early careers
- promoting and encouraging flexible working
- improving all forms of diversity and inclusion at all levels.

We believe these areas of focus will have a positive impact on reducing our gender pay gap over time.

## **STRATEGIC REPORT (continued)**

### *Health and safety*

Our new lone worker protection system went live in June 2018. A Safe Hub app monitors around 1,600 colleagues with up to 750 users deemed to be at greater risk provided with a dedicated SOS fob.

The management of health and safety is critical to our success and is embedded across all business areas to ensure we maintain our position as a responsible, safe employer where all employees can work safely and reach their full potential.

Protecting the health, safety and welfare of our staff, contractors and customers is a shared responsibility and we continue to deliver a strong health, safety and welfare culture in our day-to-day operations.

Our target is for zero accidents and we monitor all accidents, incidents and observations reported by employees. The information we collect assists in determining problem areas or emerging trends and allows resources to be allocated to prevent accidents or illnesses.

For the 12 months to 31 December 2018:

- 601 incidents reported (an increase of 8% from 2017)
- nine incidents were reported to the Health and Safety Executive (HSE) with the loss of 201 days. This is in line with the company target and the three-year average (nine incidents and 295 days lost)
- no fatalities or life changing (permanently disabling) injuries
- one reportable dangerous occurrence
- no enforcement action from the Health and Safety Executive.

### *All incidents*

Overall, 601 incidents were reported in the 12 months to 31 December 2018, including 133 near misses and 133 service strikes. The principal cause of all incidents after near misses and service strikes, remains as slips, trip and falls. This is in line with other companies and the national picture.

### *Reportable incident rate*

This is the measure of the number of reportable incidents per 1,000 employees. There were 4.0 incidents, which is in line with the company target of 4.7.

### *Lost time incident rate*

This includes all reported incidents involving staff that resulted in absence from work of one or more days. In 2018 there were 32 lost time incidents, an increase of 18% from 2017. The principal causes of lost time in 2018 were slips, trips and falls, and manual handling.

### *Enforcement action*

There was no enforcement action from the HSE relating to breaches of health and safety legislation in 2018.

### *Health, safety and welfare strategy*

We continue to embed a positive health, safety and welfare culture in our daily activities. This targets zero workplace accidents and supports our company aim to be a great place to work in which all employees can work safely and reach their full potential. Where possible we look to share innovation and best practice and learn from internally and externally reported incidents. To ensure we achieve this aim, our five-year health, safety and welfare strategy details performance measures in four strategic areas (see graphic on page 22).

Performance against the strategy and each area is monitored by the Wessex Water Health and Safety Management group and reported to the Corporate and Social Responsibility committee.



## STRATEGIC REPORT (continued)

### *External recognition*

Our continued commitment to high safety standards and performance has been recognised in 2018 with Engineering and Construction awarded a Highly Commended in the RoSPA Construction Engineering Industry sector award. This demonstrates our consistency after winning the Sir George Earle trophy in 2016 and the Construction Engineering Industry sector award in 2017.

We were also recognised for our work at Hinkley Point C (HPC), receiving the EDF HPC Best Safety Performance – Local Supplier award in the 2018 HPC Excellence awards.

### **Finance**

The UK group structure has remained the same since 2002 with the company wholly owned by Wessex Water Limited, which in turn is wholly owned by YTL Utilities (UK) Limited. Neither of these entities provide any intragroup funding to the company with the majority of the debt raised for the UK group sitting within WWSF Plc, a wholly owned subsidiary of WWSL and all borrowings at market rates provided by financial third parties.

Gearing, as measured by net debt to Regulatory Capital Value (RCV), stands at 65%. On a pensions-adjusted basis, this figure rises to 69%, which the board still finds an acceptable level. During the year the board has continued to pay particular attention to the projected level of the company's gearing ratio with a view, when declaring dividends, to protect the company's existing credit ratings.

The board remains committed to maintaining good investment grade credit ratings for the company at all times.

The latest actuarial valuation of the company's pension scheme took place on 30 September 2016, showing a deficit of £160.9m. Following this valuation, the company and pension trustees sought to take action to reduce the scheme deficit. A consultation was undertaken with scheme members which agreed that from April 2020 pension increases for active members would be measured using the Consumer Price Index (CPI) rather than the Retail Price Index (RPI) which had historically been used.

The company has agreed with the scheme's trustees a payment recovery plan in respect of the deficit comprising employer contributions of 21.7% and special contributions to reduce the deficit. The special contributions are £11.4m on 31 March 2019 and £11.4m plus inflation annually through to 31 March 2024. The company is committed to honouring the special contribution obligations it signed up to.

The company has an adequate 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. The company also negotiated a new £140m bank loan to replace an existing one that matured during the year.

### *Taxation strategy*

The company's approach to tax is fully aligned with the company's overall objectives. The company complies with the spirit and letter of UK tax legislation and claims all tax reliefs and allowances to which it is entitled. The company will consider reasonable tax planning opportunities which are in line with its risk appetite. As a general rule, the company does not enter into complicated structures nor engage 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, the company will seek external advice when required.

### **Risk Management**

The effective management of risk is central to how we can deliver effective and efficient services to our customers and minimise the impact we have on the environment. It is critical that we have a robust risk management framework in which material risks to the business are proactively identified, communicated and managed. The Company's processes are flexible to respond to changes in risk and ensure that the necessary controls and mitigation measures are put in place. Risks are defined as any event that can impede our ability to achieve our objectives. The most significant risks facing us are referred to as 'principal risks'.

## STRATEGIC REPORT (continued)

### *Risk management process*

Our policy on risk assessment and management is subject to regular review by the Board. Identification and management of risk is delivered through a hierarchy of risk management reviews from operational colleagues, senior management and Executive Directors. The Board reviews and is ultimately responsible for risk. To assist it in discharging its responsibilities, the Audit and Risk Committee reviews the company's internal control systems and process for managing risk.

Operational staff and senior management review, assess and record asset and operational risk monthly. Risks are scored in line with our process of assessing probability and impact on a "five-by-five" scoring mechanism. Risk mitigation plans are recorded and implemented where appropriate and pre-and post-mitigation scores are monitored.

Any identified risk acts as a foundation for the separate corporate risk register. The Risk Management Group maintains and reviews all business risks; the corporate risk register includes emerging and strategic risks.

The Risk Management Group comprises senior managers from across the whole business. The risks are assessed by subject matter experts and subject to independent challenge from our risk experts. We assess risk based on their financial, social, and environmental impacts. Risks above our tolerance levels will have additional measures to reduce the risk exposure.

Every six months the Risk Management Group submits the corporate risk register and summary report to the Risk Advisory Group (RAG), comprising the Executive Directors.

This RAG scrutinises and challenges the risks included within the register, ensures that we have comprehensively classified and assessed our risks and have appropriate mitigation methods. Any significant emergent risks or material changes in existing risks are reported to the RAG and the Board as they arise.

The CEO submits a bi-annual risk review paper to the Board for its review. This paper details the risk review process, identifies the current principal risks (listed below) to the business and the mitigation measures. It also records the status of emerging risks that have been identified.

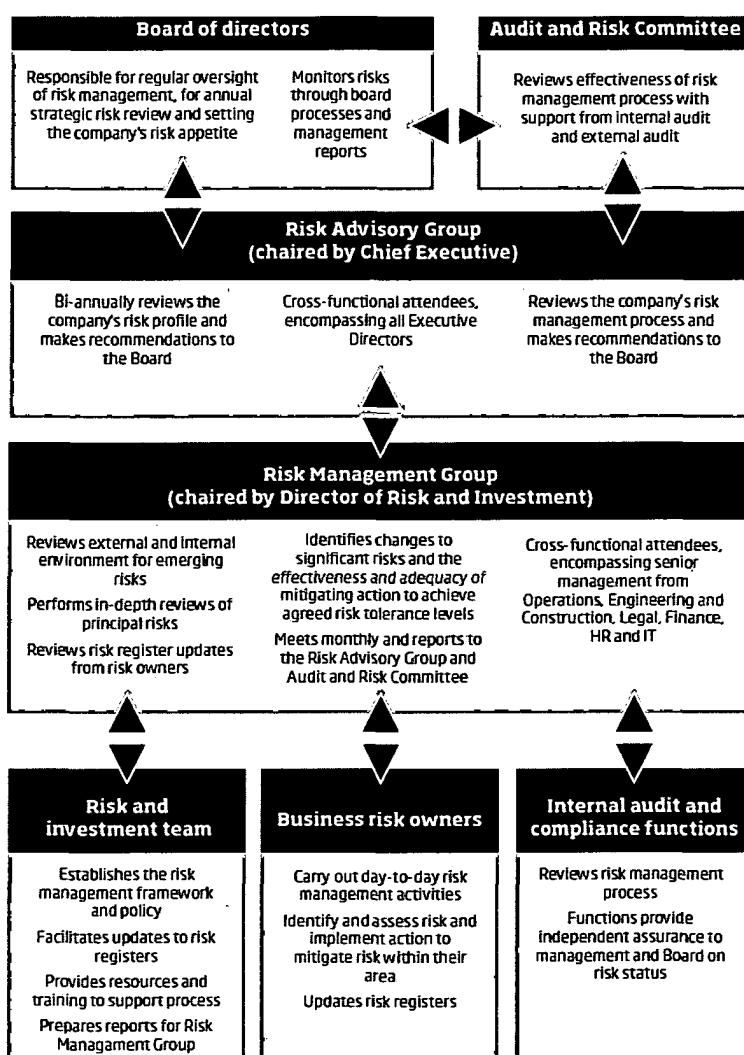
The Board reviews the Company's risk identification and management policy annually and reviews the principal risks bi-annually. It delegates its authority to the Audit and Risk Committee for the review and oversight of the effectiveness of the risk management process. To aid it in doing this, the Audit and Risk Committee includes audits that review the status and mitigations of the principal risks when agreeing the annual Internal Audit programme.

Risks have been identified evaluated and managed in line with our processes throughout the year and up to the approval of the Annual Report and Accounts.

### *Risk management governance*

The following table explains the governance structure for risk across the business. We continuously review and improve the risk management framework. Since the last review, the following changes have been made:

- the terms of reference of our quarterly Risk Management Group has been reviewed and the meeting frequency has been changed to monthly
- we have improved alignment with risk and internal assurance functions in prioritising risk-based audit and internal reviews
- we have undertaken a full review of our risk management framework, resulting in the initiation of a project to review risk management software applications.

**STRATEGIC REPORT (continued)****Principal risks**

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.

In the last year, no new principal risks have been identified.

The Board has agreed the removal of one principal risk relating to the information management issues regarding the General Data Protection Regulation (GDPR). Its consideration as a principal risk was a result of the significant changes required to the company's processes and systems. GDPR risk is now monitored as part of our information security process. Changes to processes have been implemented with business as usual continuous monitoring in place supported by projects to deliver replacement systems through a privacy by design approach.

Brexit remains an emerging risk to the business. Over the past 12 months, we have developed a greater understanding of our risk in the event of a 'no-deal' Brexit and worked in collaboration with the rest of the water industry and the government to ensure our continued resilience. We continue to monitor this risk as the future outcome on Brexit remains highly uncertain.

We have summarised our principal risks below. Further information is then provided on each principal risk including a statement on the context, strategic objectives affected and the mitigation in place to address each risk.

**STRATEGIC REPORT (continued)**

Principal risk	Description	Risk trend
Political / regulatory action	Actions taken by Government or regulators that fundamentally change the operating environment in which we work, affecting the business and/or cash flows	Increasing
Anti-competitive behaviour	Ineffective internal controls resulting in anti-competitive behaviour	Stable
Digital resilience	A malicious attack or failure of cyber security that results in the corruption or loss of data and/or inefficient operations	Stable
Widespread unfit water	External factors (i.e. contamination of supply or customer pipes) or internal factors (i.e. asset failure or poor operating performance) that results in the supply of unfit water affecting public health	Stable
Major pollution incident	External factors (i.e. sewer misuse or asset failure caused by a third party) or internal factors (i.e. asset failure or poor operating performance) that results in a major pollution incident significantly affecting the natural environment	Increasing
Health and safety	Failure of operational controls or an external hazard that affects the health and safety of employees, contractors or the public	Stable
Insider threat	A disgruntled, vulnerable or radicalised employee or contractor causes malicious damage to operational activities and/or the company's reputation	Stable
Resources and skills	Failure to have the right resources with the right skills in the right place will have an impact on our ability to operate effectively and on our strategic objectives	Stable
Failure to meet performance commitments	Failure to manage delivery of performance commitments resulting in a net penalty and/or reputational damage to the business	Stable
Ability to raise finance	We are unable to fund the business sufficiently in order to meet our liabilities as they fall due	Stable

**B. WESSEX WATER ENTERPRISES LTD**

The company generated turnover of £38.7m (2018 - £36.5m) 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.

In 2017 the company 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.

The company also has food waste contracts that are operated by 100% subsidiary GENeco (South West) Ltd and an industrial laundry business in our 100% subsidiary Enterprise Laundry Services Ltd that provides laundry services in the Bath area.

## **STRATEGIC REPORT (continued)**

### **C. SC TECHNOLOGY GMBH**

Trading under the name Swiss Combi the turnover of the company for the year was £7.2m (2018 - £6.9m). The principal subsidiary in Holland operates two sludge drying plants and has long term contracts with two major customers.

### **D. ALBION WATER LTD**

In 2016, WWL acquired 51% of Albion Water Ltd from Albion Water Group. 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 2019 was £0.6m (2018 - £0.7m).

### **E. FLIPPER LTD**

In 2017, WWL set up two new subsidiary companies, Wessex Concierge Ltd and its 100% subsidiary Wessex Concierge Services Ltd. The subsidiary company has acquired 100% of the activities of Flipper Ltd, whose principal activity is energy switching for domestic customers in United Kingdom. Turnover for the period to 30 June 2019 was £0.3m (2018 - £0.2m).

### **F. YTL PROPERTY HOLDINGS (UK) LTD**

On 8 July 2015 this company was incorporated to enable the Group to purchase land at Filton Airfield near Bristol for future development opportunities in respect of housing and commercial property.

In March 2019 planning was approved for the first residential phase to deliver 278 dwellings on a 10 acre parcel of land located by the Blenheim roundabout on the northern edge of the site. Design and pre planning work for an Arena in the Brabazon Hangars supported by public consultation and the Massive Attack concerts in March 2019 will support the submitting of a planning application in the autumn of 2019.

During the year the company engaged Savills (UK) Limited, an accredited independent valuer to provide a valuation of the investment properties as at 30 June 2019. The resulting value of development land was £91.0m which produced a £9.9m revaluation gain as disclosed in note 15.

The strategic report was approved by the Board of Directors on 17 September 2019 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 2019.

### DIRECTORS

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

Colin Skellett

Mark Watts

Francis Sock Ping Yeoh

Seok Kah Dato Yeoh

Seok Hong Yeoh

Seok Kian Yeoh

### Directors' Interests

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

### Directors' Emoluments

	Salary	Bonus	LTIP	Benefits	Pension	Total 2018-19 £000	Total 2017-18 £000
	£000	£000	£000	£000	£000		
Colin Skellett	460	412	4	32	0	908	930
Mark Watts	388	388	6	29	0	811	811
Total	848	800	10	61	0	1,719	1,741

Directors' emoluments and share interests in respect of services to group companies for Francis Sock Ping Yeoh, Seok Kah Dato Yeoh, Seok Hong Yeoh and Seok Kian Yeoh are shown in the accounts of YTL Power International Berhad and YTL Corporation Berhad, the pre-penultimate holding company. There were no material services to the company.

No directors are accruing benefits under Group pension schemes.

### Directors' Share Interests

#### Share options

The following Directors have been granted ordinary share options of Malaysian Ringgit RM0.50 each in YTL Power International Berhad (see note 21), under the 2011 UK Plan. The share price as at 30 June 2019 was RM0.82 or £0.16.

	At 30 June 2018	Exercise price RM	Date of grant	Exercise date	Expiry date	At 30 June 2019
Colin Skellett	87,000	1.65	01/06/2012	01/06/2015	31/03/2021	87,000
Colin Skellett	1,913,000	1.38	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	1.38	01/06/2012	01/06/2015	31/03/2021	913,000

## DIRECTORS' REPORT (continued)

Approved options were granted at an exercise price of RM1.65. Unapproved options were granted at an exercise price of RM1.49, which was adjusted to RM1.41 following the distribution to all shareholders of one share for every 20 ordinary shares held in 2014, and to RM1.38 following the distribution to all shareholders of one share for every 50 ordinary shares held in 2017.

No share options were exercised during the year (2018 – none) and no gains were made (2018 – none).

### Shares held

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

	At 30 June 2018	Movements	At 30 June 2019
Mark Watts	388,030	-	388,030

There is no requirement for directors to hold shares in the company.

### Dividends

The dividend policy is to declare dividends consistent with the Company's performance and prudent management of the economic risk of the business. The Board of WWSL ensures that its gearing stays at or below 70% in order to secure the current credit ratings and ongoing access to the capital markets. The dividend is shown in note 11.

### 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. Therefore, the directors have prepared the accounts on a going concern basis.

### Sustainability

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

### Ethical policy

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

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

### Our People

It takes great people and great teamwork to provide our services. 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 and encourage them to go the extra mile. 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.

### 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.

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

### **Modern Slavery Act**

The Group 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 2018.

### **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.

### **Research and Development**

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

### **Market Value of Land and Buildings**

In the opinion of the Directors, the market value of land and buildings of the Group exceeds the book value of these assets at 30 June 2019.

### **Charitable and political donations**

We aspire to be responsible members of our community as it reflects our aim of doing the right thing. It is also important to colleagues, customers and our shareholder.

During the year £3.5m was donated to UK charities (2018 – £5.7m). There were no political donations in either year.

### **Supplier Payment Policy**

We need to maintain relationships with suppliers who meet our high standards and demonstrate that they operate in accordance with recognised standards that uphold human rights and safety, prohibit modern slavery and promote sustainable sourcing.

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 2019 trade creditors represented approximately 29 days trade purchases (2018 – 30 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 and Annual Report and accounts of WWSL whose registered address is Wessex Water Operations Centre, Claverton Down, Bath, BA2 7WW.

### **Disclosure of Information to the Auditor**

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

### **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 2 to 20. Information on the use of financial instruments by the Company are shown in note 26 to the financial statements.



**DIRECTORS' REPORT** (continued)

**Re-appointment of Auditor**

Following a resolution of the Board Ernst & Young LLP were re-appointed as the auditor of the Company for the current financial year.

A handwritten signature in black ink, consisting of a series of loops and a long horizontal stroke, positioned above the printed name Mark Watts.

By order of the Board  
Mark Watts  
Director  
Claverton Down  
Bath BA2 7WW

17 September 2019

## **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 YTL UTILITIES (UK) LIMITED**

### **Opinion**

We have audited the financial statements of YTL Utilities (UK) Limited ('the parent company') and its subsidiaries (the 'group') for the year ended 30 June 2019 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Balance Sheets, the Group Statement of Changes in Equity, the Company Statement of Changes in Equity, the Consolidated Cash Flow Statement and the related notes 1 to 34, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the group's and of the parent company's affairs as at 30 June 2019 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union 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 under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

### **Other information**

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF YTL UTILITIES (UK) LIMITED *(continued)***

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

### **Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

### **Matters on which we are required to report by exception**

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

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

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

### **Responsibilities of directors**

As explained more fully in the directors' responsibilities statement set out on page 27, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the 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 the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

### **Auditor's responsibilities for the audit of the financial statements**

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 an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the

Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF YTL UTILITIES (UK) LIMITED *(continued)***

### **Use of our report**

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.



Paul Mapleston (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

Bristol

Date: *18th September 2019*

**Consolidated Income Statement**  
**for the year ended 30 June 2019**

	Note	2019 £m	2018 £m	2018 £m	2018 £m
		Total	Before exceptional items (Restated)	Exceptional items	Total (Restated)
<b>Revenue</b>	6	<b>644.8</b>	613.5	-	613.5
Raw materials and consumables used		(44.2)	(39.7)	-	(39.7)
Staff costs	7	(85.4)	(82.7)	35.9	(46.8)
Depreciation and amortisation		(110.4)	(111.1)	-	(111.1)
Other expenses		(181.8)	(153.2)	-	(153.2)
<b>Total expenses</b>	4	<b>(421.8)</b>	(386.7)	35.9	(350.8)
<b>Net valuation gain</b>	15	<b>9.9</b>	-	-	-
<b>Operating profit</b>	3	<b>232.9</b>	226.8	35.9	262.7
Financial income	9	0.1	0.4	-	0.4
Financial expenses	9	(103.6)	(97.2)	-	(97.2)
<b>Net financing expense</b>		<b>(103.5)</b>	(96.8)	-	(96.8)
<b>Profit before tax</b>		<b>129.4</b>	130.0	35.9	165.9
Taxation	10	(25.3)	(25.2)	(22.7)	(47.9)
<b>Profit for the year</b>		<b>104.1</b>	104.8	13.2	118.0
<b>Attributable to:</b>					
Equity holders of the parent		103.4	104.3	13.2	117.5
Non-controlling interest	25	0.7	0.5	-	0.5
<b>Profit for the year</b>		<b>104.1</b>	104.8	13.2	118.0

**Consolidated Statement of Comprehensive Income**  
**for the year ended 30 June 2019**

	2019 £m	2018 £m (Restated)
<b>Profit for the year</b>	<b>104.1</b>	<b>118.0</b>
<b>Other comprehensive income</b>		
<i>Items that will not be reclassified to profit or loss:</i>		
Remeasurements of defined benefit liability	(9.8)	32.5
Income tax on items that will not be reclassified to profit or loss	1.7	(5.5)
	(8.1)	27.0
<i>Items that are or may be reclassified subsequently to profit or loss:</i>		
Foreign currency translation differences – foreign operations	(0.1)	0.4
Income tax on items that are or may be reclassified subsequently to profit or loss	-	-
	(0.1)	0.4
<b>Other comprehensive income for the year, net of income tax</b>	<b>(8.2)</b>	<b>27.4</b>
<b>Total comprehensive income for the year</b>	<b>95.9</b>	<b>145.4</b>
<b>Profit attributable to:</b>		
Equity holders of the parent	103.4	117.5
Non-controlling interest	0.7	0.5
<b>Profit for the year</b>	<b>104.1</b>	<b>118.0</b>
<b>Total comprehensive income attributable to:</b>		
Equity holders of the parent	95.2	144.9
Non-controlling interest	0.7	0.5
<b>Profit for the year</b>	<b>95.9</b>	<b>145.4</b>

**Balance Sheets****At 30 June 2019**

	Note	Group	Group (Restated note 2.3)	Group (Restated note 2.3)	Company	Company
		2019 £m	2018 £m	2017 £m	2019 £m	2018 £m
<b>Non-current assets</b>						
Tangible assets	12	3,806.8	3,675.8	3,540.3	-	-
Intangible assets	13	6.3	6.2	5.8	-	-
Investment properties	15	91.0	85.4	77.4	-	-
Investments in subsidiaries	14	-	-	-	351.3	351.3
		<b>3,904.1</b>	<b>3,767.4</b>	<b>3,623.5</b>	<b>351.3</b>	<b>351.3</b>
<b>Current assets</b>						
Inventories	16	8.7	3.2	4.4	-	-
Trade and other receivables	17	212.1	209.7	188.5	121.1	112.5
Cash and cash equivalents	18	5.4	17.5	97.8	1.1	1.1
		<b>226.2</b>	<b>230.4</b>	<b>290.7</b>	<b>122.2</b>	<b>113.6</b>
<b>Total assets</b>		<b>4,130.3</b>	<b>3,997.8</b>	<b>3,914.2</b>	<b>473.5</b>	<b>464.9</b>
<b>Current liabilities</b>						
Bank overdraft	18	(3.8)	(6.2)	(0.6)	-	-
Other interest-bearing loans and borrowings	19	(92.2)	(151.3)	(13.7)	-	-
Trade and other payables	20	(310.5)	(304.1)	(279.6)	(220.0)	(210.8)
Provisions	23	(1.2)	(0.4)	(0.3)	-	-
		<b>(407.7)</b>	<b>(462.0)</b>	<b>(294.2)</b>	<b>(220.0)</b>	<b>(210.8)</b>
<b>Non-current liabilities</b>						
Other interest-bearing loans and borrowings	19	(2,313.1)	(2,164.1)	(2,275.6)	(247.0)	(242.7)
Contract liabilities	20	(5.0)	(0.4)	(0.2)	-	-
Employee benefits	21	(131.1)	(126.8)	(196.8)	-	-
Deferred grants and contributions	22	(284.3)	(271.7)	(266.6)	-	-
Deferred tax liabilities	24	(375.6)	(368.4)	(334.7)	-	-
		<b>(3,109.1)</b>	<b>(2,931.4)</b>	<b>(3,073.9)</b>	<b>(247.0)</b>	<b>(242.7)</b>
<b>Total liabilities</b>		<b>(3,516.8)</b>	<b>(3,393.4)</b>	<b>(3,368.1)</b>	<b>(467.0)</b>	<b>(453.5)</b>
<b>Net assets</b>	3	<b>613.5</b>	<b>604.4</b>	<b>546.1</b>	<b>6.5</b>	<b>11.4</b>
<b>Equity</b>						
Share capital	25	-	-	-	-	-
Retained earnings		612.2	603.8	546.0	6.5	11.4
Non-controlling interests	25	1.3	0.6	0.1	-	-
<b>Total equity</b>		<b>613.5</b>	<b>604.4</b>	<b>546.1</b>	<b>6.5</b>	<b>11.4</b>

These financial statements were approved by the Board of Directors on 17 September 2019 and were signed on its behalf by:



Mark Watts  
Director



**Statement of Changes in Equity****For the year ended 30 June 2019****Group**

	<i>Note</i>	<b>Share capital</b>	<b>Retained earnings (restated)</b>	<b>Non-controlling interests</b>	<b>Total equity (restated)</b>
		<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Balance at 1 July 2017 (restated)</b>		-	546.0	0.1	548.1
<b>Total comprehensive income for the year</b>					
Profit for the year		-	117.5	0.5	118.0
Other comprehensive income		-	27.4	-	27.4
<b>Total comprehensive income for the year</b>		-	144.9	0.5	145.4
<b>Transactions with owners, recorded directly in equity</b>					
Dividends	11	-	(87.1)	-	(87.1)
<b>Total contributions by and distributions to owners</b>		-	(87.1)	-	(87.1)
<b>Balance at 30 June 2018 (restated)</b>		-	603.8	0.6	604.4
<b>Balance at 1 July 2018 (restated)</b>		-	603.8	0.6	604.4
Effect of change in accounting policy		-	(0.5)	-	(0.5)
<b>Balance at 1 July 2018 (restated)</b>		-	603.3	0.6	603.9
<b>Total comprehensive income for the year</b>					
Profit for the year		-	103.4	0.7	104.1
Other comprehensive income		-	(8.2)	-	(8.2)
<b>Total comprehensive income for the year</b>		-	95.2	0.7	95.9
<b>Transactions with owners, recorded directly in equity</b>					
Dividends	11	-	(86.3)	-	(86.3)
<b>Total contributions by and distributions to owners</b>		-	(86.3)	-	(86.3)
<b>Balance at 30 June 2019</b>		-	612.2	1.3	613.5

Included in retained earnings are £551.8m of un-distributable reserves (2018 - £557.2m) 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 2019**

**Company**

	<i>Note</i>	<b>Share capital</b>	<b>Retained earnings</b>	<b>Non- controll- ing interests</b>	<b>Total equity</b>
		<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Balance at 1 July 2017</b>		<u>-</u>	<u>16.5</u>	<u>-</u>	<u>16.5</u>
<b>Total comprehensive income for the year</b>					
Profit for the year		-	82.0	-	82.0
Other comprehensive income		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total comprehensive income for the year		-	82.0	-	82.0
<b>Transactions with owners, recorded directly in equity</b>					
Dividends	11	<u>-</u>	<u>(87.1)</u>	<u>-</u>	<u>(87.1)</u>
Total contributions by and distributions to owners		<u>-</u>	<u>(87.1)</u>	<u>-</u>	<u>(87.1)</u>
<b>Balance at 30 June 2018</b>		<u>-</u>	<u>11.4</u>	<u>-</u>	<u>11.4</u>
<b>Balance at 1 July 2018</b>		<u>-</u>	<u>11.4</u>	<u>-</u>	<u>11.4</u>
<b>Total comprehensive income for the year</b>					
Profit for the year		-	81.4	-	81.4
Other comprehensive income		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total comprehensive income for the year		-	81.4	-	81.4
<b>Transactions with owners, recorded directly in equity</b>					
Dividends	11	<u>-</u>	<u>(86.3)</u>	<u>-</u>	<u>(86.3)</u>
Total contributions by and distributions to owners		<u>-</u>	<u>(86.3)</u>	<u>-</u>	<u>(86.3)</u>
<b>Balance at 30 June 2019</b>		<u>-</u>	<u>6.5</u>	<u>-</u>	<u>6.5</u>

**Cash Flow Statements**  
**for year ended 30 June 2019**

	Note	Group 2019 £m	Group 2018 £m (restated)	Company 2019 £m	Company 2018 £m
<b>Cash flows from operating activities</b>					
Profit for the year		104.1	118.0	81.4	82.0
<i>Adjustments for:</i>					
Depreciation, amortisation and impairment		110.4	111.1	-	-
Increase in fair value of investment properties		(9.9)	-	-	-
Financial income		(0.1)	(0.4)	(99.0)	(100.0)
Financial expense		103.6	97.2	12.5	11.2
Taxation		25.3	47.9	-	-
		<b>333.4</b>	<b>373.8</b>	<b>(5.1)</b>	<b>(6.8)</b>
(Increase) in trade and other receivables		(2.6)	(11.0)	(8.5)	-
(Increase)/decrease in inventories		(1.2)	1.2	-	-
Increase in trade and other payables		24.3	6.0	1.8	(4.9)
(Decrease) in provisions and employee benefits		(7.4)	(42.5)	-	-
		<b>13.1</b>	<b>(46.3)</b>	<b>(6.7)</b>	<b>(4.9)</b>
Tax paid		(18.8)	(22.9)	-	-
<b>Net cash from operating activities</b>		<b>327.7</b>	<b>304.6</b>	<b>(11.8)</b>	<b>(11.7)</b>
<b>Cash flows from investing activities</b>					
Proceeds from sale of property, plant and equipment		1.8	1.5	-	-
Interest received		0.1	0.5	-	-
Dividends received		-	-	99.0	100.0
Acquisition of property, plant and equipment		(239.3)	(244.3)	-	-
Proceeds from infrastructure charges and capital contributions		4.8	9.1	-	-
Acquisition of investment property		(2.9)	(7.9)	-	-
Acquisition of other intangible assets		(0.6)	-	-	-
<b>Net cash from investing activities</b>		<b>(236.1)</b>	<b>(241.1)</b>	<b>99.0</b>	<b>100.0</b>
<b>Cash flows from financing activities</b>					
Proceeds from new loan		203.3	6.0	-	-
Interest paid		(67.0)	(63.3)	(1.5)	(1.2)
Repayment of borrowings		(150.4)	-	-	-
Payment of finance lease liabilities		(1.4)	(5.4)	-	-
Dividends paid		(85.8)	(86.7)	(85.7)	(86.7)
<b>Net cash from financing activities</b>		<b>(101.3)</b>	<b>(149.4)</b>	<b>(87.2)</b>	<b>(87.9)</b>
Increase/(decrease) in cash and cash equivalents		(9.7)	(85.9)	-	0.4
Cash and cash equivalents at 1 July		11.3	97.2	1.1	0.7
<b>Cash and cash equivalents at 30 June</b>	18	<b>1.6</b>	<b>11.3</b>	<b>1.1</b>	<b>1.1</b>

## **Notes to the financial statements**

### **1. Accounting policies**

#### **1.1 Basis of preparation**

YTL Utilities (UK) Limited (the “Company”) is a private company incorporated, domiciled and registered in England in the UK. The registered number is 04341837 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 joint ventures. 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 34.

#### **1.2 Measurement convention**

The consolidated financial statements have been prepared on a historical cost basis, except for investment properties that have been measured at fair value.

#### **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.

#### **1.5 Financial instruments**

##### **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 Group’s cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

##### **Financial assets**

##### *Initial recognition and measurement*

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset’s contractual cash flow characteristics and the Group’s business model for managing them. The Group initially measures a financial asset at its fair value plus transaction costs.

## Notes to the financial statements (continued)

### 1. Accounting policies (continued)

#### 1.5 Financial instruments (continued)

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

#### *Subsequent measurement*

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and;
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to expected credit loss. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost includes intercompany loans repayable in more than 12 months, and interest receivable.

#### *Derecognition*

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's statement of financial position) when:

- The rights to receive cash flows from the asset have expired, or;
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

### Financial liabilities

#### *Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables and loans and borrowings.

#### *Subsequent measurement - Loans and borrowings*

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

This category generally applies to interest-bearing loans and borrowings. For more information, refer to Note 19.

## Notes to the financial statements (continued)

### 1. Accounting policies (continued)

#### 1.5 Financial instruments (continued)

##### *Derecognition*

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

#### 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 Group 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 IFRS 15 sewers adopted at nil cost to the Group are included in fixed assets at a fair value, which is the estimated 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:

- Land and buildings 15 to 80 years
- Infrastructure assets 60 to 150 years
- Plant, equipment and vehicles 3 to 30 years
- Office & IT equipment 3 to 10 years

Infrastructure assets comprise 8 components:

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.

## Notes to the financial statements (continued)

### 1. Accounting policies (continued)

#### 1.7 Intangible assets and goodwill (continued)

##### *Impairment of intangible assets*

Determining whether intangible assets are impaired requires an estimation of the value in use of those assets. The value in use calculation requires the Group to estimate the future cash flows expected to arise from those assets and apply a suitable discount rate in order to calculate the present value.

#### 1.8 Investment property

Investment properties include those portions of buildings that are held for long term rental yields and/or for capital appreciation and freehold land and/or land under operating leases that is held for long-term capital appreciation or for a currently indeterminate use. Investment properties include properties that are being constructed or developed for future use as investment properties.

Investment properties are measured initially at cost and subsequently at fair value with any change therein recognised in profit or loss for the period in which they arise. Where the fair value of the investment property under construction is not reliably determinable, the investment property under construction is measured at cost until either its fair value becomes reliably determinable or construction is complete, whichever is earlier.

Cost included expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for their intended use and capitalised borrowing costs.

An investment property is derecognised on its disposal, or when it is permanently withdrawn from use and no future economic benefits are expected from its disposal. The difference between the net disposal proceeds and the fair value is recognised in profit or loss in the period in which the item is derecognised. The amount of consideration to be included in the gain or loss arising from the derecognition of investment property is determined in accordance with the requirements for determining the transaction price in IFRS 15.

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use. For a transfer from investment property to inventories, the deemed cost for subsequent accounting is the fair value at the date of change in use.

#### 1.9 Inventories

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

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

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

For trade receivables and contract assets that are expected to have a maturity of one year or less, the Group has applied the practical expedient and followed the simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e. customer type, payment method, rating and coverage by letters of credit and other forms of credit insurance).

## Notes to the financial statements (continued)

### 1. Accounting policies (continued)

#### 1.10 Impairment excluding inventories and deferred tax assets (continued)

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., average earnings) are expected to deteriorate over the next year which can lead to an increased number of defaults in the sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables and contract assets is disclosed in Note 26.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

#### *Non-financial assets*

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

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

#### 1.11 Employee benefits

##### *Defined benefit plans*

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group'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 Group 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 Group's obligations and that are denominated in the currency in which the benefits are expected to be paid.

Re-measurements arising from defined benefit plans comprise actuarial gains and losses and the return on plan assets. The Group 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 Group, 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 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)

#### 1.11 Employee benefits (continued)

##### *Defined contribution plans*

A defined contribution plan is a post-employment benefit plan under which the Group 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.

##### *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 Group 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 Group's employees, they are accounted for as equity settled in the consolidated accounts. In the Groups accounts they are accounted for as a charge to the profit and loss account and an inter-company liability in each accounting period up to the vesting date.

#### 1.12 Provisions

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

#### 1.13 Revenue

The group adopted IFRS 15 using the modified retrospective method of adoption. The effect of the transition on the current period has not been disclosed as the standard provides an optional practical expedient.

##### Supply of water and sewerage services

The nature of the water industry in the UK is such that revenue recognition is subject to a degree of estimation. The assessment of water sales to customers is based on internal data where final settlement data is not yet available. At the end of each period, amounts of water delivered to customers are estimated and the corresponding billed and unbilled revenue is assessed and recorded in Revenue. For the purpose of the judgement various factors are considered such as seasonality, historic billing profiles, leakage data and general economic conditions.

The company, under the license granted by the Government, has the right to supply water and sewerage services to customers, together with an obligation to maintain and develop the network and ensure its continued availability. Revenue from contracts with customers is recognised when control of these goods or services are transferred to the customer at an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services.

For metered customers this amount is determined by the meter reading. For unmetered customers, the amount to which the Company has a right to receive is determined by the passage of time during which the customer occupies a property within the Company's licensed region. Revenue represents income receivable in the ordinary course of business, excluding VAT, for services provided. Revenue is recognised to the extent that it is probable that economic benefits will flow to the Company.

## Notes to the financial statements (continued)

### 1. Accounting policies (continued)

#### 1.13 Revenue (continued)

##### *Variable Consideration*

Unbilled receivables is considered to be a variable consideration which is not constrained as the Company considers it to be highly probable that a significant amount will not be reversed after year end. Unbilled receivables and the variable consideration is estimated using the most likely outcome approach.

##### Developer Services

These are services related to the obligation under statute to allow property developers to establish an authorised connection to the water and/or sewerage network. In obtaining the connection the developer may require the Company to undertake one or more of the of the following:

- (i) Connections and meter installation in exchange for payment;
- (ii) Requisitions of water mains in exchange for payment; and
- (iii) Adoptions of water and wastewater mains.

The developer is also required to pay infrastructure charges being a contribution to network reinforcement.

##### *Period over which performance obligations are satisfied*

From the perspective of the Company these activities are not separable nor distinct and instead form a bundle of activities necessary to establish an authorised connection from which the network access can be obtained. Also, the Company has an additional obligation under statute to keep the connection in place for all current and future occupiers and facilitate ongoing access to the network for as long as the property requires service provision. Consequently, revenue from Developer Services will be deferred over the shorter of expected period of service provision or the need to replace the assets at the end of their useful life (typically in the range 60 to 125 years).

##### *Financing Component*

Under IFRS 15 the transaction price needs to be adjusted if the timing of payments provides the customer or supplier with a significant benefit of financing the transfer of goods or services. In relation to this the Group has adopted the practical expedient available where the interval between transfer of the promised goods or services and payment by the customer is expected to be less than 12 months.

##### Renewable Obligation Certificates (ROC) and Renewable Heat Incentives (RHI)

A subsidiary of the group generates green electricity and gas from combined heat and power plants along with the Biomethane plants which are accredited with government incentive schemes. The schemes run for twenty years from application and are based on fixed tariffs plus inflation each year. ROCs are issued monthly relating to the supply of green electricity to the grid with meter readings and submissions subsequently checked by OFGEM. Revenue is therefore recognised in the period to which it relates.

##### Liquid Waste Treatment

Customers waste is categorised as domestic or controlled. The agreements for treatment of controlled waste are short term and acceptance of all waste is determined by available treatment capacity at Wessex Water Services Ltd sewage treatment works.

Domestic waste has an annual fixed tariff which has three tiers for strength of waste based on suspended solids and chemical oxygen demand. Waste is either measured using sludge loggers or from samples taken from the tanker sent to Wessex Water laboratory for analysis. Controlled waste is organic waste coming from industrial processes such as food processing and landfill leachate. Each individual waste stream is sampled with the suspended solids and chemical oxygen demand determining a treatment charge which is agreed with the customer.

Revenue is recognised in the period the waste was treated, the acceptance of waste from the customer being the fulfilment of the performance obligation.

## Notes to the financial statements (continued)

### 1. Accounting policies (continued)

#### 1.13 Revenue (continued)

##### Property Searches

The group trades under the brand 'Wessex Searches' delivering the CON29DW product, a drainage and water search. Solicitors, search agencies and individuals are supplied with mapping information of water supply and sewage pipes relating to an individual residential or commercial property. Associated products are also procured from third parties such as local councils, mining authority and environmental search providers and sold as a package within the CON29DW product.

The fee charged for these services covers a specific product supplied at a particular point with the revenue being recognised at this point.

#### 1.14 Contract Balances

##### *Contract Assets*

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

##### *Contract liabilities*

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

#### 1.15 Deferred Grants and Contributions

Grants and contributions in respect of specific expenditure on non-infrastructure fixed assets are treated as contract liability 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 an average of 108 years (see 1.6).

Under IFRS 15 sewers adopted at nil cost to the Group are shown in contract liability at a fair value, which is the estimated cost of construction, and amortised at the same rate as infrastructure assets are depreciated.

#### 1.16 Expenses

##### *Operating lease payments*

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

##### *Finance lease payments*

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

##### *Financing income and expenses*

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

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

## Notes to the financial statements (continued)

### 1. Accounting policies (continued)

#### 1.17 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.

#### 1.18 Dividends

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

#### 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.

##### *Joint venture*

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The consolidated financial statements account for joint ventures using the equity method, initially recognising the investment at cost. Subsequently the carrying amount is adjusted to recognise changes in the Group's share of net assets, 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 Fair value measurement

The Group measures investment properties, at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset takes place either:

- In the principal market for the asset or;
- In the absence of a principal market, in the most advantageous market for the asset

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset is measured using the assumptions that market participants would use when pricing the asset, assuming that market participants act in their economic best interest.

## Notes to the financial statements (continued)

### 1. Accounting policies (continued)

#### 1.20 Fair value measurement (continued)

A fair value measurement of investment properties takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

The Group has determined that the fair value measurement of its investment properties would be categorised as Level 3.

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period

#### 1.21 Adopted IFRS not yet applied

The following Adopted IFRS's have been issued but have not been applied in these financial statements:

- Classification and Measurement of Share-Based Payment Transactions – Amendments to IFRS 2
- Annual Improvements to IFRSs – 2014-2016 Cycle
- Annual Improvements to IFRSs – 2015-2017 Cycle

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

#### IFRS 16 Leases:

As the group owns most of its assets outright the adoption of this standard will not have a significant effect on the group's results or financial position. As the lessee, current estimates indicate right of use assets and lease liabilities of approximately £0.5m each will be incorporated into the Group's financial position.

As a lessor the Group estimates IFRS 16 would apply to approximately £0.3m of annual income on long-term leases with accompanying lease debtor of approximately £2.5m.

## Notes to the financial statements (continued)

### 2. Changes in accounting policies and disclosures

#### 2.1 New and amended standards and interpretations

The Group applied IFRS 15 and IFRS 9 for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

##### *IFRS 15 Revenue from Contracts with Customers*

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group adopted IFRS 15 on 1 July 2018, applying the standard retrospectively with the cumulative effect of initial application recognised at the date of initial application as an adjustment to retained earnings. Prior period comparatives have therefore not been restated. The Group has elected to use the practical expedient whereby any contracts that were completed in accordance with accounting standards as at 30 June 2018 need not be restated on an IFRS 15 basis. This transition approach has resulted in a £0.5 million decrease in retained earnings, a £4.8m reduction in Trade Receivables offset by a £4.2m reduction in the expected credit loss and a £0.1m reduction in Tax payable on the adoption date due to a change in the recognition revenue relating to customers designated as “non-payers” (customers who have fallen into arrears by four years or more of non-payment).

In accordance with IFRS 15 balances formerly classified as Inventories - Work in progress amounting to £6.0m at 1 July 2017 and £6.1m at 1 July 2018 have been reclassified as Trade and other receivables – contract cost assets.

##### *IFRS 9 Financial Instruments*

The Group has adopted IFRS 9 ‘Financial Instruments: Recognition and Measurement’ as at 1 July 2018 and applied the new rules using a modified retrospective approach, including the practical expedients permitted in the standard, where applicable. The Group has undertaken an assessment of its accounting policy as a result of the changes in the standard:

##### *Classification and Measurement*

The review included an assessment of the contractual cash flow characteristics of financial instruments, in order to determine their classification and measurement under IFRS.

Management’s assessment was to consider whether the contractual cash flows of the financial instruments represented solely payments of principal and interest (SPPI) in order to determine whether the financial instruments should be classified at amortised cost or fair value through profit and loss.

Management concludes that the financial instruments should continue to be held at amortised cost. There are no changes in classification or measurement of its assets and liabilities as a result of adopting IFRS 9.

IFRS 9 introduces a new impairment model which requires the recognition of impairment provision based on expected credit losses rather than incurred credit losses, as was required under IAS 39.

A credit 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. An expected credit loss is then calculated by a probability-weighted estimate of credit losses over the expected life of the financial instrument. Further details of the assessment performed are given in Note 26b Credit Risk.

As a result of this assessment, management have determined that no additional provision is required.

## Notes to the financial statements (continued)

### 2. Changes in accounting policies and disclosures (*continued*)

#### 2.2 Revaluation of investment properties

The Group re-assessed its accounting for investment properties with respect to measurement after initial recognition. The Group had previously measured all investment properties using the cost model whereby, after initial recognition of the asset classified as investment property, the asset was carried at cost less accumulated depreciation and accumulated impairment losses.

On 1 July 2018, the Group elected to change the method of accounting for investment properties, as the Group believes that the revaluation model provides more relevant information to the users of its financial statements and is more aligned to practices adopted by its competitors. In addition, available valuation techniques provide reliable estimates of the investment properties' fair value.

IAS 8 states that all changes in accounting policies should be applied retrospectively unless it is impracticable to determine the cumulative effect of the change. In 2019, the directors have assessed that whilst it is possible to quantify the fair value of the investment properties as at 30 June 2018, the resulting gain on revaluation would be immaterial to the accounts as the fair value corresponds to the cost.

In arriving at this conclusion, the directors have considered the following key factors:

- Planning permission was granted for phase 1 of the development in March 2019
- Public consultation regarding the siting of the Bristol Arena
- Concerts have taken place at the Filton site which helped to support the location as an entertainment space

The effect of these factors which have all occurred in the second half of the financial year is reflected in the revaluation gain for the current year. For details refer to Note 15.

#### 2.3 Prior period adjustments

During the year it was noted that £60.0m of infrastructure assets had not been depreciated in accordance with group accounting policies. This relates to the initial adoption of IFRS on 1 July 2013 and results in a charge of £2.5m to the retained earnings brought forward at 1 July 2017 with subsequent increase to the depreciation charge of £0.6m in 2018.

In addition to the depreciation, it was also identified that no deferred tax was recognised on the recognition of these assets and therefore a deferred tax liability has been recognised on the prior year brought forward net book value of the assets of £9.8m and a reduction in the deferred tax charge for 2018 of £0.1m.

It was further identified that no deferred tax was recognised in respect of non-qualifying assets recognised on the 2002 historical business combination in the consolidation. The result is a charge of £3.7m to the retained earnings brought forward at 1 July 2017 and a reduction in the deferred tax charge for 2018 of £0.2m.

Also, during the year, it was noted that £6.1m of intra-group profits on the transfer of assets between group companies had not been correctly eliminated in line with group accounting policies. As these assets have all now largely reached the end of their useful lives the whole amount has been recognised in the brought forward balances of 1 July 2017. This has resulted in a £0.5m increase in the brought forward cost of tangible assets at 1 July 2017 and a £5.6m reduction in brought forward depreciation and impairment of tangible assets at 1 July 2017. No adjustments to deferred tax were necessary.

These adjustments are summarised in the following table:

**Notes to the financial statements (continued)****2. Changes in accounting policies and disclosures (continued)****2.3 Prior period adjustments (continued)****Restatements included in the opening balances at 1 July 2017****Non-current assets**

Property, plant and equipment	Land & buildings	Infra-structure assets	Plant & equipment	Restatement at 1 July
	2017 £m	2017 £m	2017 £m	2017 £m
Cost				
<i>Write back of asset transfer gains</i>	0.8	1.1	(1.4)	0.5
Depreciation				
<i>Depreciation on £60m of infrastructure assets</i>	-	(2.5)	-	(2.5)
<i>Write back of asset transfer gains</i>	-	(0.3)	5.9	5.6
Net Book Value	0.8	(1.7)	4.5	3.6

**Non-current liabilities**

Deferred tax liabilities for property, plant and equipment

*Deferred tax on £60m of infrastructure assets* (9.8)*Deferred tax on non-qualifying assets* (3.7)

(13.5)

**Net assets**

(9.9)

**Equity**

Retained earnings

*IFRS 8 restatement of retained earnings* (9.9)



**Notes to the financial statements (continued)****2. Changes in accounting policies and disclosures (continued)****2.3 Prior period adjustments (continued)****Restatements included in the opening balances at 1 July 2018****Non-current assets**

Property, plant and equipment	Land & buildings	Infra-structure assets	Plant & equipment	Restatement at 1 July 2018
	2018 £m	2018 £m	2018 £m	2018 £m
<b>Cost</b>				
<i>Write back of asset transfer gains</i>	0.8	1.1	(1.4)	0.5
<b>Depreciation</b>				
<i>Depreciation on £60m of infrastructure assets</i>	-	(3.1)	-	(3.1)
<i>Write back of asset transfer gains</i>	-	(0.3)	5.9	5.6
<b>Net Book Value</b>	<u>0.8</u>	<u>(2.3)</u>	<u>4.5</u>	<u>3.0</u>

**Non-current liabilities**

Deferred tax liabilities for property, plant and equipment	
<i>Deferred tax on £60m of infrastructure assets</i>	(9.7)
<i>Deferred tax on non-qualifying assets</i>	(3.5)
	<u>(13.2)</u>
<b>Net assets</b>	<u>(10.2)</u>

**Equity**

Retained earnings	
<i>IFRS 8 restatement of retained earnings</i>	<u>(10.2)</u>

**Notes to the financial statements (continued)****3. Segmental analysis**

	2019 £m	2018 £m	2017 £m
<i>Turnover</i>			
Regulated	590.4	569.8	
Unregulated	54.4	43.7	
	<b>644.8</b>	<b>613.5</b>	
		Restated (note 2.3)	
<i>Operating profit</i>			
Regulated	224.4	261.7	
Unregulated	8.5	1.0	
	<b>232.9</b>	<b>262.7</b>	
		Restated (note 2.3)	Restated (note 2.3)
<i>Net assets</i>			
Regulated	603.4	597.1	530.3
Unregulated	10.1	7.3	15.8
	<b>613.5</b>	<b>604.4</b>	<b>546.1</b>

For management purposes, the group is organised into units based on the business environment it operates in and has two reportable segments, Regulated and Unregulated.

The board monitors the operating results of business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on a combination of Turnover, Operating profit and Net Asset value and is measured consistently with the consolidated financial statements.

**4. Expenses and auditor's remuneration**

	2019 £m	2018 £m
<i>Included in profit/loss are the following:</i>		
Expected credit loss on other trade receivables and prepayments	13.1	12.1
Research and development expensed as incurred	0.1	0.1
	<b>2019</b>	<b>2018</b>
	<b>£'000</b>	<b>£'000</b>
<i>Auditor's remuneration:</i>		
Audit of these financial statements	30	29
Audit of subsidiary companies	205	286
Other services pursuant to legislation	216	99
	<b>451</b>	<b>414</b>

**Notes to the financial statements (continued)****5. Exceptional items**

In 2018 changes in the rules of the pension scheme resulted in a £35.9m reduction in the IAS19 measurement of retirement benefit obligations, which was shown in the Income Statement as a reduction in staff costs within total expenses. The £35.9m reduction in expenses generated a £6.1m deferred tax charge, resulting in a net exceptional credit of £29.8m, which on the balance sheet increased retained earnings, although the increased retained earnings were not distributed as dividends.

Also, in 2018, the Group aligned its deferred tax accounting in relation to historical industrial buildings with the wider group methodology with regards to the expected manner of recovery of the assets. This change resulted in a £16.6m deferred tax charge which was also treated as an exceptional item. The adjustment did not have any cash impact.

**6. Revenue from contracts with customers**

<b>Current year</b>	<b>House- hold £m</b>	<b>Non- house- hold £m</b>	<b>Total £m</b>
Wholesale revenue - Water Supply			
Unmeasured	53.6	5.4	59.0
Measured	74.1	77.9	152.0
	<u>127.7</u>	<u>83.3</u>	<u>211.0</u>
Wholesale revenue - Waste Water			
Unmeasured	108.6	4.9	113.5
Measured	143.4	75.9	219.3
	<u>252.0</u>	<u>80.8</u>	<u>332.8</u>
Retail revenue			
Unmeasured	11.1	-	11.1
Measured	26.4	-	26.4
	<u>37.5</u>	<u>-</u>	<u>37.5</u>
Other revenue			
Regulated			9.1
Unregulated			54.4
<b>Total revenue</b>			<u><u>644.8</u></u>
<b>Prior year</b>	<b>House- hold £m</b>	<b>Non- house- hold £m</b>	<b>Total £m</b>
Wholesale revenue - Water Supply			
Unmeasured	54.6	3.5	58.1
Measured	71.1	72.8	143.9
	<u>125.7</u>	<u>76.3</u>	<u>202.0</u>
Wholesale revenue - Waste Water			
Unmeasured	111.3	5.3	116.6
Measured	137.0	69.0	206.0
	<u>248.3</u>	<u>74.3</u>	<u>322.6</u>
Retail revenue			
Unmeasured	11.7	-	11.7
Measured	24.6	-	24.6
	<u>36.3</u>	<u>-</u>	<u>36.3</u>
Other revenue			
Regulated			8.9
Unregulated			43.7
<b>Total revenue</b>			<u><u>613.5</u></u>

**Notes to the financial statements (continued)****6. Revenue from contracts with customers (continued)**

In accordance with IFRS 15, revenue has been disaggregated based on what is recognised in relation to the core services of supplying clean water and the removing and treating of wastewater. Each of these services is deemed to give rise to a distinct performance obligation under the contract with customers, though following the same pattern of transfer to the customer who simultaneously receives and consumes both of these services over time. Residential retail charges relate solely to the margin applied to the wholesale amounts charged to residential customers. The wholesale charges and retail margin are combined in arriving at the total revenues relating to water and wastewater services provided to household customers.

Other revenues comprise a number of smaller non-core income streams including those relating to activities, typically performed opposite property developers, which impact the Group's capital network assets including activities that facilitate the creation of an authorised connection through which properties can obtain water and wastewater services.

**7. Staff numbers and costs**

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

	<b>Number of employees</b>	
	<b>2019</b>	<b>2018</b>
Average number of employees	<b>2,973</b>	<b>2,817</b>

The aggregate payroll costs of these employees was:

	<b>2019</b>	<b>2018</b>
	<b>£m</b>	<b>£m</b>
Wages and salaries	<b>110.9</b>	97.7
Social security costs	<b>11.0</b>	10.1
Pension costs - normal	<b>11.4</b>	13.9
Pension costs - exceptional	-	(35.9)
	<b>133.3</b>	<b>85.8</b>

These costs were allocated as follows:

Capitalised to tangible assets	<b>47.9</b>	39.0
Operating expenses - normal	<b>85.4</b>	82.7
Operating expenses - exceptional	-	(35.9)
	<b>133.3</b>	<b>85.8</b>

**Notes to the financial statements (continued)****8. Directors' remuneration**

	<b>2019</b> <b>£'000</b>	<b>2018</b> <b>£'000</b>
Total Directors' remuneration including benefits in kind	<u><b>1,719</b></u>	<u><b>1,741</b></u>
Remuneration of highest paid Director	<u><b>908</b></u>	<u><b>930</b></u>

Details of Directors' remuneration can be found in the Directors' Report. Directors' remuneration is in respect of two Executive Directors and four YTL appointed Directors (2018 - two Executive Directors and four YTL appointed Directors).

**9. Finance income and expense****Recognised in the income statement**

	<b>2019</b> <b>£m</b>	<b>2018</b> <b>£m</b>
<i>Finance income</i>		
Interest receivable on short-term bank deposits	<u><b>0.1</b></u>	<u><b>0.4</b></u>
Total finance income	<u><b>0.1</b></u>	<u><b>0.4</b></u>
<i>Finance expense</i>		
Net interest on net defined benefit pension plan liability	<u><b>(3.5)</b></u>	<u><b>(5.1)</b></u>
On bank loans and leases	<u><b>(100.1)</b></u>	<u><b>(92.1)</b></u>
	<u><b>(103.6)</b></u>	<u><b>(97.2)</b></u>
Net interest payable	<u><b>(103.5)</b></u>	<u><b>(96.8)</b></u>

In accordance with IAS 23 borrowing costs of £1.6m (2018 - £2.5m) associated with the funding of eligible capital projects have been capitalised at an interest rate of 4.4% (2018 – 4.1%).

**Notes to the financial statements (continued)****10. Taxation****Recognised in the income statement**

	2019 £m	2018 £m Restated
<i>Current tax expense</i>		
Current year	16.5	21.0
Overseas taxation	0.1	0.2
Adjustments for prior years	(0.2)	(1.5)
Current tax expense	<u>16.4</u>	<u>19.7</u>
<i>Deferred tax expense</i>		
Origination and reversal of temporary differences	8.4	11.3
Adjustments for prior years	0.5	16.9
Deferred tax expense	<u>8.9</u>	<u>28.2</u>
Tax expense in income statement	<u><u>25.3</u></u>	<u><u>47.9</u></u>

**Recognised in other comprehensive income**

	2019 £m	2018 £m
Remeasurements of defined benefit liability	<u>1.7</u>	<u>(5.5)</u>

**Reconciliation of effective tax rate**

	2019 £m	2018 Restated £m
Profit for the year	104.1	118.0
Total tax expense	<u>25.3</u>	<u>47.9</u>
Profit excluding taxation:	129.4	165.9
Tax using the UK corporation tax rate of 19% (2018 - 19%)	24.6	31.5
Impact of change in rate	(1.0)	(1.5)
Non-deductible expenses	2.4	2.5
Under / (over) provided in prior years	0.2	(1.2)
Exceptional item (see Note 4)	-	16.6
Other	(0.9)	-
Total tax expense	<u><u>25.3</u></u>	<u><u>47.9</u></u>

The statutory rate of corporation tax was 19% for the current and prior year. Deferred tax balances have been measured at 17% in both periods, in line with legislation introduced as part of the Finance Act 2016.

**Notes to the financial statements (continued)****11. Dividends**

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

	<b>2019</b>	<b>2018</b>
	<b>£m</b>	<b>£m</b>
Dividends for the current year	<b>62.9</b>	64.2
Final dividend	<b>23.4</b>	22.9
	<b>86.3</b>	87.1

Dividend payments are reviewed and approved on a quarterly basis by the board after taking into account both current and projected business performance. In particular the board takes into account:

- the company's current and projected performance in delivering the level of service customers expect from an efficient water and sewerage company and that where that level of service has not been delivered, that customers have been adequately compensated
- that the company is delivering the required quality and environmental outputs and making sufficient investment in its infrastructure to maintain and, where necessary, increase resilience
- that appropriate payments have been made and can continue to be made into the company's final salary pension scheme as agreed with the scheme's trustees
- that the correct amount of tax has been paid
- that the company has met any unexpected additional expenditure needs that may have arisen during the year to date, as new operational risks emerge
- sufficiency of distributable reserves

The board will only agree to the resultant distribution of the dividend if, on a forward-looking basis, it is satisfied that regulatory gearing will not exceed 70%. The company will maintain a solid investment grade credit rating at all times.

**Notes to the financial statements (continued)****12. Tangible assets – Group (restated)**

	Land & buildings £m (restated)	Infra-structure assets £m (restated)	Plant, equipment & vehicles £m (restated)	Office & IT equipment £m	Total tangible assets £m (restated)
<b>Cost</b>					
Balance at 1 July 2017 (restated)	875.3	2,139.3	1,750.1	31.1	4,795.8
Additions	4.0	72.3	169.4	5.4	251.1
Disposals	(1.3)	(1.9)	(12.3)	-	(15.5)
Foreign exchange movements	-	-	(0.8)	-	(0.8)
Balance at 30 June 2018 (restated)	878.0	2,209.7	1,906.4	36.5	5,030.6
Balance at 1 July 2018 (restated)	878.0	2,209.7	1,906.4	36.5	5,030.6
Transfers to intangible assets	-	-	-	(0.1)	(0.1)
Transfers to inventories	(0.5)	-	(1.2)	-	(1.7)
Additions	12.5	76.0	154.9	3.8	247.2
Disposals	(2.2)	5.6	(10.9)	-	(7.5)
Balance at 30 June 2019	887.8	2,291.3	2,049.2	40.2	5,268.5
<b>Depreciation and impairment</b>					
Balance at 1 July 2017 (restated)	(286.0)	(70.4)	(881.2)	(17.9)	(1,255.5)
Depreciation charge for the year (restated)	(14.4)	(19.4)	(75.0)	(2.9)	(111.7)
Disposals	0.7	-	10.9	-	11.6
Foreign exchange movements	-	-	0.8	-	-
Balance at 30 June 2018 (restated)	(299.7)	(89.8)	(944.5)	(20.8)	(1,354.8)
Balance at 1 July 2018 (restated)	(299.7)	(89.8)	(944.5)	(20.8)	(1,354.8)
Depreciation charge for the year	(14.3)	(20.2)	(80.1)	(3.3)	(117.9)
Disposals	1.3	-	9.7	-	11.0
Balance at 30 June 2019	(312.7)	(110.0)	(1,014.9)	(24.1)	(1,462.7)
<b>Net Book Value</b>					
At 1 July 2017 (restated)	589.3	2,068.9	868.9	13.2	3,540.3
At 30 June 2018 (restated)	578.3	2,119.9	961.9	15.7	3,675.8
At 30 June 2019	575.1	2,181.3	1,034.3	16.1	3,806.8

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 are no impairment losses recognised in these financial statements.

Details of the restatements due to prior period adjustments are shown note 2.3.

At 30 June 2019 the net carrying amount of leased plant and machinery was £4.2m (2018 - £7.0m).

Assets under construction included in the values above were £478.4m (2018 - £343.8m).

Cumulative borrowing costs capitalised and included above were £10.8m (2018 - £9.2m).

Included in freehold land and buildings above is an amount of £14.0m (2018 - £16.7m) in respect of land which is not depreciated.



**Notes to the financial statements (continued)****13. Intangible assets – Group**

	<b>Goodwill</b>	<b>External customer lists</b>	<b>Contractual trading rights</b>	<b>Other intangible assets</b>	<b>Total intangible assets</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Cost</b>					
Balance at 1 July 2017	0.4	2.1	4.4	-	6.9
Reclassified from tangible assets	-	-	-	0.8	0.8
<b>Balance at 30 June 2018</b>	<b>0.4</b>	<b>2.1</b>	<b>4.4</b>	<b>0.8</b>	<b>7.7</b>
Balance at 1 July 2018	0.4	2.1	4.4	0.8	7.7
Reclassified from tangible assets	-	-	-	0.1	0.1
Other acquisitions – externally purchased	-	-	-	0.6	0.6
<b>Balance at 30 June 2019</b>	<b>0.4</b>	<b>2.1</b>	<b>4.4</b>	<b>1.5</b>	<b>8.4</b>
<b>Amortisation and impairment</b>					
Balance at 1 July 2017	(0.2)	-	(0.9)	-	(1.1)
Amortisation for the year	-	-	(0.3)	(0.1)	(0.4)
<b>Balance at 30 June 2018</b>	<b>(0.2)</b>	<b>-</b>	<b>(1.2)</b>	<b>(0.1)</b>	<b>(1.5)</b>
Balance at 1 July 2018	(0.2)	-	(1.2)	(0.1)	(1.5)
Amortisation for the year	-	-	(0.3)	(0.3)	(0.6)
<b>Balance at 30 June 2019</b>	<b>(0.2)</b>	<b>-</b>	<b>(1.5)</b>	<b>(0.4)</b>	<b>(2.1)</b>
<b>Net Book Value</b>					
At 1 July 2017	0.2	2.1	3.5	-	5.8
At 30 June 2018	0.2	2.1	3.2	0.7	6.2
<b>At 30 June 2019</b>	<b>0.2</b>	<b>2.1</b>	<b>2.9</b>	<b>1.1</b>	<b>6.3</b>

***Amortisation and impairment charge***

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

The Group has considered the impact of the current open water market on the assumptions used and has conducted sensitivity analysis on the impairment test of the customer lists' carrying value. This has not resulted in any impairment of the carrying value at 30 June 2019 as the customer lists' recoverable amount exceeds their carrying value.

**Notes to the financial statements (continued)****14. Investments in subsidiaries and joint ventures**

The Group and Company have the following investments in subsidiaries and joint ventures:

	Country	Number	Principal activity	Shares held	2019 %	2018 %
<b>Company - subsidiary</b>						
Wessex Water Ltd	England & Wales	02366633	Investment holding	£1 ordinary	100	100
YTL Events Ltd	England & Wales	04776317	Concert promotion	£1 ordinary	100	100
YTL Land and Property (UK) Ltd	England & Wales	10015163	Investment holding	£1 ordinary	100	100
<b>Group - subsidiary</b>						
Albion Water Ltd	England & Wales	03102176	Water supply and waste water services	£1 ordinary	51	51
Enterprise Laundry Services Ltd	England & Wales	08488681	Laundry services	£1 ordinary	100	100
GENeco Ltd	England & Wales	06842738	Food waste treatment	£1 ordinary	100	100
GENeco South West Ltd	England & Wales	09326393	Food waste treatment	£1 ordinary	100	100
SC Technology GmbH	Switzerland	-	Investment holding	CHF ordinary	100	100
SC Technology Nederlands BV	Netherlands	-	Waste treatment	Euro ordinary	100	100
SC Technology Deutschland GmbH	Germany	-	Waste treatment	Euro ordinary	100	100
Water 2 Business Ltd	England & Wales	08518831	Non-household water retailer	£1 ordinary	70	70
Wessex Concierge Ltd	England & Wales	10826537	Investment holding	£1 ordinary	100	100
Flipper Ltd	England & Wales	10826922	Utility switching services	£1 ordinary	65	65
Wessex Electricity Utilities Ltd	England & Wales	06718971	Dormant	£1 ordinary	100	100
Wessex Engineering & Construction Services Ltd	England & Wales	03652435	Engineering services	£1 ordinary	100	100
Wessex Logistics Ltd	England & Wales	02306465	Dormant	£1 ordinary	100	100
Wessex Promotions Ltd	England & Wales	05421311	Dormant	£1 ordinary	100	100
Wessex Property Services Ltd	England & Wales	02277590	Dormant	£1 ordinary	100	100
Wessex Spring Water Ltd	England & Wales	02881033	Dormant	£1 ordinary	100	100
Wessex Water Commercial Ltd	England & Wales	02372795	Dormant	£1 ordinary	100	100
Wessex Utility Solutions Ltd	England & Wales	06718997	Engineering services	£1 ordinary	100	100
Wessex Water Engineering Services Ltd	England & Wales	02286860	Dormant	£1 ordinary	100	100
Wessex Water Enterprises Ltd	England & Wales	02279151	Power generation and waste treatment	£1 ordinary	100	100

**Notes to the financial statements (continued)****14. Investments in subsidiaries and joint ventures (continued)**

	Country	Number	Principal activity	Shares held	2019 %	2018 %
Wessex Water Pension Scheme Trustee Ltd	England & Wales	03913589	Dormant	£1 ordinary	100	100
Wessex Water Services Ltd	England & Wales	02366648	Water supply and waste water services	£1 ordinary	100	100
Wessex Water Services Finance PLC	England & Wales	03704265	Issue of bonds	£1 ordinary	100	100
Wessex Water Trustee Company Ltd	England & Wales	02278257	Dormant	£1 ordinary	100	100
YTL Developments (UK) Ltd	England & Wales	10495341	Housing development	£1 ordinary	100	100
YTL Engineering Ltd	England & Wales	03696600	Dormant	£1 ordinary	100	100
YTL Homes Ltd	England & Wales	10017065	Housing development	£1 ordinary	100	100
YTL Places Ltd	England & Wales	10539227	Dormant	£1 ordinary	100	100
YTL Property Holdings (UK) Ltd	England & Wales	09676296	Housing development	£1 ordinary	100	100
YTL Services Ltd	England & Wales	02277608	Dormant	£1 ordinary	100	100
<b>Group – joint venture</b>						
Bristol Wessex Billing Services Ltd	England & Wales	04143955	Billing services	£1 A ordinary	50	50
Searchlight Collections Ltd	England & Wales	07940022	Billing services	£1 ordinary	50	50

The registered address of the England & Wales 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.

Bristol Wessex Billing Services Ltd is considered a Joint Venture 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 Joint Venture 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.

**Notes to the financial statements (continued)****14. Investments in subsidiaries and joint ventures (continued)****Summary aggregated financial information on jointly controlled entity**

	<b>2019</b>	<b>2018</b>
	<b>£000</b>	<b>£000</b>
Bristol Wessex Billing Services Ltd		
Assets	<b>1.7</b>	<b>2.0</b>
Liabilities	<b>(1.7)</b>	<b>(2.0)</b>
	<hr/>	<hr/>
Profit/(loss)	<b>-</b>	<b>-</b>
	<hr/>	<hr/>

**Investment in Subsidiaries - Company**

	<b>2019</b>	<b>2018</b>
	<b>£m</b>	<b>£m</b>
Carrying value at 1 July and 30 June	<b>351.3</b>	<b>351.3</b>
	<hr/>	<hr/>

**15. Investment properties****a) Measurement gains and losses**

	<b>2019</b>	<b>2018</b>
	<b>£m</b>	<b>£m</b>
Balance at 1 July	<b>85.4</b>	<b>77.4</b>
Transfer to inventories	<b>(4.4)</b>	<b>-</b>
Transfer to infrastructure assets	<b>(2.8)</b>	<b>-</b>
Acquisitions	<b>2.9</b>	<b>8.0</b>
Net gain from fair value measurement	<b>9.9</b>	<b>-</b>
	<hr/>	<hr/>
<b>Balance at 30 June</b>	<b>91.0</b>	<b>85.4</b>
	<hr/>	<hr/>

The Group's investment properties consist of land at Filton Airfield, Bristol and the Brabazon Hangars.

As at 30 June 2019, the fair values of the properties are based on valuations performed by Savills (UK) Limited, an accredited independent valuer. Savills (UK) Limited is a specialist in valuing these types of investment properties.

**b) Operating gains and losses**

	<b>2019</b>	<b>2018</b>
	<b>£m</b>	<b>£m</b>
Rental derived from investment properties	<b>0.8</b>	<b>0.5</b>
Direct operating expenses generating rental income	<b>(0.8)</b>	<b>(0.5)</b>
Direct operating expenses that did not generate rental income	<b>(3.8)</b>	<b>-</b>
	<hr/>	<hr/>
	<b>(3.8)</b>	<b>-</b>
	<hr/>	<hr/>

The Group has no restrictions on the realizability of its investment properties and no contractual obligations to purchase, construct or develop investment properties.

**Notes to the financial statements (continued)****15. Investment properties (continued)****c) Description of valuation techniques used and key inputs to valuation of investment properties**

	Valuation technique	Significant unobservable inputs	Range
Hangars	Capitalised Income	Estimated rental value per sq-ft per annum Net yield percentage Void periods	£1.75 - £2.25 11% 12 Mths
Airfield	Transaction prices	Unit density per acre	18-28

In determining the fair value, the valuers have used valuation techniques which involve certain estimates. In relying on the valuation reports, the Group has exercised its judgement and is satisfied that the valuation methods and estimates are reflective of current market conditions. The valuation reports are prepared in accordance with recognised appraisal and International Valuation Standards. The estimates underlying the valuation techniques in the next financial year may differ from current estimates, which may result in valuations that may be materially different from the valuations as at reporting date.

In arriving at their valuation, the valuers have acknowledged the impact of Brexit but believe at a local level sentiment amongst developers and demand for both residential and commercial development land appears to be very strong.

**d) Fair value measurement**

The following table provides the fair value measurement hierarchy of the Group's investment properties.

	Level 1 £m	Level 2 £m	Level 3 £m
<b>Assets measured at fair value</b>			
Filton Airfield/Brabazon Hangars	-	-	91.0

**16. Inventories**

	Group 2019 £m	2018 £m	Company 2019 £m	2018 £m
Raw materials and consumables	3.6	3.2	-	-
Work in progress	5.1	-	-	-
	<b>8.7</b>	<b>3.2</b>	<b>-</b>	<b>-</b>

Raw materials, consumables and work in progress recognised as cost of sales in the year amounted to £6.2m (2018 - £5.2m). There was no write-down of inventories to net realisable value in either year.

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

	<b>Group</b>		<b>Company</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
		(restated)		
Amounts receivable from customers	<b>186.3</b>	184.5	-	-
Owed by subsidiary companies	-	-	<b>121.1</b>	112.5
Owed by other group companies	<b>2.5</b>	2.9	-	-
Owed by associate company	<b>0.7</b>	-	-	-
Contract cost assets	<b>5.9</b>	6.1	-	-
Prepayments	<b>7.7</b>	6.1	-	-
VAT debtors	<b>9.0</b>	8.1	-	-
Other debtors	-	2.0	-	-
	<b>212.1</b>	209.7	<b>121.1</b>	112.5

Amounts receivable from customers are expected to be recovered in no more than 12 months (see note 26b).

All outstanding related party receivable balances are owed on commercial terms and arise through normal business operations. The Group has considered the present value of the contractual cash flows, and compared this to a prudent assessment of the present value of the cash flows that are expected to be received. Having performed this assessment, the Group has determined that no material expected credit loss provisions are required as at year-end for related party balances owed.

In accordance with IFRS 15 balances formerly classified as Inventories - Work in progress amounting to £6.0m at 1 July 2017 and £6.1m at 1 July 2018 have been reclassified as Trade and other receivables – contract cost assets.

**Contract cost assets**

	<b>2019</b>	<b>2018</b>
	<b>£m</b>	<b>£m</b>
Balance at 1 July	<b>6.1</b>	6.0
Incurred during the year	<b>4.8</b>	4.4
Recognised as costs during the year	<b>(5.0)</b>	(4.3)
<b>Balance at 30 June</b>	<b>5.9</b>	6.1

**18. Cash and cash equivalents**

	<b>Group</b>		<b>Company</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Current Assets</b>				
Short-term bank deposits	-	6.7	-	-
Cash at bank	<b>5.4</b>	10.8	<b>1.1</b>	1.1
	<b>5.4</b>	17.5	<b>1.1</b>	1.1
<b>Current liabilities</b>				
Bank overdraft	<b>(3.8)</b>	(6.2)	-	-

**Notes to the financial statements (continued)****19. 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 26

	<b>Group 2019 £m</b>	<b>2018 £m</b>	<b>Company 2019 £m</b>	<b>2018 £m</b>
<b>Non-current liabilities</b>				
Bank loans	434.1	313.1	-	-
Other loans	0.6	0.5	-	-
Loan from parent company	77.2	72.8	77.2	72.8
Loan from other group company	169.9	169.9	169.9	169.9
Listed Bonds	1,631.3	1,607.8	-	-
	<b>2,313.1</b>	<b>2,164.1</b>	<b>247.1</b>	<b>242.7</b>
<b>Current liabilities</b>				
Short term bank borrowing	82.4	140.0	-	-
Other loans	9.8	9.9	-	-
Current portion of finance lease liabilities	-	1.4	-	-
	<b>92.2</b>	<b>151.3</b>	<b>-</b>	<b>-</b>

*Terms and debt repayment schedule*

	<b>Currency</b>	<b>Nominal interest rate</b>	<b>Maturity Year</b>	<b>Issue value 2019 £m</b>	<b>Carrying amount 2019 £m</b>	<b>Issue value 2018 £m</b>	<b>Carrying amount 2018 £m</b>
Bank loans	Sterling	1.05%-2.16%	2021-2024	434.1	434.1	313.1	313.1
<i>Related party loans</i>							
Loan from parent	Sterling	5.94%	2022	77.2	77.2	72.8	72.8
Loan from group	Sterling	3.94%	2022	169.9	169.9	169.9	169.9
<i>Bonds</i>							
Fixed Rate Bond	Sterling	5.38%	2028	200.0	198.7	200.0	198.6
Fixed Rate Bond	Sterling	5.75%	2033	350.0	346.3	350.0	346.2
Fixed Rate Bond	Sterling	4.00%	2021	200.0	199.4	200.0	199.1
Fixed Rate Bond	Sterling	4.00%	2021	100.0	102.0	100.0	103.0
Index Linked Bond	Sterling	5.77%	2023	50.0	80.5	50.0	79.7
Index Linked Bond	Sterling	2.99%	2039	50.0	66.6	50.0	65.0
Index Linked Bond	Sterling	2.57%	2046	75.0	108.3	75.0	104.5
Index Linked Bond	Sterling	2.57%	2051	75.0	108.3	75.0	104.5
Index Linked Bond	Sterling	2.01%	2057	75.0	108.3	75.0	104.5
Index Linked Bond	Sterling	2.02%	2057	75.0	108.3	75.0	104.5
Index Linked Bond	Sterling	2.09%	2058	50.0	68.2	50.0	66.1
Index Linked Bond	Sterling	2.08%	2058	50.0	68.2	50.0	66.1
Index Linked Bond	Sterling	2.09%	2058	50.0	68.2	50.0	66.0
Other loans	Sterling	5.77%	2026	0.6	0.6	0.5	0.5
<i>Short-term borrowing</i>							
Bank loans	Sterling	1.22%-1.67%	2019-2020	82.4	82.4	140.0	140.0
Other loans	Sterling	2.52%	2019	9.8	9.8	9.9	9.9
				<b>2,174.0</b>	<b>2,405.3</b>	<b>2,106.2</b>	<b>2,314.0</b>

The Index-linked Bonds accrue annually in line with the Retail Prices Index each year.

The disclosure of debt at Issue Value has been included for 2019, in prior years the disclosure was at Face Value.

**Notes to the financial statements (continued)****19. Other interest-bearing loans and borrowings (continued)***Finance lease liabilities*

Finance lease liabilities are payable as follows:

	Minimum lease payments 2019 £m	Interest 2019 £m	Principal 2019 £m	Minimum lease payments 2018 £m	Interest 2018 £m	Principal 2018 £m
Less than one year	-	-	-	1.5	(0.1)	1.4

*Changes in liabilities arising from financing activities*

Group	At 1 July 2018 £m	Cash flows £m	Other £m	At 30 June 2019 £m
Current interest-bearing loans and borrowings (excluding items listed below)	149.9	(81.3)	23.6	92.2
Current obligations under finance leases and hire purchase contracts	1.4	(1.4)	-	-
Non-current interest-bearing loans and borrowings (excluding items listed below)	2,164.1	144.6	4.4	2,313.1
<b>Total liabilities from financing activities</b>	<b>2,315.4</b>	<b>61.9</b>	<b>28.0</b>	<b>2,405.3</b>

The 'Other' column includes the effect of reclassification of the non-current portion of interest-bearing loans and borrowings, including obligations under finance leases and hire purchase contracts to current due to the passage of time and the effect of accrued but not yet paid interest on interest-bearing loans and borrowings. The group classifies interest paid as cash flows from financing activities.



**Notes to the financial statements (continued)****20. Trade and other payables**

	<b>Group 2019 £m</b>	<b>2018 £m</b>	<b>Company 2019 £m</b>	<b>2018 £m</b>
<b>Current</b>				
Amounts payable to parent company	23.4	22.9	23.4	22.9
Amounts payable to subsidiary companies	-	-	100.9	99.9
Amounts payable to other group companies	95.4	87.4	95.0	87.4
Amounts owed to associate companies	0.2	-	-	-
Trade payables	26.3	22.9	-	-
Other creditors	3.3	3.6	-	-
Corporation tax	10.6	13.8	-	-
Taxation and social security	3.3	3.0	-	-
Accrued expenses	94.2	96.6	0.7	0.6
Contract liabilities	53.8	53.9	-	-
	<b>310.5</b>	<b>304.1</b>	<b>220.0</b>	<b>210.8</b>
<b>Non-current</b>				
Contract liabilities	5.0	0.4	-	-
	<b>315.5</b>	<b>304.5</b>	<b>220.0</b>	<b>210.8</b>

Our standard payment terms for trade payables is end of month plus 30 days. Corporation tax is paid quarterly, other taxation is normally payable within one month.

*Analysis of contract liabilities*

	<b>2019 £m</b>	<b>2018 £m</b>
<b>At 1 July</b>	<b>54.3</b>	<b>40.1</b>
Deferred during the year	153.8	144.7
Recognised as revenue during the year	(149.3)	(130.5)
<b>At 30 June</b>	<b>58.8</b>	<b>54.3</b>

The contract liabilities within current payables all relate to performance obligations due to be settled within the following 12 months. Non-current contract liabilities relate to performance obligations due to be settled over a 15 year period.

**21. Employee benefits****Pension Plans****Defined Benefit Plans**

	<b>2019 £m</b>	<b>2018 £m</b>
Fair value of scheme assets	646.3	613.8
Present value of defined benefit obligations	(776.3)	(739.5)
Net (liability) for defined benefit obligations	(130.0)	(125.7)
Unfunded and compensatory added years pension	(1.1)	(1.1)
<b>Total employee benefits</b>	<b>(131.1)</b>	<b>(126.8)</b>

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

### 21. Employee benefits (*continued*)

The Group 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 Group. The Trustees are composed of representatives of both the employer and employees. The Trustees are required by law to act in the interest of all relevant beneficiaries and are responsible for the investment policy with regard to the assets plus the day to day administration of the benefits.

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

Liabilities for an unfunded arrangement and a compensatory payment for added years' service are held outside the defined benefit scheme. The Group 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 2016 and showed a deficit of £160.9 million. The Group is paying deficit contributions of:

- £11.77m by 31 March 2020; £12.04m by 31 March 2021; £12.32m by 31 March 2022
- £12.60M by 31 March 2023; £12.90m by 31 March 2024; £13.19m by 31 March 2025
- £13.50M by 31 March 2026;

which, along with investment returns from return-seeking assets, is expected to make good this shortfall by 31 March 2026.

The next funding valuation is due no later than 30 September 2019 at which progress towards full funding will be reviewed.

The Group also pays contributions of 21.7% of pensionable salaries from April 2018 (18.2% prior to this date) 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 £11.77m is expected to be paid by the Group during the year ending on 30 June 2020.

#### 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 including a diversified growth fund and a 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

**Notes to the financial statements (continued)****21. Employee benefits (continued)**

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.

On 26 October 2018, the High Court of Justice of England and Wales issued a judgment in a claim regarding the rights of female members of certain pension schemes to equality of treatment in relation to pension benefits (GMP equalisation). The judgment concluded that the claimant is under a duty to amend the schemes in order to equalise benefits for men and women in relation to guaranteed minimum pension benefit. The issues determined by the judgment arise in relation to many other occupational pension schemes. The Group estimates, with advice from the Group's corporate actuary, that scheme liabilities will increase by an estimated £0.5 million as a result of the judgement. This cost has been recognised as a past service cost in the current year income statement.

**d. Reporting at 30 June 2019**

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:

	<b>30.06.19</b>	<b>30.06.18</b>
Rate of increase in salaries – year 1	<b>1.7%</b>	3.2%
Rate of increase in salaries – year 2	<b>n/a</b>	1.8%
Rate of increase in salaries – long term	<b>1.7%</b>	1.8%
Rate of increase in pensions		
- WWPS and 1/80ths members	<b>3.0%</b>	3.1%
- MIS members	<b>2.1%</b>	2.2%
- Reduced level members	<b>2.2%</b>	2.2%
- Post 88 GMP	<b>1.9%</b>	1.9%
Discount rate	<b>2.3%</b>	2.8%
Inflation assumption – RPI	<b>3.1%</b>	3.2%
Inflation assumption – CPI	<b>2.1%</b>	2.2%

**Notes to the financial statements (continued)****21. Employee benefits (continued)****Mortality assumptions:**

The mortality assumptions are based upon the recent actual mortality experience of Scheme members and allow for expected future improvements in mortality rates.

	<b>2019</b>	<b>2019</b>	<b>2018</b>	<b>2018</b>
	<b>Male</b>	<b>Female</b>	<b>Male</b>	<b>Female</b>
	<b>years</b>	<b>years</b>	<b>years</b>	<b>years</b>
Life expectancy - current age 60	<b>26.2</b>	<b>28.3</b>	27.1	29.2
Life expectancy - current age 40	<b>47.4</b>	<b>49.5</b>	48.3	50.4

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 2.3% to 2.2% would increase the scheme liabilities by £15.0m from £776.3m to £791.3m, increasing the scheme deficit to £145.0m.
- An increase in the inflation assumption of 0.1% (from 2.1% to 2.2% for CPI and 3.1% to 3.2% for RPI) would increase the scheme liabilities by £12.9m from £776.3m to £789.2m, increasing the scheme deficit to £142.9m.
- An increase in life expectancy of 1 year would increase the scheme liabilities by £30.6m from £776.3m to £806.9m, increasing the scheme deficit to £160.6m.

e. The value of the assets as follows:

	<b>2019</b>	<b>2018</b>
	<b>£m</b>	<b>£m</b>
Equities	<b>254.5</b>	254.5
Property	<b>36.5</b>	38.8
Government Bonds	<b>199.6</b>	171.7
Corporate Bonds	<b>143.8</b>	135.4
Other	<b>11.9</b>	13.4
	<b>646.3</b>	613.8

**Notes to the financial statements (continued)****21. Employee benefits (continued)**

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

	<b>2019</b>	<b>2018</b>
	<b>£m</b>	<b>£m</b>
<b>Operating cost – service cost</b>		
Current service cost	<b>10.4</b>	12.3
Administration expenses	<b>0.5</b>	0.6
Past service cost / (credit)	<b>0.5</b>	(35.9)
<b>Financing cost</b>		
Interest on net benefit liability	<b>3.5</b>	5.1
Pension expense / (credit) recognised in profit and loss	<b>14.9</b>	(17.9)
<b>Re-measurements in Other Comprehensive Income (OCI)</b>		
Return on plan assets (in excess of) that recognised in net interest	<b>(22.8)</b>	(9.5)
Actuarial losses due to changes in financial assumptions	<b>61.4</b>	(29.7)
Actuarial (gains) due to changes in demographic assumptions	<b>(27.4)</b>	-
Actuarial (gains) / losses due to liability experience	<b>(1.4)</b>	6.7
Losses / (Gains) recognised in OCI	<b>9.8</b>	(32.5)
Losses / (Gains) recognised in profit and loss and OCI	<b>24.7</b>	(50.4)

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

	<b>2019</b>	<b>2018</b>
	<b>£m</b>	<b>£m</b>
Opening defined benefit obligation	<b>739.5</b>	788.9
Current service cost	<b>10.4</b>	12.3
Interest expense on defined benefit obligation	<b>20.8</b>	20.7
Contributions by scheme participants	<b>0.2</b>	0.2
Actuarial (gains) due to changes in demographic assumptions	<b>(27.4)</b>	-
Actuarial losses / (gains) due to changes in financial assumptions	<b>61.4</b>	(29.7)
Actuarial (gains) / losses due to liability experience	<b>(1.4)</b>	6.7
Net benefits paid out	<b>(27.7)</b>	(23.7)
Past service cost / (credit)	<b>0.5</b>	(35.9)
Closing defined benefit obligation	<b>776.3</b>	739.5

**Notes to the financial statements (continued)****21. Employee benefits (continued)**

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

	<b>2019</b>	<b>2018</b>
	<b>£m</b>	<b>£m</b>
Opening fair value of scheme assets	<b>613.8</b>	593.3
Interest income on scheme assets	<b>17.3</b>	15.6
Re-measurement gains on scheme assets	<b>22.8</b>	9.5
Contributions by employer	<b>20.4</b>	19.5
Contributions by scheme participants	<b>0.2</b>	0.2
Net benefits paid out	<b>(27.7)</b>	(23.7)
Administration costs incurred	<b>(0.5)</b>	(0.6)
Closing fair value of scheme assets	<b>646.3</b>	613.8

i. Additional analysis:

	<b>2019</b>	<b>2018</b>
	<b>£m</b>	<b>£m</b>
<b>Actual return on scheme assets</b>		
Interest income on scheme assets	<b>17.3</b>	15.6
Re-measurement gains on scheme assets	<b>22.8</b>	9.5
Actual return on scheme assets	<b>40.1</b>	25.1

**Analysis of amounts recognised in Other Comprehensive Income**

Total re-measurement (losses) / gains	<b>(9.8)</b>	32.5
Total (loss) / gain	<b>(9.8)</b>	32.5

**Notes to the financial statements (continued)****21. Employee benefits (continued)**

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

	30.06.19	30.06.18	30.06.17	30.06.16	30.06.15
	£m	£m	£m	£m	£m
Fair value of scheme assets	646.3	613.8	593.3	544.1	516.1
Defined benefit obligation	(776.3)	(739.5)	(788.9)	(702.8)	(638.2)
(Deficit) in the scheme	(130.0)	(125.7)	(195.6)	(158.7)	(122.1)
Experience gains on scheme assets	22.8	9.5	41.9		
Experience (losses) / gains on scheme liabilities	1.4	(6.7)	16.7		

**Defined contribution plans**

The Group also operates a defined contribution pension plan.

The total expense relating to this plan in the current year was £4.7m (2018 - £4.1m).

**Share-based payments**

YTL Power International Berhad (a subsidiary of the ultimate parent company YTL Corporation Berhad) operates share option schemes under which options are granted to employees of the Group. 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	1.38	0.22
01/06/2012 Approved	01/06/2015	31/03/2021	1.65	0.16

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

**Notes to the financial statements (continued)****21. Employee benefits (continued)**

The following options were outstanding at 30 June 2018 and 30 June 2019:

Granted – Ordinary shares of RM0.50 each	Outstanding at 30 June 2018	Granted	Forfeited	Exercised	Outstanding at 30 June 2019
01/06/2012 Unapproved	7,487,000	-	(91,000)	-	7,396,000
01/06/2012 Approved	36,599,000	-	(608,000)	-	35,991,000
<b>TOTAL</b>	<b>44,086,000</b>	<b>-</b>	<b>(699,000)</b>	<b>-</b>	<b>43,387,000</b>

The share price at 30 June 2019 was RM0.82 or £0.16.

**22. Deferred Grants and Contributions**

	Requisitions £m	Other contribu- tions £m	Sewer adoptions £m	Infra- structure charges £m	Total £m
Balance at 1 July 2017	27.5	31.6	86.0	121.5	266.6
Received during the year	2.5	0.9	-	5.1	8.5
Amortisation	(0.3)	(0.6)	(1.0)	(1.5)	(3.4)
<b>Balance at 30 June 2018</b>	<b>29.7</b>	<b>31.9</b>	<b>85.0</b>	<b>125.1</b>	<b>271.7</b>
Balance at 1 July 2018	29.7	31.9	85.0	125.1	271.7
Received during the year	1.0	(0.7)	10.6	4.5	15.4
Amortisation	(0.2)	(0.5)	(0.9)	(1.2)	(2.8)
<b>Balance at 30 June 2019</b>	<b>30.5</b>	<b>30.7</b>	<b>94.7</b>	<b>128.4</b>	<b>284.3</b>

**23. Provisions  
Group**

	Restructuring £m	Total £m
Balance at 1 July 2018	0.4	0.4
Provisions made during the year	1.5	1.5
Provisions used during the year	(0.7)	(0.7)
<b>Balance at 30 June 2019</b>	<b>1.2</b>	<b>1.2</b>
Current	1.2	1.2
<b>Balance at 30 June 2019</b>	<b>1.2</b>	<b>1.2</b>

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



**Notes to the financial statements (continued)****24. Deferred tax assets and liabilities – Group***Recognised deferred tax assets and liabilities*

Deferred tax assets and liabilities are attributable to the following:

	<b>Liabilities</b>		<b>Assets</b>		<b>Net (restated)</b>	
	<b>2019</b>	<b>2018 (Restated)</b>	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018 (Restated)</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Property, plant and equipment	<b>422.4</b>	413.9	<b>(24.4)</b>	(23.8)	<b>398.0</b>	390.1
Employee benefits	-	-	<b>(22.4)</b>	(21.7)	<b>(22.4)</b>	(21.7)
Tax (assets) / liabilities	<b>422.4</b>	413.9	<b>(46.8)</b>	(45.5)	<b>375.6</b>	368.4
Net of tax liabilities/(assets)	<b>(46.8)</b>	(45.5)	<b>46.8</b>	45.5	-	-
Net tax (assets) / liabilities	<b>375.6</b>	368.4	-	-	<b>375.6</b>	368.4

*Movement in deferred tax during the year*

	<b>1 July 2018 £m (restated)</b>	<b>Recognised in income £m</b>	<b>Recognised in other comprehensive income £m</b>	<b>30 June 2019 £m</b>
Property, plant and equipment	390.1	7.9	-	<b>398.0</b>
Employee benefits	(21.7)	1.0	(1.7)	<b>(22.4)</b>
Provisions	-	-	-	-
	<b>368.4</b>	<b>8.9</b>	<b>(1.7)</b>	<b>375.6</b>

*Movement in deferred tax during the prior year*

	<b>1 July 2017 £m (restated)</b>	<b>Recognised in income £m (restated)</b>	<b>Recognised in other comprehensive income £m</b>	<b>30 June 2018 £m (restated)</b>
Property, plant and equipment	368.0	22.1	-	<b>390.1</b>
Employee benefits	(33.3)	6.1	5.5	<b>(21.7)</b>
Provisions	-	-	-	-
	<b>334.7</b>	<b>28.2</b>	<b>5.5</b>	<b>368.4</b>

Details of the restatements due to prior period adjustments are shown note 2.3.

**Notes to the financial statements (continued)****25. Capital and Reserves****Share capital****Ordinary shares**

	2019 £	2018 £
<b>Authorised</b>		
100 Ordinary shares of £1 each	100	100
	<u>100</u>	<u>100</u>
	2019 £	2018 £
Allotted, called up and fully paid		
2 Ordinary shares of £1 each	2	2
Shares classified in shareholders' funds	<u>2</u>	<u>2</u>

**Non-controlling interests**

Non-controlling interests in the equity of subsidiary companies are as follows:

Company	Share of gains or (losses)	
	2019 £m	2018 £m
Balance at 1 July	(0.6)	(0.1)
Water 2 Business Ltd	0.3	-
Albion Water Limited	(0.5)	(0.2)
Flipper Limited	(0.5)	(0.3)
	<u>(1.3)</u>	<u>(0.6)</u>
<b>Balance at 30 June</b>		

**26. 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 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.

The fair value of long term bonds is classified as level 1 in the IFRS 13 fair value hierarchy and have a carrying value of £1,631.3m and a fair value of £2,208.5m. Bank loans and overdrafts are classified as level 2 and have a carrying value and fair value of £520.3m. Parent and other group company loans are classified as level 2 and have a carrying and fair value of £247.1m. All other loans and leases are classified as level 2 and have a carrying and fair value of £10.4m.

It is the Group'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 3.

**Notes to the financial statements (continued)****26. Financial instruments (continued)**

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 2019 £m	Fair value 2019 £m	Level 1 2019 £m	Level 2 2019 £m	Carrying amount 2018 £m	Fair value 2018 £m	Level 1 2018 £m	Level 2 2018 £m
<b>Loans and receivables</b>								
Cash and cash equivalents (note 18)	5.4	5.4	-	5.4	17.5	17.5	-	17.5
<b>Total financial assets</b>	<b>5.4</b>	<b>5.4</b>	<b>-</b>	<b>5.4</b>	<b>17.5</b>	<b>17.5</b>	<b>-</b>	<b>17.5</b>
<b>Bank overdraft (note 18)</b>	<b>(3.8)</b>	<b>(3.8)</b>	<b>-</b>	<b>(3.8)</b>	<b>(6.2)</b>	<b>(6.2)</b>	<b>-</b>	<b>(6.2)</b>
Other interest-bearing loans and borrowings (note 19 current)	(92.2)	(92.2)	-	(92.2)	(151.3)	(151.3)	-	(151.3)
Other financial liabilities measured at amortised cost (note 19 non-current)	(2,313.1)	(2,890.3)	(2,208.5)	(681.8)	(2,164.1)	(2,715.0)	(2,158.7)	(556.3)
<b>Total financial liabilities</b>	<b>(2,409.1)</b>	<b>(2,986.3)</b>	<b>(2,208.5)</b>	<b>(777.8)</b>	<b>(2,321.6)</b>	<b>(2,872.5)</b>	<b>(2,158.7)</b>	<b>(713.8)</b>
<b>Total financial instruments</b>	<b>(2,403.7)</b>	<b>(2,980.9)</b>	<b>(2,208.5)</b>	<b>(772.4)</b>	<b>(2,304.1)</b>	<b>(2,855.0)</b>	<b>(2,158.7)</b>	<b>(696.3)</b>

**(b) Credit risk***Financial risk management*

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group'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.

	2019 £m	2018 £m
Cash and cash equivalents	5.4	17.5
	<b>5.4</b>	<b>17.5</b>

The concentration of credit risk for amounts receivable from customers at the balance sheet date by geographic region was:

South West England	185.1	184.0
South East England	0.2	0.3
Netherlands	0.8	0.2
	<b>186.1</b>	<b>184.5</b>

**Notes to the financial statements (continued)****26. Financial instruments (continued)**

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

Set out below is the information about the credit risk exposure on the Group's receivables from customers using a provision matrix:

**Amounts receivable from customers**

	2019	2018
	£m	£m
Billed receivables	127.4	127.8
Unbilled receivables	101.3	100.5
Expected credit losses	(42.6)	(43.8)
	<u>186.1</u>	<u>184.5</u>

Under IFRS 9:	Gross 2019 £m	ECL rate 2019 %	ECL 2019 £m
Less than 1 year	164.5	4.6%	(7.5)
1 to 2 years	21.6	31.5%	(6.8)
2 to 3 years	15.5	41.9%	(6.5)
3 to 4 years	13.1	59.5%	(7.8)
More than 4 years	14.0	100.0%	(14.0)
	<u>228.7</u>	<u>18.6%</u>	<u>(42.6)</u>

Under IAS 39:	Gross 2018 £m	Impairment rate 2018 %	Impair- ment 2018 £m
Less than 1 year	162.6	3.6%	(5.9)
1 to 2 years	19.4	30.4%	(5.9)
2 to 3 years	15.2	40.8%	(6.2)
3 to 4 years	13.0	59.2%	(7.7)
More than 4 years	18.1	100.0%	(18.1)
	<u>228.3</u>	<u>19.2%</u>	<u>(43.8)</u>

Payment Method	Measured Billing			Unmeasured Billing		
	Direct Debit %	Normal %	Other %	Direct Debit %	Normal %	Other %
Less than 1 year	4.0%	5.4%	24.4%	11.4%	13.4%	29.6%
1 to 2 years	6.8%	23.9%	58.3%	6.7%	23.5%	54.3%
2 to 3 years	11.8%	34.6%	76.3%	0.5%	35.8%	66.9%
3 to 4 years	34.9%	52.6%	87.6%	18.2%	52.1%	80.2%
More than 4 years	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

The expected credit loss policy is shown in the accounting policies (note 1).

**Notes to the financial statements (continued)****26. Financial instruments (continued)**

The movement in the provision for expected credit losses in respect of amounts receivable from customers during the year was as follows:

	2019 £m	2018 £m
Balance at 30 June 2018	(43.8)	
IFRS 15 adoption for non-paying customers	4.2	
Balance at 1 July	(39.6)	(39.4)
Written off	11.0	7.7
Non-payers subsequently becoming payers	(0.9)	-
Charge to profit and loss	(13.1)	(12.1)
Balance at 30 June	<u>(42.6)</u>	<u>(43.8)</u>

**(c) Cash flow hedges**

The Group does not have any cash flow hedges (2018 – none).

**(d) Liquidity risk***Financial risk management*

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

The main subsidiary of the Group 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 Group has also secured long-term funding through bonds issued by its subsidiary company. This means that the need to obtain additional finance has been spread over future years and is not considered onerous in any one regulatory period.

**Notes to the financial statements (continued)****26. Financial instruments (continued)**

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

	Carrying amount	Contractual cash flows	Year 1	Years 2 to 5	Over 5 years
	2019 £m	2019 £m	2019 £m	2019 £m	2019 £m
<b>Non derivative financial instruments</b>					
Bank overdraft	3.8	3.8	3.8	-	-
Secured bank loans	526.9	566.9	101.2	309.8	155.9
Parent company loans	247.1	280.5	12.0	268.5	-
Listed Bonds	1,631.3	3,973.4	57.7	602.2	3,313.5
<b>Total financial instruments</b>	<b>2,409.1</b>	<b>4,824.6</b>	<b>174.7</b>	<b>1,180.5</b>	<b>3,469.4</b>

	Carrying amount	Contractual cash flows	Year 1	Years 2 to 5	Over 5 years
	2018 £m	2018 £m	2018 £m	2018 £m	2018 £m
<b>Non derivative financial instruments</b>					
Bank overdraft	6.2	6.2	6.2	-	-
Finance lease liabilities	1.4	1.5	1.5	-	-
Secured bank loans	463.5	486.9	192.9	90.8	203.2
Parent company loans	242.7	306.4	11.8	197.0	97.6
Listed Bonds	1,607.8	4,785.6	57.3	523.2	4,205.1
<b>Total financial instruments</b>	<b>2,321.6</b>	<b>5,586.6</b>	<b>269.7</b>	<b>811.0</b>	<b>4,505.9</b>

**(e) Market risk**

There is minimal 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 Group's interest-bearing financial instruments was:

	2019 £m	2018 £m
Fixed rate instruments	946.4	946.9
Floating rate instruments	677.8	613.8
Index linked instruments	784.9	760.9
	<b>2,409.1</b>	<b>2,321.6</b>

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

**Notes to the financial statements (continued)****26. Financial instruments (continued)***Sensitivity**Interest rate 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 £6.8m.

*Inflation sensitivity*

Index linked bonds are sensitive to movements in the inflation rate. A 1% increase in the inflation rate at the balance sheet date would result in an additional interest charge to the income statement of £7.9m.

**27. Capital Management**

For the purpose of the Group's capital management, capital includes issued capital, share premium and all other equity reserves attributable to the equity holders of the parent. The primary objective of the Group's capital management is to maximise the shareholder value.

The Group manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the financial covenants. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group monitors capital using a gearing ratio for the principle subsidiary Wessex Water Services Ltd (WWSL), which is net debt divided Regulatory Asset Base (RAB). The Group's policy is to keep the gearing ratio of WWSL below 70%. The Group includes within net debt, interest bearing loans and borrowings, less cash and short-term deposits, excluding discontinued operations.

	<b>2019</b>	<b>2018</b>
	<b>£m</b>	<b>£m</b>
	<b>WWSL</b>	<b>WWSL</b>
Cash at bank	<b>2.1</b>	(2.2)
Short term deposits	-	(6.5)
Bank Loans	<b>473.7</b>	415.0
Finance leases	-	1.4
Bonds	<b>1,631.3</b>	1,605.8
<b>Total Net Debt</b>	<b>2,107.1</b>	2,013.5
<b>RCV at 30 June</b>	<b>3,263.0</b>	3,147.5
<b>Gearing</b>	<b>65%</b>	64%

The RCV for each Regulated Water and Sewerage Company is published by Ofwat here:  
<https://www.ofwat.gov.uk/publication/regulatory-capital-values-2019/>

In order to achieve this overall objective, the Group's capital management, among other things, aims to ensure that it meets financial covenants attached to the interest-bearing loans and borrowings that define capital structure requirements. Breaches in meeting the financial covenants would permit the bank to immediately call loans and borrowings. There have been no breaches of the financial covenants of any interest-bearing loans and borrowing in the current period.

No changes were made in the objectives, policies or processes for managing capital during the years ended 30 June 2019 and 2018.

**Notes to the financial statements (continued)****28. Operating leases**

Non-cancellable operating lease rentals payable by the Group were £1.2m (2018 – £1.4). Future leasing commitments are as follows:

Term	Commitment £m
Less than one year	0.2
One to two years	0.2
two to five years	0.2
more than five years	0.6
<b>Total</b>	<b>1.2</b>

During the year £4.6m was recognised as an expense in the income statement in respect of operating leases (2018 - £3.3m).

During the year £2.2m (2018 - £1.0m) was recognised as rental income by the Group.

**29. Commitments***Capital commitments***Group**

Capital expenditure contracted but not provided at 30 June 2019 was £100.6m (2018 - £81.8m).

The Group has guaranteed Bonds of £1,631.3m (2018 - £1,605.8m) issued by its wholly owned subsidiary company Wessex Water Services Finance Plc.

Wessex Water Ltd has provided performance guarantees on behalf of subsidiary companies of £1.4m (2018 - £1.2m).

Made by	Beneficiary	Amount (£m)	Expiry date
SCT Ned BV	Ministry of Housing	0.3	N/A
GENeco (SW) Ltd	Bristol City Council	0.5	N/A
Wessex Water Ltd	NNB Generation Co.	0.3	N/A
Wessex Water Services Ltd	Somerset County Council	0.1	N/A
Wessex Water Services Ltd	Highways England Co Ltd	0.2	31/03/2025

**30. Contingencies***Claims under the Environmental Information Regulations 2001 (EIR)*

The Group 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.



**Notes to the financial statements (continued)****31. Significant transactions with related parties**

	<b>Group 2019 £m</b>	<b>2018 £m</b>	<b>Company 2019 £m</b>	<b>2018 £m</b>
<b>Sales of goods and services:</b>				
Fellow subsidiaries	1.1	1.1	-	-
<b>Dividend income:</b>				
Subsidiaries	-	-	99.0	100.0
<b>Interest expense:</b>				
Subsidiaries	-	-	1.5	1.2
Fellow subsidiaries	11.0	10.0	11.0	10.0
<b>Purchase of goods and services from fellow subsidiaries:</b>				
Hotel and accommodation	-	-	-	-
Telecommunications related charges	0.4	0.4	-	-
<b>Purchase of goods and services from joint venture companies:</b>				
Information technology consultancy	2.0	2.0	-	-
<b>Year-end balances owing by:</b>				
Subsidiaries	-	-	121.1	112.5
Fellow subsidiaries	2.5	2.9	-	-
Associated company	0.7	-	-	-
<b>Year-end balances owing to:</b>				
Subsidiaries	-	-	100.9	99.9
Fellow subsidiaries	341.9	330.1	341.9	330.1
Immediate holding company	23.4	22.9	23.4	22.9
Associated company	0.2	-	-	-

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 32.

All other transactions with related parties and balances at the year-end are summarised in the table above.

***Terms and conditions of transactions with related parties***

The sales to and purchases from related parties are made on terms equivalent to those that prevail in arm's length transactions.

**32. Ultimate parent company and parent company of larger group**

The Company is controlled by YTL Utilities Holdings Ltd, the immediate holding company, registered in the Cayman Islands.

The pre-penultimate, penultimate and ultimate holding companies are YTL Corporation Berhad, Yeoh Tiong Lay & Sons Holdings Sdn Bhd (both registered in Malaysia) and Yeoh Tiong Lay & Sons Family Holdings Ltd registered in Jersey.

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.

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

### 33. Subsequent events

At the end of August 2019, the group announced its intention to issue a £250m fixed rate bond maturing in 2029.

The final dividend for the year of £23.4m was declared in June 2019 and paid in July 2019.

### 34. Accounting estimates and judgements

In preparing the financial statements and applying the accounting policies, the Group 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 21 to the financial statements.

#### b) Expected credit loss provision

The expected credit loss on outstanding receivables is a key estimate under IFRS 9. We base our estimate of recoverability by grouping customers into similar economic profiles and applying a percentage loss rate based on forward looking judgements on the future collection rates that are likely to be achieved. These assumptions are discussed in note 26.

#### 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. These judgements are based on engineering experience of differentiating between treatment as a 'repair' or a 'replacement' of an infrastructure asset. The Group follows both accounting standards and guidelines issued by Ofwat in making these judgements.

#### d) Revenue recognition

The unbilled income accrual from metered water services requires an estimation of the amount of unbilled charges at the period end. This is calculated based on previous customer volume usage adjusted for seasonality and regulatory price changes.

#### e) Asset lives

Assets recorded in the Group's fixed asset register are depreciated systematically using asset lives assigned to the classification of the asset into a number of standard asset types. These asset lives are subject to review based on historical performance, new technologies or new areas of capital investment.

#### f) Investment properties

The group carries its investment properties at fair value, with changes in fair value being recognised in the income statement. For investment properties, a valuation methodology is adopted which involves comparison to developments of a similar nature, location and condition. The Group engaged an independent valuation specialist to assess fair values as at 30 June 2019.