YTL Utilities (UK) Limited

Annual Report and Financial Statements
30 June 2018

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 12. The Company also owns a dormant subsidiary YTL Events Ltd.

Financial performance

Profit after tax decreased by £21.0m from £139.3m to £118.3m, due to the factors shown below.

Turnover increased by £41.8m or 7.3% to £613.5m. 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 £45.1m from £230.5m to £275.6m. In WWSL the increases in repair costs, site operations, pension costs and Environment Agency charges exceeded cost savings made, and there were additional costs consolidated from the retail company Water 2 Business. Depreciation and amortisation charges (including the disposal of assets) have increased by £2.3m from £108.2m to £110.5m.

The exceptional operating item was a credit of £35.9m relating to changes in the defined benefit pension scheme. Further details can be found in Note 4 of the Accounts on page 43.

Interest charges, including other finance charges, increased by £10.7m from £86.1m to £96.8m. There was an increase in the level of debt and the cost of debt rose from 4.0% to 4.4%.

There was a £40.6m increase in taxation from a charge last year of £7.6m to a charge of £48.2m this year. The two main items explaining this difference relate to deferred tax items. Firstly, the reduction in the Corporation tax rate to 17% was reflected in the prior year charge, resulting in a tax credit of £20.7m in the prior year. The 17% rate remains in force as at 30 June 2018. Secondly, during the period the Group decided to align its deferred tax accounting in relation to historical buildings with the parent company methodology. This has resulted in a £16.6m deferred tax charge which has been disclosed as an exceptional item as described in Note 4 of the Accounts on page 43.

The cash outflow of £85.9m increased net debt from £2,192.1m to £2,304.1m, and comprised:

- cash flow from operating activities of £373.8m
- less net interest payments of £62.8m
- less tax payments of £22.9m
- less net capital investment of £241.6m
- less dividend payments of £86.7m, less a working capital and bond accrual outflow of £45.7m.

Dividends declared in the year amounted to £87.1m compared to £91.2m last year.

STRATEGIC REPORT (continued)

Under IAS 19 the pension scheme deficit of £195.6m at the start of the year has reduced to £125.7m at 30 June 2018, the reduction in the liabilities of £49.4m being in addition to the £20.5m 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 37.1% (2017 – 40.8%), the fall was due to the profit reduction and the dilution impact of the Water 2 Business trade, and interest cover (before exceptional items) fell to 2.3 times (2017 – 2.7 times) as net interest costs rose from the previous year.

A. WESSEX WATER SERVICES LTD

Introduction

At Wessex Water, we are proud of our record in delivering essential water and environmental services.

We retain a strong sense of public service across our organisation, which is run by local employees who are customers themselves and members of the communities we serve.

I am pleased, therefore, that we have had another strong year, exceeding most of our targets and improving our service. The investment and performance that we have delivered in the past 12 months, reported here, demonstrate that we take our responsibilities seriously.

Customers and communities

We continuously ask our customers what they like about what we do and where we can improve. We work hard to deliver what they want – a reliable service that is value-for-money and provided without fuss.

This year we have been consulting widely on our plans for the future. Our multi-channel Your Say Your Future programme has enabled nearly 80,000 customers to make their voices heard and I encourage all our customers to let us know their thoughts.

We consistently achieve satisfaction ratings above 90% and currently 96% of our customers rate our service as very good or good.

It is important to us that we are able to support all our customers, including those in vulnerable circumstances.

Our partnerships with the debt advice community are thriving and we continue to believe that holistic advice is vital to help customers get back on track and into sustainable payment. Water is an essential resource that should never be limited by ability to pay.

Our teams have launched dozens of new projects and partnerships across our region, including with the Quartet Community Foundation, leading to a 37% increase in the number of people on low incomes who are receiving assistance from us to pay their bills or manage their debt.

More than 500 staff have also completed the Alzheimer Society's training to understand what it's like to live with dementia and how to turn that understanding into action.

This year we launched our new staff volunteering programme, Wessex Water Force. Staff can use one working day a year for volunteering, equalling around 18,750 hours of support donated every year to charity. This is just one strand of our vibrant communities' programme covering community support, health and wellbeing, leisure access and community education.

Resilience

Our services need to be able to withstand whatever the future throws at them, whether that be more extreme weather events, cyber attacks, or unexpected asset failures.

The freezing conditions and heavy snowfall in early March were some of the most serious weather events to hit the water industry for many years. The combination of rapid freezing and thawing led to many of our customers suffering burst pipes in their properties, causing a substantial increase in water demand. However, our investment in resilience proved its worth as not a single customer in our region lost supply.

A significant contribution to this was the completion during the past year of our regional water supply grid. This £228m seven-year programme of works now enables us to move water across our entire region, greatly increasing the resilience of supplies.

It has enabled us to deal with deteriorating raw water quality, particularly rising nitrates, by allowing us to blend water, and to reduce abstraction in areas of our region where this was reducing the water flow in sensitive rivers, thus improving the environment.

STRATEGIC REPORT (continued)

Our people

Our team at Wessex Water are incredible. They consistently go the extra mile to help customers and improve the environment and it takes a huge team effort to stay at the leading edge of the industry.

As a customer, it is easy to take water and sewerage for granted because it so rarely causes us any problems. That is only possible thanks to the tireless work of our great people, 24 hours a day, 365 days a year. I thank them for their continued support and commitment.

Our People Programme is in full swing and has already started delivering initiatives to improve the way we look after our people, enhance our diversity and ensure we have a pipeline of talent flowing through the business to create the leaders of tomorrow. One of our proudest achievements this year is that apprentices and graduates on formal training now represent around nine per cent of our total workforce.

We have launched a range of wellbeing initiatives over the year covering areas such as financial education, building personal resilience and mental health awareness.

Financing and investment

Last year saw a record £250m investment in maintaining and improving our assets and the services that they underpin. Our profit after tax fell £34m to £105m (excluding exceptional items), largely because of increased tax charges. We also saw a drop of £16m in profit before tax before exceptional items caused partly by an increase in financing expense of £11m and a fall in operating profit of £5m.

Under YTL's 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 are classed by HMRC as low risk.

The future

In 2018 we will submit our business plan for the period 2020 to 2025. Our ambition will run through the plan and show that we view water as a natural resource in which everyone has a stake. It will show how we share value with our communities who, in turn, assist us to meet better outcomes. And it will show that we are transparent, accountable and financially resilient.

It is a plan that will set out our vision, define the challenges that stand in the way, and describe how we will go about making bills affordable for every household and build an exceptional service based on our customers' convenience, not ours.

Customers and communities

We put customers at the heart of everything we do and 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 achieve this by delivering what customers say is really important to them:

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

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

We remain one of the most consistent top performers in the water sector for customer service. This is the third year of Ofwat's new look service incentive mechanism (SIM) and although we have come a close second of all water and sewerage companies in the satisfaction survey element this year, we hope to retain our top spot again on the overall SIM through our excellent performance on complaints.

We do not simply want to be the best for customer service in the water sector; we want customers to value our service as highly as the service they receive from top household names.

STRATEGIC REPORT (continued)

We know there are challenges ahead:

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

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

We have reviewed and co-created our strategy for supporting customers in vulnerable circumstances with our customers and stakeholders, and agreed areas on which to focus to raise awareness and increase take up of our affordability support (tap) and Priority Services.

Through our innovative, multi-channel "Your Say Your Future" engagement programme, all our customers have had the opportunity to influence the level of bills they pay and the service they receive in the future.

This year we have come a very close second among all water and sewerage companies in the satisfaction survey element of the SIM, and we hope to retain our top spot overall due to our excellent record of performance on complaints.

Through our desire to go the extra mile and deliver excellent service, we were one of the only companies to keep water flowing for all customers throughout the extreme "Beast from the east" winter weather.

Our own feedback surveys show that customers continue to score us highly on satisfaction, first-time resolution, staff conduct, and knowledge and effort.

This year we have made improvements to our continuous improvement programme that uses this feedback, alongside ideas from staff, to deliver change for customers at a faster pace.

We have made full use of our dynamic customer journey mapping tool to look at journeys through the eyes of the customer and identify improvements that would make the most difference to them. This includes the customer journeys associated with many of our Priority Services customers.

In terms of our performance commitments, 96% of our customers rate our service as very good or good.

Our value for money score has dipped, with 70% 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 recently.

There have been no significant changes in our bills, people's average income or the country's overall financial situation, so we will redouble our efforts to ensure we engage our customersmore than 90% of whom have told us our plans for 2020-2025 were acceptable and affordable.

On customer effort, our surveys show that 93% of customers say it takes little or no effort to resolve their query. We are required to consider an update to the source of this data this year and our customer challenge group has approved a move to a new methodology.

Compared with sectors outside water, our net promoter score compares favourably with 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.

In September, the Consumer Council for Water confirmed that we continue to have the lowest number of complaints in the water industry with no investigations. Supported by our new Every Word Matters writing style, both billing and operational teams have continued to focus on reducing complaints and unwanted contacts. We've seen a reduction in escalated complaints and are resolving 95% of our complaints first time.

Day to day we continue to offer a full range of communication channels while remaining committed to offering personal telephone answering and, most importantly, choice for our customers. We continue to see a growing number of customers opting for self service, text messaging and web chat. Satisfaction on these channels remains high.

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

Proactive phone calls or text messages from our dedicated customer care team have proved an effective way to let customers know what the problem is, what we're doing to resolve it and by when. The team oversees the whole customer journey, keeps it on track and can provide additional support to customers in vulnerable circumstances.

We continue to make wider use of proactive bulk text messaging and social media posting during operational problems such as burst water mains. A full review of our signage is taking place over the next year, including options for digital signage.

STRATEGIC REPORT (continued)

As part of our efforts to build a detailed picture of what is happening on jobs and to shorten our diagnosis and repair times, we're extending the opportunities for customers to send photographs while operational work is in progress, and trialling the use of 360-degree cameras during site inspections.

Our focus on giving staff the right tools to do their jobs has extended into other areas of our business. The Every Word Matters training on a more simple and conversational style of writing has reached our teams in developer services and insurance. We have also rolled it out to our contact centre agents and into the web chat knowledge base.

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

Our operational contact centre holds the Institute of Customer Service's ServiceMark with distinction, one of only 10 in the UK to achieve this accolade. We plan to widen ServiceMark accreditation to other customer facing departments over the next two years, starting with our repair and maintenance teams.

We are about to enter the third year of our customer excellence programme and over the past year we've focused on:

- implementing our new contact management system
- launching a new digital job tracker to allow customers to track progress towards resolution of their contact online, similar to the delivery of a parcel
- launching our Every Word Matters training programme on communication style
- extending our real-time feedback dashboards across customer facing teams
- improving our self service offering.

We have also relaunched our e-billing service, giving customers a convenient online billing experience. The technology we've used will also allow us to grow this service over the next 12 months and deliver effortless online experiences. This year we have been through a full redesign of our bills. Metered bills will contain improved graphs of water use, enabling customers to not only compare their own water use over time and identify possible leaks, but also to compare it with similar sized households.

Customer engagement

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

Our challenge group, the Wessex Water Partnership, oversees all our engagement and how it is used. The full partnership has met 11 times since its inception and is independently chaired by Dan Rogerson, formerly water minister in the coalition government.

Our innovative and multi-channel engagement strategy – Your Say, Your Future – continues. This year we've conducted major pieces of research to obtain customers' views on the balance between service and price, bill profiles and their opinions on the future proofing of our services, leakage, our offering for customers in vulnerable circumstances, as well as the acceptability of our draft Business Plan for 2020-2025. Our new innovative business plan game went live in late October 2017 and was an integral part of this engagement, along with our community roadshows.

Our successful Young People's Panel of sixth formers recruited from schools and colleges across our region has just completed its second year. Last year's panel helped us design our new cash back guarantee for meter options and our digital job tracker, and this year the 23 students helped us design ways of encouraging younger people to care about the waste system to build resilience for future generations. They came up with some excellent campaign ideas for sewer misuse and these will be taken forward.

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

- amenity value of our reservoirs
- attitudes to water use.

The panel will also take part in the testing of our business plan.

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

Customers in vulnerable circumstances

Anyone can find themselves vulnerable at any time due to illness, unemployment or simply a change in circumstances such as a bereavement or relationship break-up. Because our customers are our priority, we are committed to providing extra support and help when and where it is most needed. We pride ourselves on treating customers as individuals and tailoring our service to suit their needs, making sure we are inclusive and accessible to all.

STRATEGIC REPORT (continued)

Our approach to customer care, coupled with the support schemes we offer customers in financial difficulty or who have specific additional needs, has enabled us to retain the British Standard for Inclusive Services for another year, one of our performance commitments, and the Louder than Words charter mark.

Our new look vulnerability strategy has been co-created with stakeholders and customers. So far 23 organisations have endorsed our service for those in vulnerable circumstances.

We have made sure staff have the right skills, confidence and awareness to deal with often quite complex situations, and strengthened this with specialist training. To complement the face to face training on mental health developed with Wiltshire Mind, we have launched an e-learning programme for all staff to help them spot the signs of mental ill health and support customers, colleagues, friends and family. We have also held training sessions with the Samaritans and Alzheimer's Society.

We have committed to being a dementia friendly utility. We were an active member of the British Gas task force aimed at encouraging utilities to become dementia friendly and feature in the recently launched Dementia Friendly Utilities Guide. Around 550 of our employees are already Dementia Friends, the remainder are due to be trained by the end of 2018. We will also make sure our sites and signage are dementia friendly.

We hold a Priority Services register of customers with longer term disabilities or additional needs and, as they are likely to need the same support from their energy provider, we are doing all we can to signpost customers to other utilities. The number of people on the Priority Services register has increased 30% this year.

We have embarked on several pilot projects to share data with energy companies. This will ensure customers only need to register once for Priority Services across all utilities. We are playing an active part in the wider work to introduce data sharing at a national level by 2020.

One of our key outcomes is to ensure bills are affordable for all. We remain committed to tackling this issue and growing the support we offer customers who are financially vulnerable through our tap programme. Tap offers customers tailored solutions to their affordability problems via a range of schemes and low rate tariffs to help them afford their ongoing charges and repay their debts, along with practical help to reduce their water and energy use.

We provide this support through long standing and very effective partnerships with the debt advice sector, either face to face, telephone or online providers. Under the guidance of our expert affordability advisory group, we are helping more than 37,000 customers through tap, a 37% increase over the year.

Around 11,500 customers receive our main social tariff, Assist, which offers discounts of up to 90% off water charges for those in the greatest financial hardship. Just over 13,000 pensioners on Pension Credit are receiving a discount of around 20% on their bills.

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

We have also launched seven new projects in hard to reach areas such as deprived housing estates. We recently partnered with the Quartet Community Foundation to deliver our Money Matters awards, which are now in their fifth year. Since Money Matters began, we have provided grants to 33 different organisations delivering financial capability and money management projects across our region.

This year we have launched our new online partner hub, designed to make engagement with us even easier. The hub will allow our 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 and network with one another online.

Community and education

Keeping customers of all ages informed about what we do and helping them to conserve water and prevent blockages in our sewers forms an important element of our day to day work.

Twenty years ago, we started our free education service to schools and in addition, we introduced education centres at some of our sites around our region. The team delivered topics ranging from water conservation to what happens to waste once it has been flushed down the toilet. Last year 22,022 students benefited from school visits and trips to water and sewage treatment works. Our three education advisers cover Bristol, Bath, Somerset, Wiltshire, South Gloucestershire and Dorset.

We also engaged further with customers by attending events around the region such as the Yeovilton Air Day and the Great Dorset Steam Fair in Blandford. We launched our Make Every Drop Matter campaign to highlight the importance of looking after what flows from the tap. In addition, Our Stop the Block campaign highlighted what should not be put down the toilet and provided an opportunity for customers to find out about what we do and ask questions.

STRATEGIC REPORT (continued)

Our website and publications offered educational information to customers including encouraging use of our online water and energy calculator and providing informative online videos.

The Wessex Watermark environmental grant scheme has been supporting environmental projects across our region for nearly 25 years. Schools, parish councils, youth groups and community organisations can apply for financial assistance of up to £1,500. Last year we supported the Saltford Brass Mill project with a grant of £300 and gave £500 to the Stoke St Gregory Allotments

Association to help set up a reliable water source for the allotments, and many other projects.

The new Water Force employee volunteer programme is now under way with the first staff groups taking part in activities in the community.

As the programme develops it will enable more skills based volunteering and, working with the social policy unit, we hope to arrange Dementia Friends volunteering to complement the Dementia Friendly commitment already in place.

To date around 200 staff have donated volunteer time for a range of environmental and social activities with beach cleans, tree planting, animal rescue centre and older people's charities all supported.

We piloted a project in the Chippenham area which has progressed well and enabled us to trial a new approach for engaging with a local community for positive reasons rather than simply in response to works or identified issues

An initial workshop took place to involve local staff and gain an overview of the local area, including local priorities, issues, events and ideas for future engagement. This was repeated with invited community partners to generate local engagement and support for our activities.

Ideas arising from this engagement include more local support and promotion of the Home Check service, feedback on the position of a community refill point and support for a Yellow Fish river drain awareness project to support the local environment.

Meetings and presentations have also taken place at the town council and local area board. Information from initial work at Queens Crescent offered the opportunity for the first use of a pilot 'community identity' as part of the support for the local school.

Market opening

The new retail market enabling business customers to choose their retailer for water services celebrated its first birthday this year. There are now 41 retailers active in the market and 26 of these are national retailers.

The water industry has concentrated on ensuring stability in the first 12 months of market opening, focusing on processes, data improvements and the standards on which retailers and wholesalers are measured.

Our wholesale services team has supported the national efforts by focusing on delivering high standards of customer service, joining numerous working groups and completing continuous improvement cycles to enable rapid change for retailers and customers. We also launched our accredited entities scheme, giving retailers more choice on who carries out metering and disconnection work.

We continue to work with the market operator, Ofwat and Defra on ensuring the market is a success for all participants, particularly its 1.2 million customers.

Highest quality drinking water

We are committed to providing the highest quality drinking water to our customers. Our overall compliance with drinking water standards in 2017 was 99.96%, which was an improvement from 2016.

There was a total of eight failures out of approximately 25,000 tests, of which five were due to customers' domestic plumbing and service pipes. The other three failures were related to a single incident at a property related to an iron water main. These eight water quality failures were down from 23 in 2017.

There was further reduction in the number of customer contacts about acceptability of water – customers have seen the benefits of our ongoing mains rehabilitation work and improved customer communications.

Sewage flooding minimised

Sewage flooding is thankfully a very rare occurrence but when it does happen it can be devastating – so tackling it remains one of our key objectives.

The number of flooding incidents caused by blockages in public sewers fell further last year, down to 1.21 incidents per 10,000 properties compared to our target of 1.70.

This was the result of:

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

We continue to work closely with the national 21st Century Drainage Programme to try to bring about change in what customers flush into the sewers because this factor has the biggest impact on flooding and pollution levels.

STRATEGIC REPORT (continued)

In 2015, we introduced a new and innovative measure of overall flood risk due to inadequate capacity of our sewers during heavy rainfall. Last year we invested £9m to reduce this risk at 87 locations and have met our target. A large project at Brent Knoll was delivered in 2017-18, which reduced the risk of flooding to 46 locations.

The responsibility for flooding is complex and we work closely with other flood risk management authorities – we were consulted more than ever before, attending more than 120 liaison meetings. We contributed over £100k towards the partnership schemes to reduce flood risk, including £50k towards a scheme in Wrington, Somerset.

A new framework is being developed for all water companies to give visibility of long-term sewerage plans. It is an ambitious framework which we are embracing, requiring drainage and sewage management plans to be published by 2023.

Several locations in our region with water bearing chalk strata can be affected by high groundwater levels which infiltrate the sewer network and restrict toilet use. It is a complicated issue so to help customers understand it and help prevent it, we produced a computer-generated animation explaining 'How groundwater can cause sewer flooding'.

Our infiltration reduction plans continue to reduce the risk of groundwater entering sewers and drains. We proactively inspected more than 100 km of sewers for signs of infiltration and permanently sealed 6.1 km of sewers where seepage was occurring.

Resilient services

Our asset management system continues to help us deliver our strategic business objectives through an integrated approach to risk and investment decision making, effective asset lifecycle management and by driving continuous improvement.

Following an annual surveillance audit our asset management processes were again certified to the international standard for asset management (ISO55001:2014).

During the year we carried out an assessment of the resilience of our business, assets and services. Our methodology assesses the status of our systems and processes and identifies improvements; it also provides a consistent framework to manage progress. We will be using external auditors to review our resilience in line with the British Standard for Organisational Resilience (BS65000:2014).

Our north Bristol sewer scheme will improve sewerage systems in both the Frome and Trym catchments, in both cases diverting sewage flows away from Bristol city centre. We have made great progress with both these projects and the Frome scheme will be delivered ahead of time by August 2018 and in use by the end of 2018. The Trym scheme is also on track and work began on design, consultation and construction last year.

In 2010, we started work on our biggest ever project, a major integrated water supply grid enabling us to:

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

The final parts of this project have now been completed and the whole system is in full operation. This year we have reduced the number of properties supplied by a single source by a further 6,000, and achieved our final target one year early.

In 2017-18 we achieved a supply interruptions figure of 12.3 minutes, an improvement on our past performance but not quite sufficient to meet the tightened target, resulting in an underperformance payment. Despite this, we have made considerable improvements which gives confidence we will meet the target for the rest of the period.

In March, the water supply grid proved how much additional resilience it has created. It enabled us to continue to provide water to all properties in our region even after the rapid thaw event which saw so many supplies interrupted elsewhere in the country.

Environment

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

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

Our region is rich in wildlife with many areas protected by international and national designations. We take our duties towards the environment seriously and are actively reviewing our landholding and combining this information with our geographical information system to develop land management plans to improve

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

STRATEGIC REPORT (continued)

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

Improved bathing waters

This year 96% of our bathing waters passed strict environmental standards. However, two (Uphill Slipway and Burnham Jetty) were assessed as having below standard water quality, which is below our 100% target. We completed the National Environmental Programme schemes in the year, achieving 100% performance against target to deliver agreed schemes.

Schemes to improve our assets that may affect the Burnham Jetty bathing water include:

- constructing a 3,000m3 underground storage tank and a new pumping station at Bristol Road, Bridgwater
- proactively investigating misconnections of foul flows that could end up in the River Parrett in Bridgwater
- providing 150m3 storage at a new pumping station to transfer flow from Combwich to Cannington
- installing UV disinfection plant to disinfect flows from Combwich and Cannington.

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

Rivers, lakes and estuaries protected

Our programme for 2015 to 2020 includes the reduction of phosphorus concentration in discharges at 47 water recycling centres (WRC) and improvements to the ammonia discharges at eight WRCs. Phosphorus is a nutrient that can contribute to excessive weed growth whereas ammonia, at high concentrations, can be toxic to animal life. During the year, we have completed improvements at four WRCs for further phosphorus removal and six WRCs for reductions in ammonia.

The National Environment Programme also included a series of technology trials designed to test the performance of new processes to meet future, more stringent targets for phosphorus levels in sewage discharges required by the EU Water Framework Directive. These were completed last year and we have used the results to assist us in the next investment period 2020-25 where we are planning for a further 64 potential phosphorus improvement schemes.

Catchment and community based strategies

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

We use catchment-based strategies to protect our service levels; often this 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 are now taking catchment-based approaches to reducing nitrate run- off into Poole Harbour rather than installing nitrate removal at a water recycling centre and finding innovative ways to maximise the benefits achieved at the lowest cost to customers.

We actively support customers to take part in water saving – in the past year we have undertaken more than 10,000 Home Check visits to fit water saving devices and offer bespoke behavioural advice. Savings average more than 40 litres per household per day and the scheme is proving very popular with customers.

We linked this programme to our abstraction incentive mechanism site in Mere this year to encourage the uptake of water saving in a community where there is a particular concern about abstraction.

In December 2017 we launched our new Money Back guarantee scheme to encourage the uptake of optional metering by customers.

We have also designed a 'water citizenship' project that will shortly begin in Chippenham where we will work with the local community to enhance their relationship with their local water environment. The project will help us tackle multiple issues including water saving, sewer misuse and wet wipes/FOGs, and hydration and water refill.

Tackling leakage and improving water efficiency

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

During 2017-18 we reduced leakage to below 68 Ml/d which meets our target for the year, despite the short-term increase in leakage during the adverse weather in March. We also met our target of fixing 70% of leaks reported to us in the same day.

We expanded our Home Check water efficiency programme and made more than 10,000 visits to customer properties to fit water saving devices, fix simple plumbing leaks and offer tailored behavioural advice. We repaired nearly 4,300 of our customers' leaking pipes free of charge to help reduce their water use.

STRATEGIC REPORT (continued)

While we met our target for water saved through water efficiency promotion, average daily water use has increased to 143 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 conditions – we attribute the rise in consumption this year in part to the particularly dry spring and autumn.

With the completion of our water supply grid in 2018 we will be operating well below the economic leakage level meaning that, without new ways of working, the cost of reducing leakage further will outweigh the value of the water saved. We will continue to innovate as we seek to meet our target of5 Ml/day by 2020.

Water resources

Rainfall last year varied – a wetter than average summer was followed by a particularly dry autumn which delayed the start of reservoir and groundwater refill. However, the year ended with a very wet March, taking rainfall over the full year to 101% of average. The improvement in resource availability arising from the wet March put us in a good position for starting 2018-19.

We successfully met our performance commitment regarding the abstraction incentive mechanism at Mere in 2017-18. During the time the groundwater level was below the trigger level we exported only 30 Ml of water from the local catchment against a target maximum level of 100 Ml.

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

In November we submitted a new draft water resources management plan to Defra which set 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 continue to deliver leakage reductions.

Environmental investigations

Our environmental investigations programme enables us to better understand our regional environment and the impacts our activities have. This means that we can base any future investment decisions on sound data and evidence, giving us confidence that issues will be addressed at the best value to our customers. As part of this programme we trial innovative and alternative solutions, aiming to deliver multiple environmental benefits from our actions.

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

- the occurrence and removal of hazardous and emerging substances from sewage effluent
- the effectiveness of green and social prescribing to reduce pharmaceutical concentrations in sewage
- trialling new, sustainable treatment solutions for phosphorus and chemical removal
- understanding the ecological impact of our reservoirs and abstractions
- understanding the impact of our sewage treatment works on the nutrient levels within rivers, compared to other sources, at a catchment scale
- trialling techniques to restore and enhance the grassland and woodland habitats to improve connectivity for species to disperse across the local landscape.

Many of our investigations are ending because data must be collected for our next business plan. Several of the investigations have been industry firsts, testing new ways of working or different technologies. A summary of the findings is available on our website: wessexwater.co.uk/About- us/Environment/Environmental-investigations.

Our Bristol Avon catchment permitting trial, a UK first, took a catchment approach to limit phosphorus discharges from our assets and manages the discharges from 66 sewage treatment works/water recycling centres in combination, rather than individually.

During 2017, we have removed 37 tonnes of phosphorus, against a target of 25 tonnes. By optimising our existing assets, and only constructing new phosphorus removal treatment where it can be demonstrated to have a quantifiable benefit to the river, we are delivering the same phosphorus reduction at a cost to customers £24m lower than a traditional single site based approach.

Our public health project is working with B&NES Council public health department, the University of Bath and delivery providers such as Avon Wildlife Trust, Bath City Farm, Developing Health Independence and Timebank. We are trialling an approach with a local NHS doctor's practice to prescribe green or social interventions, rather than pharmaceuticals to certain 'at risk' patients, with the aim of reducing the amount of chemicals reaching our sewers.

Through chemical analysis of the sewage, we are testing whether these interventions achieve reductions in the levels of certain pharmaceuticals in sewage. This is another industry first and will help to inform the proposed government chemicals strategy.

The outcome of all our investigations is being fed into our next business plan, to deliver the most cost effective and sustainable solutions for our customers with the best environmental results. This includes:

- working with the EA to demonstrate where data shows phosphorus removal will contribute to water quality benefits, and where it won't

STRATEGIC REPORT (continued)

- demonstrating where else a catchment permitting approach could be successful, and linking with catchment offsetting to deliver wider natural capital benefits
- demonstrating the effects of abstractions to inform where licences should be changed and to what extent
- highlighting where additional treatment is required to remove certain chemicals – for example, zinc at Shepton Mallet water recycling centre.

Wildlife and conservation

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 293 ha of SSSI-designated land in favourable or recovering condition – of which 62.5% is in favourable condition. This exceeds the national target of 95% in favourable or recovering condition, with at least 50% in favourable condition.

This year we have made great progress towards fulfilling a company performance commitment to assess 100% of our landholding for biodiversity by 2020, with a view to bringing as much as feasible into appropriate management. By the end of 2017-8 we had:

- assessed 90% of 2,157 ha of eligible land
- mapped more than 1,500 ha terrestrial habitats
- found 270 ha of UK priority habitats at 85 locations, all mapped and given a condition rating where appropriate.

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

Our drop-in National Meadows Day celebration event at Sutton Bingham reservoir was a great success. Activities included a meadow iSpot, a meadow trail and quiz, sow your own wild flower and a 'meadow mayhem' giant board game.

Reduced carbon footprint

One of our long-term sustainability goals is to be carbon neutral in our operations. Our net greenhouse gas emissions fell to 122 kilotonnes carbon dioxide equivalent in 2017-18.

This was our lowest since 1999-2000 and meant 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 falling carbon dioxide intensity of UK grid electricity.

While our electricity use increased slightly from 2016-17 due to wetter conditions, it remained in line with the downward trend from its peak in 2007- 08; this is largely through concerted energy efficiency work which is delivering around four gigawatt hours of savings each year.

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

Meanwhile, our operating division GENeco continues to export biomethane to the local gas grid, and struck an agreement with Bristol Energy, in addition to the sale of green gas certificates to Unilever.

Innovation

Our vision is to be an acknowledged leader and exemplar at innovation, introducing new ways to benefit the people we serve and the environment around us.

Our innovation strategy involves four broad themes:

- projects that break new ground
- partnering with others who can introduce us to innovative thinking, practices and technologies
- staff who explore ways to do things differently and a culture that allows appropriate levels of risk taking, while embedding innovation into regular practice
- systems and processes that are robust but do not stifle creativity.

Trials of new technologies and products offer a relatively quick and low risk way to understand the suitability of others' innovations. These commonly originate from contacts with technology developers or intermediaries such as Isle Utilities. We have achieved some significant savings in recent years in areas such as trenchless sewer rehabilitation.

STRATEGIC REPORT (continued)

Our current environmental investigations programme is the biggest to date. As well as acquiring the knowledge needed for decisions over future investment, the programme includes projects where we are trialling relatively new techniques.

We are increasingly interested in customer and community-facing innovation. This includes better ways to conduct day to day interactions (which increasingly take place online); community engagement and awareness-raising; and improving our assistance for low income households and vulnerable customers.

We are building a culture of innovation throughout the organisation. At the centre of the innovation 'community' within Wessex Water is a cross-departmental innovation and technology forum which oversees smaller trials, while our employee suggestions scheme, Eureka, is a long-standing method for rewarding ideas based on impact and originality.

Research partnerships include work with academia (notably with the University of Bath) and involvement with UK Water Industry Research – the main vehicle for collaborative research between water companies.

Customers and communities

In recent years we have introduced new ways to improve our customer service for all, such as our online interactive map showing all the live jobs that we are carrying out in our region, our Go the extra mile programme which encourages staff to find ways to wow the customers they encounter, and the cash back meter option guarantee devised with our Young People's Panel. We are

improvements, such as real-time feedback dashboards for call centre staff and an improved online portal through which customers can pay bills and see their water consumption data.

The second of these complements our own efforts for improving water efficiency and reducing leakage, such as the roll out of 'hydrophones' which are acoustic devices that spot leaks from water mains from their particular sound signature. The completion of the integrated water supply grid also includes an innovative control system – the optimiser – which can work semi- autonomously to keep pumping costs down and ensure security of supply.

In 2017-18 we increased the use of mapping tools and other analytical methods that plot areas of deprivation, allowing more targeted contacts with low income households. We are developing an online portal for use by partner charities and are sharing data with energy providers where it helps the most vulnerable customers.

The interactive online game to support the 2019 business plan represents a more innovative way to understand customer priorities compared to methods we have relied on in the past. Meanwhile, we are investigating novel methods for helping our customers through digital platforms and, in the longer term, smart home technologies using artificial intelligence.

Early work to improve drinking water treatment at Durleigh reservoir has benefited from our use of an 'Igloo' – a wrap-around virtual reality pod in which several people can simultaneously view digital models of sites. Also at Durleigh, we are working with University of Bath researchers on methods for preventing discolouration of water due to manganese, and installing a constructed wetland to reduce influxes of sediment to the reservoir.

Elsewhere we are working to introduce the use of ultraviolet light as an alternative form of disinfection in water treatment and are using a remotely operated vehicle cleaning unit to clear silt from service reservoirs that cannot be cleaned by more conventional means.

Environment

We won the 2017 Institute of Water national innovation award for the catchment permitting programme we have co-designed with the Environment Agency in the Bristol Avon and our innovative environmental trading scheme EnTrade.

Some of the new techniques trialled this year, some of which are part of our extensive environmental investigations programme, included:

- the use of brief spate flows from Durleigh reservoir into the downstream watercourse to remobilise phytoplankton that had settled, causing poor ecological results
- monitoring sediment movement downstream of Sutton Bingham reservoir using radio frequency tags and time lapse photography
- mobile kiosks housing river quality analysers that upload data every half hour
- novel treatment methods for reducing phosphorus in effluent, including the use of Bio-mag, a material that uses magnetite (an oxide of iron) to improve settlement in sewage treatment and an algal pond designed by the University of Bath, populated by locally dominant varieties of algae

STRATEGIC REPORT (continued)

- working with local public health practitioners on ways to encourage people to take more exercise and have more contact with the environment, which could in turn alter medicine prescribing and reduce the impact of pharmaceutical residues on the water environment
- the use of a short lived bacteriophage dosed at Taunton water recycling centre to determine the time treated effluent takes to travel to Burnham Jetty bathing water via the river Tone. At Highbridge water recycling centre we have installed ultraviolet disinfection of the overflow from storm tanks for the first time. We have also been involved with community engagement projects such as Litter Free Coast and Sea, which promote behaviour that benefits beaches and their immediate surroundings.

We continued to introduce innovative methods for surveying and repairing sewers including:
- a cured in place liner for a rising main (a UK first)
- million point photographic scanning which produces very accurate imagery that we use when surveying tunnels
- the use of calcium aluminate cement as a means of preventing corrosion in concrete from hydrogen sulphide
- a hydrodemolition cannon that is used to clean calcite from sewers or cut through concrete using needle point water pressures of up to 15,000 psi.

Partnerships

Our partnership with the University of Bath was founded on an initial research programme focusing on sustainable water and waste water management; and the creation of the Water Innovation Research Centre. Other key elements include:
- work with PhD students – many of whom are funded by EPSRC in the Water Informatics: Science & Engineering Centre for Doctoral Training

Our innovation culture

Last year our Eureka programme received 62 suggestions, with four deemed suitable for further development or reward.

We held our inaugural innovation day, with participation from PWC, Vodafone, Microsoft, the University of Bath, Isle Utilities, Wessex Water Services Ltd and companies in the wider Wessex Water group. On the day there were more than 600 individual session attendances and online views, and we followed up with a series of breakfast roadshows, taking excerpts from the day to five other sites around the region.

Meanwhile, we have been developing a number of tools in-house to improve our innovation process. These include:
- an innovation capability maturity model to help clarify our current capabilities and gaps that should be addressed
- a 'funnel' framework to keep track of innovation projects across a series of stages, and a database of past projects.

In April we celebrated a royal seal of approval after being awarded the Queen's Award for Enterprise for a third time. We were nominated in the Sustainable Development category of the awards, which are the UK's highest accolade for business success. We first committed to becoming a sustainable company in 1996, and our sustainability vision is embedded into all planning, targets and day to day work. The award recognises the further progress made since we last received the same accolade in 2013.

We pride ourselves on going beyond business as usual in all areas, from our work on social tariffs and debt advice to catchment permitting and online nutrient trading.

Employees

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

STRATEGIC REPORT (continued)

We actively encourage and provide opportunities for our people at all levels within our business to consolidate their learning and upskill to a national standard through further education or professional development programmes. This ensures employees can enhance their competency, skills and expertise to enable them to perform at the highest levels. Our workforce is highly motivated and engaged and consistently provides outstanding and industry leading levels of customer service.

Apprenticeships are a key element of our resourcing strategy to build and maintain a sustainable workforce to meet current and future needs. We are proud that more than 8% of our workforce are undertaking long-term learning and development through apprenticeships, further or higher education. Due to this success, we have joined the government's 5% Club which recognises that, as an employer, we provide opportunities to develop the skills and talents people need to become more employable and create meaningful careers. Through this membership we have committed to always have a minimum of 5% of our workforce enrolled as apprentices, sponsored students or on a graduate development scheme.

This year we have created an early careers team dedicated to providing career development opportunities throughout the group. We have designed and implemented a dedicated operations graduate programme and in addition arranged and coordinated an industrial placement programme for six areas in engineering and construction.

Our aim is to develop a cohesive early careers and graduate community across the business, bringing together all our talent and senior managers, from all business areas, on a regular basis to support, share knowledge and learn from each other. Thus ensuring we have a strong and robust talent pipeline for the future and an innovative and flexible approach to development that ensures we continue to have a highly competent workforce. We recognise the importance of nurturing talent across the business and continue to deliver and develop a range of initiatives that support career progression, including development centres, new management development programmes, coaching and mentoring.

This year, we launched our People Programme, a five-year plan to oversee and invest in a series of activities to benefit our people and help build a sustainable workforce for the future. Some of the areas we have focused on have included wellbeing, launching our new e-learning platform, iLearn, and developing a blended approach to learning.

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 community we serve. We recognise that difference in personal characteristics is positive and brings richness to our work environment that is essential to our continued success. We continue to develop and implement a range of diversity initiatives and to promote flexible and remote working, together with flexible retirement aimed at easing people into retirement gradually. Protecting the health, safety and welfare of our staff, contractors and customers remains the highest priority.

Training

Training and development continues to be an important focus and we have delivered more than 800 courses with an average of 3.4 days' development training per employee.

We continue to work in partnership with selected local colleges and universities to enhance our management development programmes. In partnership with the University of the West of England, we delivered our third cohort of Institute of Leadership and Management (ILM) Level 5 programmes and one cohort of ILM Level 7 programme in Strategic Leadership.

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

We continue to deliver in-house development programmes for new and experienced managers as well as a full soft skills training programme. Our new e-learning system, iLearn, has been developed to complement, reinforce, and further embed a culture of learning

STRATEGIC REPORT (continued)

Coaching and mentoring initiatives continue to enhance and benefit individuals at all levels. We ran a mentoring programme in partnership with a local secondary school to offer students the opportunity to work on a one to one level with our people

Apprentices

We continue to engage our local young people in apprenticeships, holding two apprenticeship open days this year, with one held in November to coincide with National Engineering Week where we promoted the company and the career opportunities available to young people in our business.

In addition to our education team, our apprentices have visited 28 schools and career fairs around the region, encouraging young people to consider apprenticeships as a career option, and the water industry as a future career avenue. All this has led to an increase in the demand for apprenticeship positions this year.

We are proud that 17% of our apprentices this year are female, reflecting the work we do to engage young women in our sector.

Aiming to ensure the best use of the government apprenticeship levy, we have this year introduced career development apprenticeships for existing members of staff. These apprenticeships are open to staff within the business to enable them to reach their potential and progress their careers within the company.

Diversity

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

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

Diversity and inclusion remain a key focus for us and our aim is to reflect the community we serve.

Culture

We have a strong, friendly and positive culture, and staff enjoy working for us and with each other. We held a staff survey this year and 84% of employees rated us a good company to work for and 76% rated us a great place to work. Our staff engagement was 80%. Our employees are important to us and we listen to their feedback and put action plans in place to address key areas.

Health and safety

The management of health and safety is critical to our success and 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 build 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.

In support of this we have introduced a health and safety incident and observation app that allows staff to quickly and easily report safe and unsafe conditions. All reports are reviewed and any that raise significant concern are subject to additional investigation and remedial action.

Position for the 12 months to 31 December 2017:

- 551 incidents reported (a slight increase of 2% from 2016)
- one reportable dangerous occurrence and two reportable diseases
- 11 incidents were notifiable to the Health and Safety Executive (an increase of one from 2016)
- 263 working days lost through notifiable incidents (an increase of 14% from 2016)
- overall reduction of 32% in total lost-time accidents across the company
- no enforcement action from the Health and Safety Executive.

Take 5 to Check 5

Take 5 to Check 5 (T5C5) was launched at staff seminars in April 2017 which all staff were invited to attend. T5C5 is a simple to use, dynamic risk assessment that allows staff to stop and get advice wherever they feel that it is not safe to continue work. To promote safety outside work, staff were shown how easily T5C5 can be used in the home for DIY, gardening, etc.

Health and safety incident and observation reporting app, an enterprise-wide Wessex Water health and safety incident, near miss and observation reporting app has been introduced and will replace existing paper based systems used for reporting incidents, near misses etc.

STRATEGIC REPORT (continued)

The app, based on Power Apps, was developed by the IS offshore development centre in Kuala Lumpur and can be used on smart phones, tablets and laptop/pc. Staff can now quickly report safe or unsafe observations and include photographs where appropriate.The app is now in use within operations, engineering and construction and GENeco. It will be rolled out to the rest of the company in 2018.

Lone worker safety

A review of the existing system for lone worker protection identified a need to provide an improved and more robust solution using modern technology.

During the year we have reviewed the requirements for a lone worker protection system.

A Wessex Water standard specification has been developed and used to identify a fit for purpose corporate solution for the next 10 years. After extensive field trials and competitive tendering, Lone Worker Solutions have been selected to provide lone worker services for Wessex Water. The new system is being rolled out across the company and will be completed in May 2018.

Mental health

Stress, anxiety and depression remains a minority reason for overall absence although it is on the increase. The priority we place on the wellbeing of our people has been strengthened and is an integral part of our People Programme.

During 2017 staff attended resilience building training trials to determine its suitability for wider implementation across the company. Feedback from staff was positive and seen to be beneficial and we plan to offer staff this training over the coming year.

Health and safety awards

Our commitment to safety and performance has again been recognised by RoSPA.

Engineering and construction were awarded the 2017 Construction Engineering sector award. These awards are presented annually for the most outstanding performance in health and safety by a company or organisation within a particular industry or sector. Winners must demonstrate a robust and high quality safety management system together with a minimum of four years' consistently excellent or continuously improving health and safety performance.

Engineering and construction were also nominated for the prestigious Sir George Earle trophy that we won in 2016. Despite a strong performance we were unsuccessful this time.

The company was also recognised in the Utility Week awards with the Health and Safety Initiative of the Year award for collaborative work in the utility sector. Our winning roadworks safety campaign is in collaboration with the charity SafeWise and includes a hard hitting video designed to influence driver behaviour near roadworks.

We have continued to work with SafeWise to promote safety at roadworks and look for new areas to work with them to influence the behaviour of customers and children who interact with our daily activities.

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 virtually all the debt raised for the UK group sitting within the company and all borrowings at market rates provided by financial third parties.

Gearing, as measured by net debt to Regulatory Capital Value (RCV), stands at 64%. On a pensions-adjusted basis, this figure rises to 68%, 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 impact of this change in the year to June 2018 was a £35.9m reduction in the scheme deficit.

STRATEGIC REPORT (continued)

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 £11.0m on 31 March 2018 and £11.0m 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 is also in negotiation to secure a new £140m bank loan to replace an existing one that matures in December 2018.

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.

Principal Risks

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

The company's policy on risk assessment and management is subject to regular review by the board. The identification and management of risk is delivered through a hierarchy of risk management reviews from operational staff, senior management, executive directors to the Wessex Water Services Limited Board. The board reviews and holds ultimate responsibility for the risk process and for the identification and mitigation of risks.

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

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

Since the last annual review, the following changes have been made to demonstrate the increasing focus that risk now plays:

- The Audit Committee has been re-named the Audit & Risk Committee.
- The WWSL Services Management Team now has a standing item on risk at each monthly meeting.
- Clearer lines of responsibility from the Board, through Executive Directors to the Risk and Resilience Management Group.
- Detailed assessments of the effectiveness of each risk mitigation action have been developed.
- A process of reviewing of whether the risks are currently in or out of tolerance has been introduced.

The board has agreed the addition of one principal risk relating to the information management issues regarding the General Data Protection Regulation (GDPR) which is enacted in May 2018.

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

STRATEGIC REPORT (continued)

- Major pollution incident. Significant effort is made to prevent such an incident occurring through staff adherence to company processes and procedures. Local emergency plans are in place to protect the local environment at key installations and monitors are being installed to mitigate the risk at critical locations.
- Digital resilience. Most activities undertaken by the business are reliant on the availability of IT services and facilities and the company continues to examine ways in which IT resilience can be maintained and, where appropriate, improved. While regular improvements continue to be made, the threat persists with an increase in attacks being experienced. The quarterly Information Security Forum maintains the focus on mitigating this risk.
- Health and safety incident. Serious injury or death of a staff member or third party could expose the company to prosecution under health and safety legislation and the Corporate Manslaughter Act. Health and safety is of paramount importance to us with processes and procedures implemented through staff training and regularly monitored to maintain compliance and to protect people from harm. Our 'Take 5 to Check 5' initiative has been successful in maintaining the focus on health and safety and our approach continues to be recognised through national awards.
- Resourcing and skills. There is already a recognised short-fall in STEM skills (Science, Technology, Engineering and Maths), which is compounded by the uncertainty from the Brexit vote and heightened in our region by the impact of the Hinkley Point C programme. As expected this situation is becoming more challenging and we our People Programme is helping to mitigate this risk.
- Insider threat. Considerable damage could be done to the company's reputation by a rogue or radicalised employee or contractor. References are obtained for all new starters, whether permanent or contract. DBS checks are undertaken for all new permanent and fixed-term staff and for agency staff working in sensitive areas of the business. Further mitigation plans are being developed to counter what is one of the most significant risks on the national risk register.
- Information management (GDPR). The programme plan will achieve compliance with the regulations. Further cultural, process and systems improvements will continue to be made to improve our resilience.
- Anti-competitive behaviour. We remain vigilant after the opening of the non-household market. Our competition team meets monthly to consider emergent issues and risks and appropriate actions to ensure we continue to comply with the Competition Act.
- Availability of new finance. The bond markets are used extensively to fund new investment. The current economic climate post Brexit vote has shown the volatility of these markets. The relationship with bond markets and rating agencies will be maintained and the board will continue to ensure that the company operates within prudent financial parameters. This annual review includes our long-term viability statement which includes modelling the main financial risks.
- Outcome delivery incentive failure. The business is focused on achieving the targets. While processes, data and culture are all embedded, risks remain following another year of generally benign conditions. As well as reputational risk there are also financial penalties which can be incurred if we do not remain vigilant and continue to stretch ourselves to improve the service to our customers.
- Widespread unfit water. The completion of our integrated water supply grid and the removal of standalone sources for most of our customers means we have improved our resilience against the risk of a major failure of process or contamination of the water supply. Nevertheless, we continue to challenge ourselves to improve and risk assessments are formally reviewed at the monthly risk meetings and where appropriate mitigation action are implemented throughout the year.

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.

B. WESSEX WATER ENTERPRISES LTD

The company generated turnover of £36.5m (2017 - £33.9m) 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 £6.9m (2017 - £7.1m). 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~~ 2018 was £0.7m (2017 - £0.6m).

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 2018 was £0.2m (2017 - £0.0m).

F. YTL PROPERTY HOLDINGS (UK) LTD

On 8 July 2015 this company was acquired to enable the Group to purchase land at Filton Airfield near Bristol for future development opportunities in respect of housing and commercial property. At 30 June 2018 the value of development land acquired was £85.4m funded by group loans. The Directors are in the process of determining the precise use for the land, but as it is not to be used as owner occupied or for short-term sale in the ordinary course of business, it is considered more appropriate to hold it as investment property held for capital appreciation.

The strategic report was approved by the Board of Directors on 10 September 2018 and signed on its behalf by:

Seok Hong Yeoh - Director

DIRECTORS REPORT

The Directors present their Directors' Report and the financial statements for the year to 30 June 2018.

DIRECTORS

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

Colin Skellett
Mark Watts
Francis Sock Ping Yeoh *
Tiong Lay Yeoh (resigned 18.10.17)*
Seok Kah Dato Yeoh *
Seok Hong Yeoh *
Seok Kian Yeoh *

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

Directors' Interests

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

Directors' Emoluments

	Salary £000	Bonus £000	LTIP £000	Benefits £000	Pension £000	**Total 2017-18 £000**	Total 2016-17 £000
Colin Skellett	453	435	10	32	0	**930**	911
Mark Watts	382	389	11	29	0	**811**	737
Total	835	824	21	61	0	**1,741**	1,648

No emoluments were paid to the other Directors. 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 19), under the 2011 UK Plan. The share price as at 30 June 2018 was RM1.03 or £0.19.

	At 30 June 2017	Exercise price RM	Date of grant	Exercise date	Expiry date	At 30 June 2018
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

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 (2017 – none) and no gains were made (2017 – none).

DIRECTORS' REPORT (continued)

Shares held

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

	At 30 June 2017	Movements	At 30 June 2018
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 9.

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 2018.

Charitable and political donations

During the year £5,749,578 was donated to UK charities (2017 – £4,075,717). There were no political donations in either year.

Supplier Payment Policy

The policy in respect of its suppliers is to agree the payment terms for transactions in advance and to make payments in accordance with those terms. At 30 June 2018 trade creditors represented approximately 30 days trade purchases (2017 – 33 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 24 to the financial statements.

DIRECTORS' REPORT (continued)

Re-appointment of Auditor

Following a tender exercise for the audit services Ernst & Young LLP were engaged as auditor of the Company for the current financial year. A resolution for the re-appointment of Ernst & Young LLP for the following year will be put to the forthcoming Board meeting

By order of the Board

Seok Hong Yeoh
Director

Claverton Down
Bath BA2 7WW

10 September 2018

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 2018 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 32, 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 2018 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 25, 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

Paul Mapleston (Senior statutory auditor)

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

Bristol

Date: 18th September 2018.

Consolidated Income Statement
for the year ended 30 June 2018

	Note	**2018 £m** Before exceptional items	**2018 £m** Exceptional items (Note 4)	**2018 £m** Total	2017 £m
Revenue	*2*	**613.5**	**-**	**613.5**	571.7
Raw materials and consumables used		**(39.7)**	**-**	**(39.7)**	(34.9)
Staff costs		**(82.7)**	**35.9**	**(46.8)**	(68.2)
Depreciation and amortisation		**(110.5)**	**-**	**(110.5)**	(108.2)
Other expenses		**(153.2)**	**-**	**(153.2)**	(127.4)
Total expenses	*3*	**(386.1)**	**35.9**	**(350.2)**	(338.7)
Operating profit	*3*	**227.4**	**35.9**	**263.3**	233.0
Financial income	*7*	**0.4**	**-**	**0.4**	1.1
Financial expenses	*7*	**(97.2)**	**-**	**(97.2)**	(87.2)
Net financing expense		**(96.8)**	**-**	**(96.8)**	(86.1)
Profit before tax		**130.6**	**35.9**	**166.5**	146.9
Taxation	*8*	**(25.5)**	**(22.7)**	**(48.2)**	(7.6)
Profit for the year		**105.1**	**13.2**	**118.3**	139.3
Attributable to:					
Equity holders of the parent		**104.6**	**13.2**	**117.8**	139.2
Non-controlling interest		**0.5**	**-**	**0.5**	0.1
Profit for the year		**105.1**	**13.2**	**118.3**	139.3

Consolidated Statement of Comprehensive Income
for the year ended 30 June 2018

	2018 £m	2017 £m
Profit for the year	**118.3**	139.3
Other comprehensive income		
Items that will not be reclassified to profit or loss:		
Remeasurements of defined benefit liability	**32.5**	(35.6)
Income tax on items that will not be reclassified to profit or loss	**(5.5)**	4.5
	27.0	(31.1)
Items that are or may be reclassified subsequently to profit or loss:		
Foreign currency translation differences – foreign operations	**0.4**	(0.1)
Income tax on items that are or may be reclassified subsequently to profit or loss	**-**	-
	0.4	(0.1)
Other comprehensive income for the year, net of income tax	**27.4**	(31.2)
Total comprehensive income for the year	**145.7**	108.1
Profit attributable to:		
Equity holders of the parent	**117.8**	139.2
Non-controlling interest	**0.5**	0.1
Profit for the year	**118.3**	139.3
Total comprehensive income attributable to:		
Equity holders of the parent	**145.2**	108.0
Non-controlling interest	**0.5**	0.1
Profit for the year	**145.7**	108.1

Balance Sheets
at 30 June 2018

	Note	**Group**	Group	**Company**	Company
		2018	2017	**2018**	2017
		£m	£m	**£m**	£m
Non-current assets					
Property, plant and equipment	*10*	**3,672.8**	3,536.7	-	-
Intangible assets	*11*	**6.2**	5.8	-	-
Investment properties	*13*	**85.4**	77.4	-	-
Investments in subsidiaries	*12*	**-**	-	**351.3**	351.3
		3,764.4	3,619.9	**351.3**	351.3
Current assets					
Inventories	*14*	**9.3**	10.4	-	-
Trade and other receivables	*15*	**203.6**	182.5	**112.5**	102.7
Cash and cash equivalents	*16*	**17.5**	97.8	**1.1**	0.7
		230.4	290.7	**113.6**	103.4
Total assets		**3,994.8**	3,910.6	**464.9**	454.7
Current liabilities					
Bank overdraft	*17*	**(6.2)**	(0.6)	-	-
Other interest-bearing loans and borrowings	*17*	**(151.3)**	(13.7)	-	-
Trade and other payables	*18*	**(304.1)**	(279.6)	**(210.8)**	(199.4)
		(461.6)	(293.9)	**(210.8)**	(199.4)
Non-current liabilities					
Other interest-bearing loans and borrowings	*17*	**(2,164.1)**	(2,275.6)	**(242.7)**	(238.8)
Other payables	*18*	**(0.4)**	(0.2)	-	-
Employee benefits	*19*	**(126.8)**	(196.8)	-	-
Deferred income	*20*	**(271.7)**	(266.6)	-	-
Provisions	*21*	**(0.4)**	(0.3)	-	-
Deferred tax liabilities	*22*	**(355.2)**	(321.2)	-	-
		(2,918.6)	(3,060.7)	**(242.7)**	(238.8)
Total liabilities		**(3,380.2)**	(3,354.6)	**(453.5)**	(438.2)
Net assets	*3*	**614.6**	556.0	**11.4**	16.5
Equity					
Share capital	*23*	**-**	-	-	-
Retained earnings		**614.0**	555.9	**11.4**	16.5
Non-controlling interests	*23*	**0.6**	0.1	-	-
Total equity		**614.6**	556.0	**11.4**	16.5

These financial statements were approved by the Board of Directors on 10 September 2018 and were signed on its behalf by:

Seok Hong Yeoh – Director
Company registered number: 04341837

Statement of Changes in Equity
for the year ended 30 June 2018

Group

	Note	**Share capital**	**Retained earnings**	**Non-controll-ing interests**	**Total equity**
		£m	**£m**	**£m**	**£m**
Balance at 1 July 2016		-	538.9	-	538.9
Total comprehensive income for the year					
Profit for the year		-	139.2	0.1	139.3
Other comprehensive income		-	(31.2)	-	(31.2)
Total comprehensive income for the year		-	108.0	0.1	108.1
Transactions with owners, recorded directly in equity					
Dividends	*9*	-	(91.2)	-	(91.2)
Acquisition of a subsidiary with a non-controlling interest		-	0.2	-	0.2
Total contributions by and distributions to owners		-	(91.0)	-	(91.0)
Balance at 30 June 2017		-	555.9	0.1	556.0
Balance at 1 July 2017		-	555.9	0.1	556.0
Total comprehensive income for the year					
Profit for the year		-	117.8	0.5	118.3
Other comprehensive income		-	27.4	-	27.4
Total comprehensive income for the year		-	145.2	0.5	145.7
Transactions with owners, recorded directly in equity					
Dividends	*9*	-	(87.1)	-	(87.1)
Total contributions by and distributions to owners		-	(87.1)	-	(87.1)
Balance at 30 June 2018		-	**614.0**	**0.6**	**614.6**

Included in retained earnings are £557.2m of un-distributable reserves (2017 - £562.3m) 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 2018

Company

	Note	Share capital	Retained earnings	Non-controll-ing interest s	Total equity
		£m	£m	£m	£m
Balance at 1 July 2016		-	20.3	-	20.3
Total comprehensive income for the year					
Profit for the year		-	87.4	-	87.4
Other comprehensive income		-	-	-	-
Total comprehensive income for the year		-	87.4	-	87.4
Transactions with owners, recorded directly in equity					
Dividends	9	-	(91.2)	-	(91.2)
Total contributions by and distributions to owners		-	(91.2)	-	(91.2)
Balance at 30 June 2017		-	16.5	-	16.5
Balance at 1 July 2017		-	16.5	-	16.5
Total comprehensive income for the year					
Profit for the year		-	82.0	-	82.0
Other comprehensive income		-	-	-	-
Total comprehensive income for the year		-	82.0	-	82.0
Transactions with owners, recorded directly in equity					
Dividends	9	-	(87.1)	-	(87.1)
Total contributions by and distributions to owners		-	(87.1)	-	(87.1)
Balance at 30 June 2018		**-**	**11.4**	**-**	**11.4**

Cash Flow Statements
for year ended 30 June 2018

	Note	Group 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
Cash flows from operating activities					
Profit for the year		**118.3**	139.3	**82.0**	87.4
Adjustments for:					
Depreciation, amortisation and impairment		**110.5**	108.2	-	-
Financial income		**(0.4)**	(1.1)	**(100.0)**	(102.8)
Financial expense		**97.2**	87.2	**11.2**	11.0
Taxation		**48.2**	7.6	-	-
		373.8	341.2	**(6.8)**	(4.4)
Increase in trade and other receivables		**(10.9)**	(31.2)	-	(4.2)
Decrease in inventories		**1.1**	0.1	-	-
Increase/(decrease) in trade and other payables		**6.0**	18.4	**(4.9)**	8.2
(Decrease) in provisions and employee benefits		**(42.5)**	(3.7)	-	-
		(46.3)	(16.4)	**(4.9)**	4.0
Tax paid		**(22.9)**	(23.6)	-	-
Net cash from operating activities		**304.6**	301.2	**(11.7)**	(0.4)
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		**1.5**	2.8	-	-
Interest received		**0.5**	1.0	-	-
Dividends received		-	-	**100.0**	102.8
Acquisition of subsidiary, net of cash acquired		-	0.5	-	-
Acquisition of property, plant and equipment		**(244.3)**	(196.1)	-	-
Proceeds from infrastructure charges and capital contributions		**9.1**	10.0	-	-
Acquisition of investment property		**(7.9)**	(7.0)	-	-
Acquisition of other intangible assets		-	(2.1)	-	-
Net cash from investing activities		**(241.1)**	(190.9)	**100.0**	102.8
Cash flows from financing activities					
Proceeds from new loan		**6.0**	42.5	-	-
Interest paid		**(63.3)**	(74.6)	**(1.2)**	(11.2)
Repayment of borrowings		-	-	-	-
Payment of finance lease liabilities		**(5.4)**	(5.0)	-	-
Dividends paid		**(86.7)**	(91.0)	**(86.7)**	(91.0)
Net cash from financing activities		**(149.4)**	(128.1)	**(87.9)**	(102.2)
Increase/(decrease) in cash and cash equivalents		**(85.9)**	(17.8)	**0.4**	0.2
Cash and cash equivalents at 1 July		**97.2**	115.0	**0.7**	0.5
Cash and cash equivalents at 30 June	*16,17*	**11.3**	97.2	**1.1**	0.7

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 and in preparing an opening IFRS balance sheet at 1 July 2013 for the purposes of the transition to Adopted IFRSs.

Judgements made by the Directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 32.

1.2 Measurement convention

The financial statements are prepared on the historical cost basis.

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. Their value is measured at amortised cost.

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

Interest-bearing borrowings

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

Trade receivables

Trade receivables are held at amortised cost less any impairment.

Notes to the financial statements (continued)

1. Accounting policies *(continued)*

1.6 Property, plant and equipment

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

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

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

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

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

- 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.

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

Notes to the financial statements (continued)

1. Accounting policies *(continued)*

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)

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

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

Non-financial assets

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

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

1.11 Employee benefits

Defined benefit plans

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

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

Re-measurements arising from defined benefit plans comprise actuarial gains and losses and the return on plan assets. The Company recognises them immediately in other comprehensive income and all other expenses related to defined benefit plans in employee benefit expenses in profit or loss. When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised immediately in profit or loss when the plan amendment or curtailment occurs.

Notes to the financial statements (continued)

1. Accounting policies *(continued)*

Defined benefit plans (continued)

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

The assets of the scheme are held separately from those of the Group. The scheme has been closed to new members since 2009.

Defined contribution plans

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

Short-term benefits

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

Share-based payment transactions

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

1.12 Provisions

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

1.13 Revenue

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.

<u>Ongoing supply of water and sewerage services</u>
Under the licenses granted by the Government, three subsidiaries (Wessex Water Services, Water2Business and Albion Water) have the right to supply water and sewerage services and (for WWSL and AWL) an obligation to maintain and develop the network and ensure its continued availability to customers. For metered customers, revenue includes an estimate of the sales value of units consumed between the last meter reading and the end of the period. Where premises are unoccupied or where no services are provided, charges are not raised, and no revenue is recognised. For Unmetered customers revenue is assessed based on the rateable value of the customer's property and the passage of time.

Notes to the financial statements (continued)

1. Accounting policies *(continued)*

***1.13 Revenue** (continued)*

Developer Services
From the perspective of the Group 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 (which could be in perpetuity). 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).

1.14 Deferred income

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

Grants and contributions relating to infrastructure assets are amortised over the same period as infrastructure assets (see 1.6). Under IFRIC 18 sewers adopted at nil cost to the Company are shown in deferred income at a fair value, based on the cost of construction to the developer, and amortised at the same period as infrastructure assets are depreciated.

1.15 Bad debt policy

Debt is written off for one of four reasons;

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

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

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.

Notes to the financial statements (continued)

1. Accounting policies *(continued)*

1.16 Expenses (continued)

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

1.17 Taxation

Tax on the profit 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 Adopted IFRS not yet applied

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

IFRS 15 Revenue from Contracts with Customers (Mandatory for years commencing on or after 1 January 2018)

This new Accounting Standard will apply to all contracts with customers except leases, insurance contracts, financial instruments, guarantees and certain non-monetary exchanges. It will supersede and replace:

- IAS 11 & 18 Construction contracts & Revenue
- IFRIC 13 Customer Loyalty Programmes
- IFRIC 15 Agreements for the Construction of Real Estate
- IFRIC 18 Transfers of Assets from Customers
- SIC-31 Revenue – Barter Transactions involving Advertising Services.

The Company has considered the effect of the new standard on each of its revenue streams as follows:

<u>Ongoing supply of water and sewerage services</u>
Under the license granted by the Government the Company has the right to supply water and sewerage services and an obligation to maintain and develop the network and ensure its continued availability to customers. In effect the contracts with the customers have an indefinite life. Under IFRS 15: B16 revenue to be recognised is the amount to which the company has a right to receive. For metered customers this is determined by the meter reading, hence no change to the IAS 18 revenue recognition pattern. 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 licenced region. Again, no change to the IAS 18 revenue recognition pattern.

<u>Developer Services</u>
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 following:

(i) Connections and metering installation in exchange for payment;
(ii) Requisitions or water mains in exchange for payment (net of income offset); and
(iii) Adoptions of water mains (in return for payment of the income offset) and wastewater mains.

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

Notes to the financial statements (continued)

1. Accounting policies *(continued)*

1.18 Adopted IFRS not yet applied (continued)

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 (which could be in perpetuity). 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). Deferment periods are likely to be comparable to those currently used.

Financing Component

Normally 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. We do not consider this to the case for Developer Services as the timing difference does not arise as a result of the provision of finance, but rather comes as a consequence of the nature of the regulatory environment.

Transition approach

As IFRS 15 is expected to be materially consistent with the existing accounting under IFRIC18 / IAS18 the Company proposes to adopt the modified retrospective approach.

- Where a transaction under IFRIC18 / IAS18 had been completed (fully recognised within income statement) the practical expedient on adoption of IFRS 15 allows for no restatement of these transactions.
- Where transactions under IFRIC18 / IAS18 are not fully complete at the transition date and therefore an element of revenue remains deferred on the balance sheet the deferred balance will be reassessed and amended to bring it in line with IFRS15 with a corresponding adjustment to opening reserves.

IFRS 9 Financial Instruments (Mandatory for years commencing on or after 1 January 2018)

The Company's financial assets and liabilities can all be classified as amortised cost under IFRS 9 and as such there will be no impact from adoption of the new standard. The current methodology for calculation of impairment of trade receivables is expected to closely align with the "expected credit losses" model required by IFRS 9, however the impact is still being determined.

Other Adopted IFRS issued but not yet applied

- Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS12 (Mandatory for years commencing on or after 1 January 2017)
- IFRS 16 Leases (Mandatory for years commencing on or after 1 January 2019)
- Classification and Measurement of Share-Based Payment Transactions – Amendments to IFRS 2
- Annual Improvements to IFRSs – 2015-2017 Cycle

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

1.19 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.

1.20 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.

Notes to the financial statements *(continued)*

1. Accounting policies *(continued)*

1.20 Basis of consolidation (continued)

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.

2 Segmental analysis

	2018	2017
	£m	£m
Revenue		
Regulated	569.8	535.3
Unregulated	43.7	36.4
	613.5	571.7
Operating profit		
Regulated	262.3	233.5
Unregulated	1.0	(0.5)
	263.3	233.0
Net assets		
Regulated	613.4	546.3
Unregulated	1.2	9.7
	614.6	556.0

The prior year regulated/unregulated revenue split has been amended to reflect the correct classification.

3 Expenses and audit fees information

Included in profit are the following:

	2018	2017
	£m	£m
Impairment loss on other trade receivables	12.1	11.9
Research and development expensed as incurred	0.1	0.2
	£'000	£'000
Auditor's remuneration:		
Audit of these financial statements	29	30
Audit of subsidiary companies	286	325
Taxation compliance services	-	7
Other tax advisory services	-	20
Other services pursuant to legislation	99	-
	414	382

Notes to the financial statements *(continued)*

4 Exceptional items

Following the latest actuarial valuation of the pension scheme a consultation was held with members to discuss the future funding of the scheme. As part of that consultation the Company, trustees and members agreed that the measurement of inflation for future pension increases would change. From 2020 pension increases for active members will be measured using Consumer Price Index (CPI) rather than Retail Price Index (RPI) which is currently used. The impact of that change is a £32.9m reduction in the IAS19 measurement of retirement benefit obligations, which has been shown in the Income Statement as a reduction in staff costs within total expenses. A further change to the scheme in relation to death in service benefits payable to dependents of members has come into effect this year. The effect of this change is an additional £3.0m reduction, making £35.9m in total. The £35.9m reduction in expenses generated a £6.1m deferred tax charge, a net exceptional credit of £29.8m, which on the balance sheet increases retained earnings, although the increased retained earnings are not distributed as dividends.

During the period, the Company has decided to align its deferred tax accounting in relation to historical industrial buildings with the group methodology with regards to the expected manner of recovery of the assets. This change in estimate has resulted in a £16.6m deferred tax charge in the current period which has been treated as an exceptional item. The adjustment has been included as a tax adjustment for prior years in note 8. This adjustment does not have any cash impact.

5 Staff numbers and costs

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

	Number of employees	
	2018	2017
Average number of employees	**2,817**	2,567

The aggregate payroll costs of these employees were:

	2018	2017
	£m	£m
Wages and salaries	**97.7**	87.2
Share based payments	**-**	-
Social security costs	**10.1**	9.0
Pension costs - normal	**13.9**	12.1
Pension costs - exceptional	**(35.9)**	-
	85.8	108.3

These costs were allocated as follows:

Capital schemes	**39.0**	40.1
Operating expenses - normal	**82.7**	68.2
Operating expenses - exceptional	**(35.9)**	-
	85.8	108.3

Notes to the financial statements *(continued)*

6 Directors' remuneration

	2018 £'000	2017 £'000
Total Directors' remuneration including benefits in kind	**1,741**	1,648
Remuneration of highest paid Director	**930**	911

Details of Directors' remuneration can be found in the Directors' Report. Directors' remuneration is in respect of two Executive Directors and five YTL appointed Directors (2017 - two Executive Directors and five YTL appointed Directors).

7 Finance income and expense

Recognised in the income statement

	2018 £m	2017 £m
Finance income		
Interest receivable on short-term bank deposits	**0.4**	1.1
Total finance income	**0.4**	1.1
Finance expense		
Net interest on net defined benefit pension plan liability	**(5.1)**	(4.7)
On bank loans and leases	**(92.1)**	(82.5)
	(97.2)	(87.2)
Net interest payable	**(96.8)**	(86.1)

In accordance with IAS 23 borrowing costs of £2.5m (2017 - £1.7m) associated with the funding of eligible capital projects have been capitalised at an interest rate of 4.1% (2017 – 4.3%).

Notes to the financial statements *(continued)*

8 Taxation

Recognised in the income statement

	2018	2017
	£m	£m
Current tax expense		
Current year	**21.0**	26.7
Overseas taxation	**0.2**	0.3
Adjustments for prior years	**(1.5)**	(0.6)
Current tax expense	**19.7**	26.4
Deferred tax expense		
Origination and reversal of temporary differences	**11.6**	4.4
Reduction in tax rate	**-**	(20.7)
Adjustments for prior years	**16.9**	(2.5)
Deferred tax expense / (credit)	**28.5**	(18.8)
Tax expense in income statement (excluding tax on discontinued operation)	**48.2**	7.6

Recognised in other comprehensive income

	2018	2017
	£m	£m
Remeasurements of defined benefit liability	**(5.5)**	6.1
Change in tax rate	**-**	(1.6)
Tax credit / (debit)	**(5.5)**	4.5

Reconciliation of effective tax rate

	2018	2017
	£m	£m
Profit for the year	**118.3**	139.3
Total tax expense	**48.2**	7.6
Profit excluding taxation:	**166.5**	146.9
Tax using the UK corporation tax rate of 19% (2017 - 19.75%)	**31.6**	29.0
Impact of change in rate	**(1.5)**	(20.7)
Non-deductible expenses	**2.7**	3.0
(Over) / under provided in prior years	**(1.2)**	(3.1)
Exceptional item (see Note 4)	**16.6**	-
Other	**-**	(0.6)
Total tax expense (including tax on discontinued operations)	**48.2**	7.6

A reduction to the UK Corporation Tax rate from 18% to 17% effective from 1 April 2020 was substantively enacted in September 2016. Consequently, the deferred tax balances as at 30 June 2017 were remeasured at that date. This resulted in a credit to the income statement of £20.7m and a charge in reserves of £1.6m reflected in the June 2017 accounts. No further changes in the UK Corporation Tax rate were announced or substantively enacted in the year to 30 June 2018.

Notes to the financial statements *(continued)*

9 Dividends

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

	2018	2017
	£m	£m
Final dividend for the previous year	**-**	-
Dividends for the current year	**64.2**	68.7
Final dividend	**22.9**	22.5
	87.1	91.2

Notes to the financial statements *(continued)*

10 Property, plant and equipment – Group

	Land & buildings £m	Infra-structure assets £m	Plant, equipment & vehicles £m	Office & IT equipment £m	Group total £m
Cost					
Balance at 1 July 2016	868.1	2,062.0	1,645.3	26.8	4,602.2
Acquisitions through business combinations	0.3	10.9	-	0.1	11.3
Additions	6.5	66.8	118.4	4.3	196.0
Disposals	(0.3)	(1.5)	(11.4)	(0.1)	(13.3)
Foreign exchange movements	(0.1)	-	(0.8)	-	(0.9)
Balance at 30 June 2017	874.5	2,138.2	1,751.5	31.1	4,795.3
Balance at 1 July 2017	874.5	2,138.2	1,751.5	31.1	4,795.3
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	877.2	2,208.6	1,907.8	36.5	5,030.1
Depreciation and impairment					
Balance at 1 July 2016	(271.9)	(49.5)	(823.4)	(15.1)	(1,159.9)
Depreciation charge for the year	(14.3)	(18.1)	(73.4)	(2.8)	(108.6)
Disposals	0.2	-	8.9	-	9.1
Foreign exchange movements	-	-	0.8	-	0.8
Balance at 30 June 2016	(286.0)	(67.6)	(887.1)	(17.9)	(1,258.6)
Balance at 1 July 2017	(286.0)	(67.6)	(887.1)	(17.9)	(1,258.6)
Depreciation charge for the year	(14.4)	(18.8)	(75.0)	(2.9)	(111.1)
Disposals	0.7	-	10.9	-	11.6
Foreign exchange movements	-	-	0.8	-	0.8
Balance at 30 June 2018	(299.7)	(86.4)	(950.4)	(20.8)	(1,357.3)
Net Book Value					
At 1 July 2016	596.2	2,012.5	821.9	11.7	3,442.3
At 30 June 2017	588.5	2,070.6	864.4	13.2	3,536.7
At 30 June 2018	**577.5**	**2,122.2**	**957.4**	**15.7**	**3,672.8**

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.

Notes to the financial statements *(continued)*

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

At 30 June 2018 the net carrying amount of leased plant and machinery was £7.0m (2017 - £9.9m). The leased equipment secures lease obligations (see note 11).

Assets under construction included in the values above were £343.8m (2017 - £248.0m).

Cumulative borrowing costs capitalised and included above were £9.2m (2017 - £6.7m).

Included in freehold land and buildings above is an amount of £16.7m (2017 - £13.2m) in respect of land which is not depreciated.

11 Intangible assets – Group

	Goodwill	External customer lists	Contractual trading rights	Other intangible assets	Total intangible assets
	£m	£m	£m	£m	£m
Cost					
Balance at 1 July 2016	-	-	4.4	-	4.4
Acquisitions through business combinations	0.4	-	-	-	0.4
Other acquisitions – externally purchased	-	2.1	-	-	2.1
Balance at 30 June 2017	0.4	2.1	4.4	-	6.9
Balance at 1 July 2017	0.4	2.1	4.4	-	6.9
Reclassified from tangible assets	-	-	-	0.8	0.8
Balance at 30 June 2018	0.4	2.1	4.4	0.8	7.7
Amortisation and impairment					
Balance at 1 July 2016	-	-	(0.6)	-	(0.6)
Amortisation for the year	-	-	(0.3)	-	(0.3)
Impairment charge	(0.2)	-	-	-	(0.2)
Balance at 30 June 2017	(0.2)	-	(0.9)	-	(1.1)
Balance at 1 July 2017	(0.2)	-	(0.9)	-	(1.1)
Amortisation for the year	-	-	(0.3)	(0.1)	(0.4)
Balance at 30 June 2018	(0.2)	-	(1.2)	(0.1)	(1.5)
Net Book Value					
At 30 June 2016	-	-	3.8	-	3.8
At 30 June 2017	0.2	2.1	3.5	-	5.8
At 30 June 2018	**0.2**	**2.1**	**3.2**	**0.7**	**6.2**

Amortisation and impairment charge

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

Notes to the financial statements *(continued)*

11 Intangible assets – Group *(continued)*

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 2018 as the customer lists' recoverable amount exceeds their carrying value.

12 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	2018 %	2017 %
Company - subsidiary						
Wessex Water Ltd	United Kingdom	2366633	Water supply and waste water services	£1 ordinary	100	100
YTL Events Ltd	United Kingdom	4776317	Concert promotion	£1 ordinary	100	100
YTL Land and Property (UK) Ltd	United Kingdom	10015163	Housing development	£1 ordinary	100	100
Group - subsidiary						
Albion Water Ltd	United Kingdom	03102176	Water & Sewerage inset appointments	£1 ordinary	51	51
Enterprise Laundry Services Ltd	United Kingdom	8488681	Laundry services	£1 ordinary	100	100
GENeco Ltd	United Kingdom	06842738	Waste water services	£1 ordinary	100	100
GENeco South West Ltd	United Kingdom	09326393	Waste water services	£1 ordinary	100	100
SC Technology GmbH	Switzerland	-	Waste treatment processes	CHF ordinary	100	100
SC Technology Nederlands BV	Netherlands	-	Waste treatment	Euro ordinary	100	100
SC Technology Deutschand GmbH	Germany	-	Waste treatment	Euro ordinary	100	100
Water 2 Business Ltd	United Kingdom	8518831	Billing services	£1 ordinary	70	70
Wessex Concierge Ltd	United Kingdom	10826537	Holding Company	£1 ordinary	100	100
Flipper Ltd	United Kingdom	10826922	Energy switching for domestic customers	£1 ordinary	65	100
Wessex Electricity Utilities Ltd	United Kingdom	06718971	Dormant	£1 ordinary	100	100
Wessex Engineering & Construction Services Ltd	United Kingdom	3652435	Engineering services	£1 ordinary	100	100
Wessex Logistics Ltd	United Kingdom	2306465	Dormant	£1 ordinary	100	100
Wessex Promotions Ltd	United Kingdom	5421311	Dormant	£1 ordinary	100	100
Wessex Property Services Ltd	United Kingdom	2277590	Dormant	£1 ordinary	100	100
Wessex Spring Water Ltd	United Kingdom	2881033	Dormant	£1 ordinary	100	100
Wessex Utility Solutions Ltd	United Kingdom	06718997	Engineering services	£1 ordinary	100	100

Notes to the financial statements *(continued)*

12 Investments in subsidiaries and jointly ventures *(continued)*

	Country	Number	Principal activity	Shares held	2018 %	2017 %
Wessex Water Commercial Ltd	United Kingdom	2372795	Dormant	£1 ordinary	100	100
Wessex Water Engineering Services Ltd	United Kingdom	2286860	Dormant	£1 ordinary	100	100
Wessex Water Enterprises Ltd	United Kingdom	2279151	Water supply and waste water services	£1 ordinary	100	100
Wessex Water Pension Scheme Trustee Ltd	United Kingdom	3913589	Dormant	£1 ordinary	100	100
Wessex Water Services Ltd	United Kingdom	2366648	Water supply and waste water services	£1 ordinary	100	100
Wessex Water Services Finance PLC	United Kingdom	3704265	Issue of bonds	£1 ordinary	100	100
Wessex Water Trustee Company Ltd	United Kingdom	2278257	Dormant	£1 ordinary	100	100
YTL Developments (UK) Ltd	United Kingdom	10495341	Housing development	£1 ordinary	100	100
YTL Engineering Ltd	United Kingdom	3696600	Dormant	£1 ordinary	100	100
YTL Homes Ltd	United Kingdom	10017065	Dormant	£1 ordinary	100	100
YTL Places Ltd	United Kingdom	10539227	Dormant	£1 ordinary	100	100
YTL Property Holdings (UK) Ltd	United Kingdom	9676296	Housing development	£1 ordinary	100	100
YTL Services Ltd	United Kingdom	2277608	Dormant	£1 ordinary	100	100
Group – joint venture						
Bristol Wessex Billing Services Ltd	United Kingdom	4143955	Billing services	£1 A ordinary	50	50
Searchlight Collections Ltd	United Kingdom	07940022	Billing services	£1 ordinary	50	50

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

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)*

12 Investments in subsidiaries and joint ventures (continued)

Summary aggregated financial information on joint venture.

	2018	2017
	£m	£m
Bristol Wessex Billing Services Ltd		
Assets	**2.0**	1.6
Liabilities	**(2.0)**	(1.6)
Net assets	-	-

Investment in Subsidiaries - Company		
Carrying value at 1 July	**351.3**	351.3
Additions	-	-
Written off in the year	-	-
Carrying value at 30 June	**351.3**	351.3

13 Investment properties

Group	**2018**	2017
	£m	£m
Balance at 1 July	**77.4**	2.7
Transfer from inventories	-	67.7
Acquisitions	**8.0**	7.0
Balance at 30 June	**85.4**	77.4

14 Inventories

	Group		**Company**	
	2018	2017	**2018**	2017
	£m	£m	**£m**	£m
Raw materials and consumables	**3.2**	3.3	-	-
Work in progress	**6.1**	7.1	-	-
	9.3	10.4	-	-

Raw materials, consumables and work in progress recognised as cost of sales in the year amounted to £5.2m *(2017 - £3.4m)*. There was no write-down of inventories to net realisable value in either year.

Notes to the financial statements *(continued)*

15 Trade and other receivables

	Group 2018 £m	2017 £m	Company 2018 £m	2017 £m
Trade receivables	**84.0**	78.9	**-**	-
Owed by subsidiary companies	**-**	-	**112.5**	102.7
Owed by other group companies	**2.9**	4.8	**-**	-
Owed by parent company	**-**	-	**-**	-
Accrued income (see Note 1.13)	**100.5**	87.5	**-**	-
Prepayments	**6.1**	5.3	**-**	-
VAT debtors	**8.1**	6.0	**-**	-
Other debtors	**2.0**	-	**-**	-
	203.6	182.5	**112.5**	102.7

16 Cash and cash equivalents

	Group 2018 £m	2017 £m	Company 2018 £m	2017 £m
Short-term bank deposits	**6.7**	90.0	**-**	-
Cash at bank	**10.8**	7.8	**1.1**	0.7
	17.5	97.8	**1.1**	0.7

17 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 24.

	Group 2018 £m	2017 £m	Company 2018 £m	2017 £m
Non-current liabilities				
Bank loans	**313.1**	448.8	**-**	-
Other loans	**0.5**	0.5	**-**	-
Finance lease liabilities	**-**	1.4	**-**	-
Loan from parent company	**72.8**	68.9	**72.8**	68.9
Loan from other group company	**169.9**	169.9	**169.9**	169.9
Bonds	**1,607.8**	1,586.1	**-**	-
	2,164.1	2,275.6	**242.7**	238.8
Current liabilities				
Bank overdraft	**6.2**	0.6	**-**	-
Short term bank borrowing	**140.0**	-	**-**	-
Other loans	**9.9**	8.2		
Current portion of finance lease liabilities	**1.4**	5.5	**-**	-
	157.5	14.3	**-**	-

Notes to the financial statements *(continued)*
17 Other interest-bearing loans and borrowings *(continued)*

Terms and debt repayment schedule

	Currency	Annual interest rate	Year of maturity	Face value 2018 £m	Carrying amount 2018 £m	Face value 2017 £m	Carrying amount 2017 £m
Bank loans	Sterling	1.05%-2.16%	2020-2024	**313.1**	**313.1**	448.8	448.8
Related party loans							
Loan from parent	Sterling	6.25%	2020	**72.8**	**72.8**	68.9	68.9
Loan from group	Sterling	4.25%	2019	**169.9**	**169.9**	169.9	169.9
Bonds							
Bond	Sterling	5.375%	2028	**199.0**	**198.6**	198.8	198.4
Bond	Sterling	5.75%	2033	**347.3**	**346.2**	347.1	346.1
Bond	Sterling	4.00%	2021	**199.1**	**199.1**	198.9	198.9
Bond	Sterling	4.00%	2021	**103.0**	**103.0**	103.9	103.9
Index Linked Bond	Sterling	3.52%	2023	**79.7**	**79.7**	77.5	77.5
Index Linked Bond	Sterling	2.186%	2039	**65.0**	**65.0**	62.9	62.9
Index Linked Bond	Sterling	1.75%	2046	**104.5**	**104.5**	101.6	101.6
Index Linked Bond	Sterling	1.75%	2051	**104.5**	**104.5**	101.6	101.6
Index Linked Bond	Sterling	1.369%	2057	**104.5**	**104.5**	101.6	101.6
Index Linked Bond	Sterling	1.374%	2057	**104.5**	**104.5**	101.6	101.6
Index Linked Bond	Sterling	1.489%	2058	**66.1**	**66.1**	64.0	64.0
Index Linked Bond	Sterling	1.495%	2058	**66.1**	**66.1**	64.0	64.0
Index Linked Bond	Sterling	1.499%	2058	**66.0**	**66.0**	64.0	64.0
Other loans	Sterling	5.75%	2026	**0.5**	**0.5**	0.5	0.5
Short term borrowing							
Bank loans	Sterling	1.49%	2018	**140.0**	**140.0**	-	-
Other loans	Sterling	2.50%	2018	**9.9**	**9.9**	8.2	8.2
				2,315.5	**2,314.0**	2,283.8	2,282.4

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

Finance lease liabilities

Finance lease liabilities are payable as follows:

	Minimum lease payments 2018 £m	Interest 2018 £m	Principal 2018 £m	Minimum lease payments 2017 £m	Interest 2017 £m	Principal 2017 £m
Less than one year	**1.5**	**(0.1)**	**1.4**	5.8	(0.3)	5.5
Between one and five years	-	-	-	1.5	(0.1)	1.4
	1.5	**(0.1)**	**1.4**	7.3	(0.4)	6.9

Notes to the financial statements *(continued)*

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

Changes in liabilities arising from financing activities

Group	1st July 2017	Cash flows	Reclassified on disposal	Foreign exchange	Changes in fair value	New leases	Other	30th June 2018
	£m	£m	£m	£m	£m	£m	£m	£m
Current interest bearing loans and borrowings (excluding items listed below)	8.8	7.3	-	-	-	-	140.0	**156.1**
Current obligations under finance leases and hire purchase contracts	5.5	(5.5)	-	-	-	-	1.4	**1.4**
Non-current interest bearing loans and borrowings (excluding items listed below)	2,274.2	4.2	-	-	-	-	(114.3)	**2,164.1**
Non-current obligations under finance leases and hire purchase contracts	1.4	-	-	-	-	-	(1.4)	-
Derivatives	-	-	-	-	-	-	-	-
Total liabilities from financing activities	**2,289.9**	**6.0**	-	-	-	-	**25.7**	**2,321.6**

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)*

18 Trade and other payables

	Group 2018 £m	2017 £m	Company 2018 £m	2017 £m
Current				
Amounts payable to parent company	**22.9**	22.5	**22.9**	22.5
Amounts payable to subsidiary companies	-	-	**99.9**	99.1
Amounts payable to other group companies	**87.4**	77.1	**87.4**	77.1
Amounts owed to associate companies	-	(0.3)	-	-
Trade payables	**22.9**	19.3	-	-
Dividend	-	-	-	-
Other creditors	**3.6**	1.7	-	-
Corporation tax	**13.8**	16.8	-	-
Taxation and social security	**3.0**	2.6	-	-
Accrued expenses	**96.6**	100.2	**0.6**	0.7
Deferred income	**53.9**	39.7	-	-
	304.1	279.6	**210.8**	199.4
Non-current				
Other payables	**0.4**	0.2	-	-
	304.5	279.8	**210.8**	199.4

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.

19 Employee benefits

Pension plans

	2018 £m	2017 £m
Fair value of scheme assets	**613.8**	593.3
Present value of defined benefit obligations	**(739.5)**	(788.9)
Net (liability) for defined benefit obligations	**(125.7)**	(195.6)
Unfunded and compensatory added years pension	**(1.1)**	(1.2)
Total employee benefits	**(126.8)**	(196.8)

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.

Notes to the financial statements *(continued)*

19 Employee benefits *(continued)*

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:

- £7.60M by 31 March 2017;
- £11.00M by 31 March 2018;
- £11.38M by 31 March 2019;
- £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 £11.38m is expected to be paid by the Group during the year ending on 30 June 2019.

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 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.

Notes to the financial statements *(continued)*

19 Employee benefits *(continued)*

The Trustees insure certain benefits payable on death before retirement.

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

d. Reporting at 30 June 2018

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

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

	30.06.18	30.06.17
Rate of increase in salaries – year 1	**3.2%**	3.2%
Rate of increase in salaries – years 2 (2016 years 2 to 3)	**1.8%**	3.2%
Rate of increase in salaries – long term	**1.8%**	3.7%
Rate of increase in pensions in payment	**2.2% or 3.1%**	2.2% or 3.1%
Rate of increase in pensions in payment - reduced level members	**2.2%**	2.2%
Discount rate	**2.8%**	2.6%
Inflation assumption – RPI	**3.2%**	3.2%
Inflation assumption – CPI	**2.2%**	2.2%

The mortality assumptions are based upon the recent actual mortality experience of Scheme members and allow for expected future improvements in mortality rates. The assumptions are that a member currently aged 60 will live, on average, for a further 27.1 years (2017 – 27.0 years) if they are male, and for a further 29.2 years (2017 – 29.1 years) if they are female. For a member who retires in 2038 at age 60 the assumptions are that they will live, on average, for a further 28.3 years (2017 – 28.2 years) after retirement if they are male, and a further 30.4 years (2017 – 30.4 years) after retirement if they are female.

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

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

- A reduction in the discount rate of 0.1% from 2.8% to 2.7% would increase the scheme liabilities by £14.1m from £739.5m to £753.6m, increasing the scheme deficit to £139.8m
- An increase in the inflation assumption of 0.1% (from 2.2% to 2.3% for CPI and 3.2% to 3.3% for RPI) would increase the scheme liabilities by £13.6m from £739.5m to £753.1m, increasing the scheme deficit to £139.3m
- An increase in life expectancy of 1 year would increase the scheme liabilities by £26.6m from £739.5m to £766.1m, increasing the scheme deficit to £152.3m.

Notes to the financial statements *(continued)*

19 Employee benefits *(continued)*

e. The value of the assets as follows:

	2018	2017
	£m	£m
Equities	254.5	260.8
Property	38.8	35.8
Government Bonds	171.7	144.1
Corporate Bonds	135.4	127.5
Other	13.4	25.1
	613.8	593.3

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

	2018	2017
	£m	£m
Operating cost – service cost		
Current service cost	12.3	12.0
Administration expenses	0.6	0.6
Past service cost	(35.9)	0.1
Financing cost		
Interest on net benefit liability	5.1	4.7
Pension expense recognised in profit and loss	(17.9)	17.4
Re-measurements in Other Comprehensive Income (OCI)		
Return on plan assets in excess of that recognised in net interest	(9.5)	(41.9)
Actuarial (gains)/losses due to changes in financial assumptions	(29.7)	100.7
Actuarial gains due to changes in demographic assumptions	-	(6.5)
Actuarial (gains)/losses due to liability experience	6.7	(16.7)
Pension amount recognised in OCI	(32.5)	35.6
Total amount recognised in profit and loss and OCI	(50.4)	53.0

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

	2018	2017
	£m	£m
Opening defined benefit obligation	788.9	702.8
Current service cost	12.3	12.0
Interest expense on defined benefit obligation	20.7	20.5
Contributions by scheme participants	0.2	0.2
Actuarial gains due to changes in demographic assumptions	-	(6.5)
Actuarial (gains)/losses due to changes in financial assumptions	(29.7)	100.7
Actuarial (gains)/losses due to liability experience	6.7	(16.7)
Net benefits paid out	(23.7)	(24.2)
Past service cost (including curtailments)	(35.9)	0.1
Closing defined benefit obligation	739.5	788.9

Notes to the financial statements *(continued)*

19 Employee benefits *(continued)*

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

	2018	2017
	£m	£m
Opening fair value of scheme assets	**593.3**	544.1
Interest income on scheme assets	**15.6**	15.8
Re-measurement gains on scheme assets	**9.5**	41.9
Contributions by employer	**19.5**	16.1
Contributions by scheme participants	**0.2**	0.2
Net benefits paid out	**(23.7)**	(24.2)
Administration costs incurred	**(0.6)**	(0.6)
Closing fair value of scheme assets	**613.8**	593.3

i. Additional analysis:

	2018	2017
	£m	£m
Actual return on scheme assets		
Interest income on scheme assets	**15.6**	15.8
Re-measurement gains on scheme assets	**9.5**	41.9
Actual return on scheme assets	**25.1**	57.7
Analysis of amounts recognised in Other Comprehensive Income		
Total re-measurement gains/(losses)	**32.5**	(35.6)
Total gain/(loss)	**32.5**	(35.6)

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

	30.06.18	30.06.17	30.06.16	30.06.15	30.06.14
	£m	£m	£m	£m	£m
Fair value of scheme assets	**613.8**	593.3	544.1	516.1	467.7
Defined benefit obligation	**(739.5)**	(788.9)	(702.8)	(638.2)	(566.5)
Deficit in the scheme	**(125.7)**	(195.6)	(158.7)	(122.1)	(98.8)
Experience gains on scheme assets	**9.5**	41.9	12.0		
Experience gains on scheme liabilities	**(6.7)**	16.7	6.4		

Defined contribution plans

The Group also operates a defined contribution pension plan.

The total expense relating to this plan in the current year was £4.1m (2017 - £3.1m).

Notes to the financial statements *(continued)*

19 Employee benefits *(continued)*

Share-based payments

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

June 2012. The terms of the 2011 scheme are specified under the YTL Power International Berhad Employees Share Option Scheme 2011 (2011 UK part) known as the "2011 UK Plan".

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

2011 UK Plan

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

Granted – Ordinary shares of RM0.50 each	Vesting date	Expiry date	Exercise price RM	Fair value RM
01/06/2012 Unapproved	01/06/2015	31/03/2021	1.38	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

The following options were outstanding at 30 June 2017 and 30 June 2018:

Granted – Ordinary shares of RM0.50 each	Outstanding at 30 June 2017	Granted	Forfeited	Exercised	Outstanding at 30 June 2018
01/06/2012 Unapproved	7,843,000	-	(356,000)	-	7,487,000
01/06/2012 Approved	37,434,000	-	(835,000)	-	36,599,000
TOTAL	45,277,000	-	(1,191,000)	-	44,086,000

The share price at 30 June 2018 was RM1.03 or £0.19.

Notes to the financial statements *(continued)*

20 Deferred income

	Above ground grants £m	Below ground grants £m	Sewer adoptions £m	Total £m
Balance at 1 July 2016	9.0	160.8	81.4	251.2
Acquisitions through business combinations	-	2.8	8.7	11.5
Received during the year	0.3	9.4	(3.5)	6.2
Amortisation	(0.4)	(1.2)	(0.7)	(2.3)
Balance at 30 June 2017	8.9	171.8	85.9	266.6
Balance at 1 July 2017	8.9	171.8	85.9	266.6
Received during the year	-	8.5	-	8.5
Amortisation	(0.5)	(2.0)	(0.9)	(3.4)
Balance at 30 June 2018	**8.4**	**178.3**	**85.0**	**271.7**

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

21 Provisions

Group

	Restructuring £m	Total £m
Balance at 1 July 2017	**0.3**	0.3
Provisions made during the year	**0.4**	0.4
Provisions used during the year	**(0.3)**	(0.3)
Balance at 30 June 2018	**0.4**	0.4
Non-current	-	-
Current	**0.4**	0.4
	0.4	0.4

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

Notes to the financial statements *(continued)*

22 Deferred tax assets and liabilities – Group

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Liabilities		Assets		Net	
	2018	2017	**2018**	2017	**2018**	2017
	£m	£m	**£m**	£m	**£m**	£m
Property, plant and equipment	**400.7**	378.4	**(23.8)**	(23.9)	**376.9**	354.5
Employee benefits	**-**	-	**(21.7)**	(33.3)	**(21.7)**	(33.3)
Tax (assets) / liabilities	**400.7**	378.4	**(45.5)**	(57.2)	**355.2**	321.2
Net of tax liabilities/(assets)	**(45.5)**	-	**45.5**	-	**-**	-
Net tax (assets) / liabilities	**355.2**	378.4	**-**	(57.2)	**355.2**	321.2

Movement in deferred tax during the year

	1 July 2017 £m	Recognised in income £m	Recognised in other comprehensive income £m	30 June 2018 £m
Property, plant and equipment	354.5	22.4	-	**376.9**
Employee benefits	(33.3)	6.1	5.5	**(21.7)**
Provisions	-	-	-	**-**
	321.2	28.5	5.5	**355.2**

Movement in deferred tax during the prior year

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

Notes to the financial statements *(continued)*

23 Capital and reserves

Share capital – Group and Company
Ordinary shares

Authorised	**2018**	2017
	£	£
100 Ordinary shares of £1 each	**100**	100
	100	100

	2018	2017
	£	£
Allotted, called up and fully paid		
2 Ordinary shares of £1 each	**2**	2
Shares classified in shareholders' funds	**2**	2

Non-controlling Interests

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

Company	**Share of gains or (losses)**	
	2018	2017
	£m	£m
Balance at 1 July	**-**	-
Water 2 Business Ltd	**(0.1)**	0.3
Albion Water Limited	**(0.2)**	(0.3)
Flipper Limited	**(0.3)**	-
Balance at 30 June	**(0.6)**	-

24 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 £1,607.8m and a fair value of £2,158.7m. Bank loans and overdrafts are classified as level 2 and have a carrying value and fair value of £459.3m. Parent and other group company loans are classified as level 2 and have a carrying and fair value of £242.7m. All other loans and leases are classified as level 2 and have a carrying and fair value of £11.8m.

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

Notes to the financial statements *(continued)*

24 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	Fair value	Level 1	Level 2	Carrying amount	Fair value	Level 1	Level 2
	2018	2018	2018	2018	2017	2017	2017	2017
	£m	£m	£m	£m	£m	£m	£m	£m
Loans and receivables								
Cash and cash equivalents (note 16)	**(17.5)**	**(17.5)**	**-**	**(17.5)**	(97.8)	(97.8)	-	(97.8)
Total financial assets	**(17.5)**	**(17.5)**	**-**	**(17.5)**	(97.8)	(97.8)	-	(97.8)
Bank overdraft (note 17)	**6.2**	**6.2**	**-**	**6.2**	0.6	0.6	-	0.6
Other interest-bearing loans and borrowings (note 17 current)	**151.3**	**151.3**	**-**	**151.3**	13.7	13.7	-	13.7
Other financial liabilities measured at amortised cost (note 17 non-current)	**2,164.1**	**2,715.0**	**2,158.7**	**556.3**	2,275.6	2,930.4	2,240.9	689.5
Total financial liabilities	**2,321.6**	**2,872.5**	**2,158.7**	**713.8**	2,289.9	2,944.7	2,240.9	703.8
Total financial instruments	**2,304.1**	**2,855.0**	**2,158.7**	**696.3**	2,192.1	2,846.9	2,240.9	606.0

(b) Credit risk

Financial risk management

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

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

	2018	2017
	£m	£m
Cash and cash equivalents	**17.5**	97.8
	17.5	97.8

The concentration of credit risk for trade receivables (see note 15) at the balance sheet date by geographic region was:

South West England	**83.5**	78.3
South East England	**0.3**	0.2
Netherlands	**0.2**	0.4
	84.0	78.9

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

Notes to the financial statements *(continued)*

24 Financial instruments *(continued)*

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

	Gross 2018 £m	**Impairment 2018 £m**	Gross 2017 £m	Impairment 2017 £m
Less than 1 year	**62.1**	**(5.9)**	59.5	(6.7)
1 to 2 years	**19.4**	**(5.9)**	18.5	(5.9)
2 to 3 years	**15.2**	**(6.2)**	15.0	(6.3)
3 to 4 years	**13.0**	**(7.7)**	12.0	(7.2)
More than 4 years	**18.1**	**(18.1)**	13.3	(13.3)
	127.8	**(43.8)**	118.3	(39.4)

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

	2018 £m	2017 £m
Balance at 1 July	**(39.4)**	(44.7)
Written off	**7.7**	17.2
Charge to profit and loss	**(12.1)**	(11.9)
Balance at 30 June	**(43.8)**	(39.4)

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

(c) Cash flow hedges

The Company does not have any cash flow hedges (2017 – none).

(d) Liquidity risk

Financial risk management

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

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

Notes to the financial statements *(continued)*

24 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 2018 £m	Contractual cash flows 2018 £m	Year 1 2018 £m	Years 2 to 5 2018 £m	Over 5 years 2018 £m
Non-derivative financial instruments					
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
Bonds	1,607.8	4,785.6	57.3	523.2	4,205.1
Total financial instruments	2,321.6	5,586.6	269.7	811.0	4,505.9

	Carrying amount 2017 £m	Contractual cash flows 2017 £m	Year 1 2017 £m	Years 2 to 5 2017 £m	Over 5 years 2017 £m
Non-derivative financial instruments					
Bank overdraft	0.6	0.6	0.6	-	-
Finance lease liabilities	6.9	7.2	5.7	1.5	-
Secured bank loans	457.5	475.0	38.6	230.3	206.1
Parent company loans	238.8	256.0	179.7	76.3	-
Bonds	1,586.1	3,854.0	56.7	530.3	3,267.0
Total financial instruments	2,289.9	4,592.8	281.3	838.4	3,473.1

(e) Market risk

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

Interest rate risk

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

	2018 £m	2017 £m
Fixed rate instruments	**946.9**	950.7
Floating rate instruments	**613.8**	602.4
Index linked instruments	**760.9**	736.8
	2,321.6	2,289.9

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

Sensitivity

The floating rate instruments are sensitive to interest rate movements. If there was a 1% increase in interest rates on those floating rate instruments at the balance sheet date, there would be an additional interest charge to the income statement of £6.1m.

Notes to the financial statements *(continued)*

25 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.

	2018	2017
	£m	£m
	WWSL	WWSL
Cash at bank	**(2.2)**	(1.4)
Short term deposits	**(6.5)**	(90.0)
Bank Loans	**415.0**	415.0
Finance leases	**1.4**	6.9
Bonds	**1,605.8**	1,584.1
Total Net Debt	**2,013.5**	1,914.6
RAB at 30 June	**3,147.5**	2,985.4
Gearing	**64%**	64%

The RCV for each Regulated Water and Sewerage Company is publish by Ofwat here:
https://www.ofwat.gov.uk/publication/regulatory-capital-values-2018/

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 2018 and 2017.

26 Operating leases

Non-cancellable operating lease rentals payable by the Group were £0.2m (2017 – nil). 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	0.4
more than five years	0.6
Total	**1.4**

During the year £3.3m was recognised as an expense in the income statement in respect of operating leases (2017 - £2.3m).

During the year £1.0m (2017 - £1.0m) was recognised as rental income by the Group.

27 Commitments

Capital commitments

Group

Capital expenditure contracted but not provided at 30 June 2018 was £81.8m (2017 - £65.6m).

The Company has guaranteed Bonds of £1,607.8m (2017 - £1,586.1m) 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 £1.2m (2017 - £0.8m).

Made by	Beneficiary	Amount (£m)	Expiry date
SCT Ned BV	Ministry of Housing	0.3	21/12/2018
GENeco (SW) Ltd	Bristol City Council	0.5	N/A
Wessex Water Ltd	NNB Generation Co.	0.3	30/06/2018
Wessex Water Services Ltd	Somerset County Council	0.1	N/A
YTL Developments (UK) Ltd	South Gloucestershire Council	0.9	N/A

28 Contingencies

Claims under the Environmental Information Regulations 2001 (EIR)

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

29 Significant transactions with related parties

There were no transactions with key management personnel.

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

There have been no transactions with pre-penultimate, penultimate and ultimate holding companies described in note 30.

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

	Group		**Company**	
	2018	2017	**2018**	2017
	£m	£m	**£m**	£m
Sales of goods and services:				
Fellow subsidiaries	**1.1**	0.9	-	-
Dividend income:				
Subsidiaries	-	-	**100.0**	102.8
Interest expense:				
Subsidiaries	-	-	**1.2**	1.2
Fellow subsidiaries	**10.0**	9.8	**10.0**	9.8
Purchase of goods and services from fellow subsidiaries:				
Hotel and accommodation	-	0.1	-	-
Telecommunications related charges	**0.4**	0.4	-	-
Purchase of goods and services from joint venture companies:				
Information technology consultancy	**2.0**	2.4	-	-

Notes to the financial statements *(continued)*

29 Significant transactions with related parties *(continued)*

	Group		Company	
	2018	2017	**2018**	2017
	£m	£m	**£m**	£m
Fellow subsidiaries	**2.9**	4.8	-	-
Year-end balances owing to:				
Subsidiaries	-	-	**99.9**	99.1
Fellow subsidiaries	**257.3**	247.0	**257.3**	247.0
Immediate holding company	**95.7**	91.4	**95.7**	91.4

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.

30 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 Power International Berhad, YTL Corporation Berhad and Yeoh Tiong Lay & Sons Holdings Sdn Bhd respectively, all registered in Malaysia.

The largest group in which the results of the Company are consolidated is that headed by YTL Corporation Berhad incorporated in Malaysia. The smallest group in which they are consolidated is that headed by YTL Power International 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.

31 Subsequent events

There were no subsequent events requiring disclosure in these financial statements.

The final dividend for the year of £22.9m was declared in June 2018 and paid in July 2018.

32 Accounting estimates and judgements

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

a) Defined benefit pension scheme deficit

In recognising the deficit on the balance sheet there are a number of assumptions concerning inflation, rate of increase of salaries and pensions, mortality rates and interest rates that can have a significant effect on the deficit recorded. These assumptions are discussed with independent qualified actuaries and disclosed in note 19 to the financial statements.

a) Bad debt provision

The methodology behind the provision is based upon historic debt recovery rates and the method of payment of the debt. This is combined with judgement as to likely future recovery rates to determine a percentage of debt to be provided according to the age and payment type.

b) Classification of capital expenditure

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

c) 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 using system generated information based on previous customer volume usage.

Notes to the financial statements *(continued)*

32 Accounting estimates and judgements *(continued)*

d) 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.