YTL Utilities (UK) Limited
CONSOLIDATED ACCOUNTS

For the year to 30 June 2012

Registered number 04341837

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Contents

Directors' report

The directors present their report and audited financial statements for the year ended 30 June 2012

PRINCIPAL ACTIVITIES

The company's principal activity is that of a holding company

The company's principal subsidiary Wessex Water Ltd, a holding company, owns 100% of the share capital of Wessex Water Services Ltd (WWSL), a regulated company licensed for the supply of clean water and treatment and disposal of waste water, operating in a region of 10,000 square kilometres in the south west of England WWSL is the major trading entity in the group, and produces non statutory regulatory accounts for the industry regulator OFWAT for the 12 months to 31 March each year Many of the operating statistics are also measured annually to March

In addition to WWSL, Wessex Water Enterprises Ltd, a wholly owned subsidiary company, undertakes unregulated water and waste water activities in the Wessex Water region and SC Technology GmbH, a wholly owned subsidiary company in Switzerland, installs and operates sludge drying equipment with two major contracts in Holland

FINANCIAL AND OPERATIONAL REVIEW

WESSEX WATER SERVICES LTD

HIGHLIGHTS (some indicators are measured for the regulatory year to 31 March 2012)

- We completed our 35th consecutive year without imposing water use restrictions for customers despite exceptionally dry weather
- Our water abstraction from the environment has continued to fall – made possible by reducing leakage and encouraging customers to use water wisely
- We once again beat our leakage target, fixing 12,000 leaks in the process
- We continued design of a water supply grid to add further resilience to supplies and facilitate the transfer of spare water to neighbouring regions in future
- For the fourth year in a row we have topped Ofwat's league tables for customer service
- We further improved customer satisfaction while taking on responsibility for the performance and operation of 17,000 kilometres of private sewers – doubling the length of our sewer network
- We helped more than 12,000 vulnerable households with our affordability schemes
- We achieved operating efficiency savings offsetting inflation and delivered our capital investment in the first two years of this regulatory cycle at 20% below the allowed cost
- We met all of our required environmental outputs
- We were named by the Scottish Water regulator as the most efficient retailer of water services in Britain
- We were named as the leading water company in the government's Carbon Reduction Commitment league table

Our performance and innovation during the year were recognised by a number of awards We were particularly pleased to be named Utility of the Year at the annual Utility Industry Achievement Awards In addition

- our Target Twenty water efficiency campaign won two awards, including Best Marketing Campaign at the annual Utility Industry Achievement Awards
- we won People Initiative of the Year at the Water Industry Achievement Awards for our work with the Prince's Trust
- our innovative low carbon, low cost approach to the refurbishment of the sewage treatment works at Weymouth won two 3R (Refurb, Rethink, Retrofit) awards

CUSTOMERS AND COMMUNITY

Our aim is to provide the best possible service to all our customers and last year we were once again the industry leader of Ofwat's service incentive mechanism But we continue to look for ways to improve customer service and meet expectations, focusing on resolving problems first time, improving our processes and speed of response and improving communication

Directors' report (continued)

In brief

- Best performing water and sewerage company in England and Wales
- Assisted more than 12,000 vulnerable households with our affordability schemes
- Improved customer satisfaction while taking on responsibility for the performance and operation of 17,000 kilometres of private sewers – doubling the length of our sewer network
- Received Wiltshire Citizens Advice Bureau Best Partner award for our successful partnership working with Wiltshire CAB and other CABs across our region
- Retained our government Customer Service Excellence award
- Improved and proactive service – complaints fell by 40%
- Ongoing work to tackle local incidents of discoloured water
- High levels of engagement and communication, eg, use of Smartphone apps
- Advice on reducing bills and becoming more water efficient
- Improved voice for customers through our liaison panels and scrutiny group

Customer service

Last year we were once again the industry leader of Ofwat's service incentive mechanism However, led by our internal customer experience group we continue to look for ways to improve customer service and meet expectations We focus on resolving problems first time, improving our processes and speed of response and improving communication

If things go wrong we work hard to resolve complaints at first stage and offer no quibble compensation where we fail Both billing and operational complaints have fallen again this year, with total complaints falling by 40%

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

Customer engagement

During the last year we set up a customer scrutiny group (CSG) to work with us over the next few years as we develop our five-year and 25-year business plans for the regulator Ofwat The CSG will make sure our customer research is robust and reflects the views of all customer groups across our region and together with the work of our customer liaison panels ensures more feedback from our customers to inform everything we do

Affordability, tariffs and debt recovery

Our work with Citizens Advice, the Money Advice Trust and local debt advice agencies to help customers who have difficulty paying their bills remains of the utmost importance

This year around 12,000 customers benefited from our tariffs including the Assist scheme, enabling those with the greatest difficulty in paying to make a modest contribution towards water and sewerage costs, and the Restart scheme, aimed at getting customers back on track with payments

In September 2011 we received the Best Partner award from Wiltshire Citizens Advice Bureau in acknowledgement of our innovative work on affordability and the success of our partnerships with CAB across our region

Drinking water quality

Reducing the risk of discoloured water remains a high customer priority and during 2011 significant mains rehabilitation work was completed in Bridgwater and West Somerset Over the next two years the mains water system will also be improved in the Taunton area

We are removing as much of the lead pipe as possible by proactively changing pipework identified through our monitoring programmes and in response to customer enquires

Sustainable management of nitrate levels in our water sources continues through our catchment management work Expert advice is provided to farmers so that they can optimise their use of fertiliser while still maintaining crop yields and thus reduce the quantity of surplus nitrate

Directors' report (continued)

Education and water efficiency

We continue to work with customers across our region to engage them in what we do and encourage them to use water wisely

Over the last year our education advisers met with more than 13,500 pupils at schools or at our education centres They delivered lessons about our water and sewage treatment as well as activities on environmental topics and water saving

We provide educational information to customers through our website and publications, encourage use of our online water and energy calculator, attend events and offer our free home water audits We promote water efficient products to customers through our online shop as well as distributing free WaterSave packs which include a save a flush bag, a shower timer, a shower regulator and a self-audit form

We provided a free water audit service to businesses and schools to encourage water efficiency and identify any areas where they can reduce their usage We launched our Bag it and Bin it app, which is free to download, communicating to people what should and should not be put down the toilet

Watermark awards

We continue to support community projects through our Watermark Awards The grant scheme is organised by the Conservation Foundation and can help any organisation with their environmental projects

Challenges

- Providing good, affordable service and managing customer debt in the current economic climate
- Ensuring bills are sustainable for all
- Engaging customers in saving water and addressing concerns about drought

Case study - Customers and community: Target Twenty campaign

Our customer engagement activities were particularly visible during the period of environmental drought earlier this year Through both national media coverage and heightened local awareness, customers have become more informed about the importance of using water wisely and the relationship between water and the environment

Our Target Twenty campaign was launched in summer 2011 and is an ongoing customer engagement initiative aimed at delivering water efficiency messages and tips to our customers and to raising awareness of the importance of conserving water

The campaign encourages domestic customers to be H2O heroes by saving 20 litres of water per person per day Customers pledge to save water through simple changes to their daily habits and can do so online or request a form from our call centre

Our website details tips and actions such as installing a save a flush and turning the tap off when you brush your teeth, along with their associated savings, allowing customers to decide what they could do, and how they could achieve their saving Many of the pledged actions are reductions to hot water use, such as reducing showering time, also helping customers achieve energy savings as well

We launched an H2O hero competition in autumn 2011 to encourage younger generations of customers to share their families' water saving tips Many customers entered the competition, sharing alternative and innovative ways of saving water in their homes and gardens

The aim of the campaign was to engage with as many customers as possible and overall last year our customers saved three million litres of water every single day The campaign has also raised awareness of the free devices we offer to customers and last year more than 30,000 devices were sent out

Target Twenty won the Best Marketing Campaign at the annual Utility Industry Achievement Awards

Customer liaison panels

Two panels are linked directly to customers – one for domestic customers and communities and one for business customers

Directors' report (continued)

Customers and communities panel - This panel, chaired by Gillian Camm, one of Wessex Water's non-executive directors, focuses on domestic customers and covers issues such as investment priorities, customer policy and standards of service, accessibility to services, affordability and help for low income households, public health issues and the company's community initiatives

The panel includes representatives from local authorities and a diverse range of organisations, bringing expertise from a variety of areas, understanding customers' issues and hearing the latest thinking from experts helps improve the service we provide

Business customers panel - The business customer panel is chaired by John Coppack, managing director of Bristol Wessex Billing Services Ltd It focuses on issues relevant to businesses of all sizes and comprises members from a variety of businesses enabling access to a range of views across our 90,000 business customers, helping us to address their individual business needs

From 2016 changes in regulation surrounding retail competition mean business customers will be able to choose their water supplier Working closely with them now is important if we are to retain their business

OUR FINANCE

We need to give confidence to investors that we are operating in an efficient and sustainable way to ensure they continue to invest We strive to create long-term stability to achieve long-term investment without which our business would not operate properly

Our business is an energy intensive one and energy costs for last year were in the region of £18m Through reducing our energy consumption we were able to save 5% of these costs By working to reduce our carbon footprint we are also able to reduce the associated tax while also cutting down our impact on the environment

In brief

- We continue to attract amongst the lowest financing costs in the industry
- Savings of approximately £1m against budget through the in-house energy bonus scheme
- Savings in power consumption achieved this year reduced the cost of CRC by approximately £80k
- Long-term stability in charges and an appropriate level of investment in our assets for environmental improvements and a return to our shareholder
- Reduction in the operational costs of our business through highlighting key areas of savings such as energy efficiency initiatives

Capital investment

In 2011-12 we delivered gross capital expenditure of £196 0m, which is a considerable increase on £131 5m last year After the first two years of the current price review period (AMP5) our capital expenditure represented 80% of the Final Determination During the year we have delivered more regulatory outputs than required in our determination, while successfully taking on the responsibility for private sewers halfway through the year which doubled the size of our sewerage network

The Drinking Water Inspectorate (DWI) reviewed all the AMP5 quality projects and was satisfied that project planning and progress is as expected The Environment Agency (EA) has also signed off the total number of outputs required under the National Environment Programme (NEP) One output could not be completed in the year due to the prolonged dry weather, an alternative output was advanced in its place and the original output has subsequently been completed as a result of the recent wet period and signed off by the EA

We have been able to deliver the capital outputs despite the following constraints

- a slower start to investment in circumstances where we were not allowed an early-start programme
- delays due to increasingly more stringent third party land and planning constraints
- ongoing lower levels of customer-led investments including metering
- a review of our risk-based prioritisation to ensure we were targeting our investment in the right areas having overspent capital maintenance against determination in AMP4

Directors' report (continued)

In addition, there has been significant volatility around capital price inflation and this has had an effect on our spend against determination to date in the AMP

Challenges

• Continuing to secure long-term financing, ensuring sustainability and stability for the business

• Developing innovative technologies to improve efficiencies and ensure continuous savings, particularly in energy

• Avoiding the creation of waste in order to make savings on landfill taxes

Case Study - Leakage

To ensure we are able to meet current and future water demand, we are always looking at ways to reduce wastage through leakage We repair more than 1,000 leaks every month on our network of 11,500km of water mains and in excess of 500,000 service pipes

The target for leakage is set at 71Ml/d (megalitres per day) by our regulator Ofwat and we aim to keep below that Ofwat bases the target on the economic level of leakage – the point at which the cost of fixing leaks outweighs the benefits

Our leakage technicians and repair teams use innovative technology and employing hydrophone equipment, for instance, for targeting trunk main leakage has proved very successful We continue to maintain our pressure management areas by carrying out planned preventative maintenance on pressure control valves

We monitor the supply network by analysing information from specialist data loggers that measure water pressure at strategic points Together with maintenance this has enabled us to make considerable leakage savings and allowed us to respond as early as possible to potential bursts and to detect leaks These innovations have helped us to continue to drive leakage lower than the target agreed with Ofwat

OUR ENVIRONMENT

The environment customer liaison panel

The environment panel is chaired by Julian Dennis, director of compliance and sustainability, and focuses on environmental issues such as biodiversity, particularly on our own landholding, Sites of Special Scientific Interest (SSSIs), water resources and our sustainability vision

The panel comprises members from organisations such as councils, National Farmers Union (NFU), Country Landowners Association, the Environment Agency, RSPB, Surfers Against Sewage and Natural England Experts in their fields, their knowledge, ideas and guidance help us build a strong business plan

In brief

• 99 98% compliance with drinking water standards

• 100% compliance with sewage discharge consents

• 100% compliance with mandatory bathing water standard for 7th year in a row and 89 4% compliance with stricter guideline standard

• 98% of our SSSI landholdings are now in favourable or recovering status

• Leading water company in the Carbon Reduction Commitment (CRC) league table

• Won a bid to Defra to receive funding for a collaborative catchment initiative on the rivers Frome and Piddle in Dorset

• Won a Green Apple Gold award for catchment management work and a silver award in the International Green awards

• Won a Green Apple award for waste reduction and recycling work which will help us to meet our goal of zero waste to landfill by 2020

• Launch of our wildlife calendar on the Wessex Water website, promoting wildlife and conservation in our region

In addition we have continued

• improving our discharges to reduce the impacts on aquatic life and deliver cleaner rivers and beaches

• improving the diversity of the wildlife on the land we own, much of which has public access

Directors' report (continued)

• looking for ways to work together to deliver more sustainable solutions with multiple environmental benefits

Quality and environmental programme
We have made very good progress in delivering the AMP5 quality and environmental programme Wherever possible we continue to be innovative by developing lowest whole-life cost sustainable solutions and trialling new technologies, rather than building conventional end-of-pipe treatment, which includes our successful sustainable phosphorus removal trial at Somerton sewage treatment works

Catchment management
Our catchment management activities have expanded to cover 15 catchments where nitrate or pesticide pollution is having an impact on raw water quality We now have a team of six professionals providing advice and working in partnership with farmers to help reduce the impact of agriculture on our aquifers and reservoirs

Storm overflows and Coastwatch
Our work to improve storm overflows continues and we have sped up our programme to install telemetry at coastal overflows, ahead of our environmental obligations In addition to this, we have completed schemes to reduce pollution from storm overflows in Weymouth, in preparation for this summer's Olympic and Paralympic sailing events

Following a successful trial of Coastwatch during 2011, we have extended the information on our website to provide more details on the designated bathing waters within our region, and display the spill history for 40 overflows at 27 bathing beaches

Bathing Water Directive
Work has started at Weston-super-Mare sewage treatment works on a £26m scheme to improve secondary treatment and storm storage to meet the requirements of the revised Bathing Water Directive

Commissioning is due to start in summer 2012 and will be completed two years in advance of the new directive The scheme involves increasing the secondary treatment and ultraviolet disinfection capacity which will improve the quality of discharges from the works as well as increasing storm storage to reduce the frequency of overflows during wet weather

Environmental investigations
The last year has seen significant progress in our programme of investigations aimed at ensuring sound science is applied to the identification of possible future work and the development of more sustainable solutions

Many are now drawing to a close including
• investigating the impact of discharges from Wessex Water assets on bathing water quality in Somerset
• trialling reed beds as a more sustainable process for phosphorus removal
• assessing the impact of discharges from Wessex Water assets and other sources on the nutrient levels in Poole Harbour, River Frome, and Bere Stream, all of which are Sites of Special Scientific Interest (SSSI) in Dorset
• investigating the presence and fate of certain priority hazardous substances through different types of treatment processes

Biodiversity
We are currently meeting and exceeding the target in the new England Biodiversity Strategy regarding our Site of Special Scientific Interest (SSSI) landholding Since November 2011, 98% of our SSSIs are now either in favourable or unfavourable-recovering status (exceeding the target of 95%)

During phase 4 of our Biodiversity Action Plan, we continue to support our conservation partners in the region through the Partners Programme Each of the seven projects we are helping to fund has been progressing well, despite issues surrounding the challenging funding environment They are successfully contributing to the overall aim of conserving and enhancing species and habitats in our region by

Directors' report (continued)

• delivering on-the-ground improvements in the water environment The Dorset Wild Rivers project has provided 3km of river enhancement work in the last year
• building successful partnerships across the region The BAP Scientific Services project has created a link between the biodiversity community and more than 100 academics in the region's universities to support biodiversity research while offering the first in a series of free training courses on biodiversity science
• undertaking detailed scientific research or monitoring to enhance our understanding of biodiversity Buglife's Springs and Seepages project has surveyed 11 sites on the Blackdown Hills and around Charmouth to identify specialist invertebrate species in these rarely investigated habitats

Bugs, bats, birds and bees
We have just completed the first phase of our five-year biodiversity project aimed at understanding the importance of 16 of our sites with the greatest potential for birds, bats and invertebrates The first phase involved very detailed surveying of the sites to understand the species which our sites support The projects have attracted volunteers to supplement the professional surveys and provide local species information in understudied areas

Frome and Piddle catchment initiative
We are hosting the Frome and Piddle catchment initiative, a collaborative approach working with several organisations including the EA, Natural England, Dorset Wildlife Trust, fisheries, organisations, councils and catchment sensitive farming

The aim is to deliver environmental improvements to help meet national targets in the area The first stage, currently underway, is drawing up a catchment plan

Carbon management
To attain our aim of being a truly sustainable company we have set ourselves the target of becoming carbon neutral We have made significant steps to date but will need to make more investment in the future We are currently talking to our customers about the pace of that investment

In Operations we saved 13GWh over the year, installing more automatic meter reading (AMR) meters has further improved our ability to obtain accurate information about energy use and enabled us to quickly identify increased energy usage at sites and solve issues highlighted by this use that may have gone undetected for long periods

Combined with associated increases in the accuracy of supplier billing, these activities have saved us around 1 8GWh over the past year

The first micro hydro renewable turbine began generating power at Sutton Poyntz water treatment works in September 2011 and since then it has generated more than 18,000 kWh

The Carbon Reduction Commitment
The Carbon Reduction Commitment Energy Efficiency Scheme (CRC EES) is aimed at 2,000 participants – mainly large businesses and public sector organisations – who report energy use and associated carbon dioxide emissions In October 2011 the first league table was published and we were top of the water sector (being placed 30th overall)

Our first purchase of CRC EEC allowances was for £1,473k on 26 July 2012 The savings in power consumption this year will have reduced the cost of CRC allowances by approximately £80k

Challenges
• We are increasingly under pressure to try to do more for less, from trying to deliver higher quality treatment using less energy, to delivering wider landscape scale biodiversity benefits for less money
• Understanding how we use the services provided by the environment, eg, chalk grassland within our catchments or the natural filtration of groundwater, and the value that represents to the company and society in general – how do you assess the value of a species rich grassland or a low nutrient watercourse? – who should pay to preserve this asset or service?
• Balancing the delivery of the long-term carbon target with the ability of customers to afford increasingly more costly carbon reduction solutions

Directors' report (continued)

Case study - Ecological effects of drought on river ecosystems
Aquifers feed many of the rivers in our region and their flow has been significantly lower than usual this winter and spring

Low river flow at this time of year is not as dramatic as in late summer when headwater streams may dry completely and flow in the lower reaches appears to stop The winter/spring flow is environmentally important encouraging salmon and trout to swim upstream to spawn in gravel beds cleaned of the silt deposited during the summer and autumn, whereas low flows in spring allow algae to smother the beds of water crowfoot that provide habitat and cover for invertebrates and fish

If a dry summer follows a dry winter as in 1976 the environmental impacts are more dramatic with normally permanent headwater streams and tributaries drying completely

Water supply abstraction also has an effect on river flow and abstraction licensing is the main way of ensuring our water supply activities do not have an unacceptable impact on the environment Our licences specify the maximum amount of water that can be taken each day and each year At 17 of our sites the licence is reduced when river flow falls below a given threshold

The bulk of abstraction in our region (80%) is from groundwater sources Abstraction from an aquifer causes groundwater levels to be lowered around the borehole The impact of lower groundwater levels on river flows depends on the size and location of the borehole relative to the river, but the impacts are generally offset and not immediate

For groundwater sources, the licence may require a compensatory stream support when river flow falls below a given threshold We operate 18 stream supports where we pump water from an underground aquifer and discharge it into a watercourse to maintain flow in the stream throughout the year at thresholds specified in our licences Stream support on the Chitterne Brook, for example, maintains a permanent flow that allows trout to spawn and the fry to develop in years when there is very little aquifer recharge over winter

We are undertaking a number of environmental investigations to monitor the impacts of these abstractions We are continuing flow and ecology surveys in the Upper Avon to provide a baseline for measuring the changes which may occur when abstractions reduce in the Wylye and Bourne catchments in the future We are also monitoring the effect of stream support on the Chitterne Brook, Upper Wylye and River Bourne Most of our studies include flow gauging, sampling for invertebrates and surveys of aquatic plants and fish populations

On our surface water reservoirs the environment downstream is protected by the release of a minimum prescribed compensation flow This flow is typically higher than would naturally occur during a dry summer if the reservoir was not there

To minimise the effect of a drought to both our customers and the environment we work with the Environment Agency to prepare a drought plan detailing a range of actions to reduce demand, as well as identifying additional sources of water with least environmental impact

OUR EMPLOYEES

Employees are at the heart of everything we do and without them we would not achieve such outstanding results We believe in providing training and development opportunities as well as supporting an appropriate work life balance, looking after the wellbeing of staff is important and reflected through a variety of employee benefit schemes

In brief
- Exceptional employee performance in challenging conditions
- More than 1,600 employees attended training courses
- Staff survey revealed we have a highly engaged workforce ensuring employees go the extra mile for customers
- Continuous upskilling of staff ensures highest levels of service in all areas of our business

Directors' report (continued)

• £167,000 raised for Water Aid – a new record
• Eureka! and our innovation and technology forum bring improvements and efficiencies resulting in savings passed on to customers

The last year presented continuing challenges because of the economic situation and the variable weather conditions Our employees worked exceptionally hard through frost, drought and flood to continue providing outstanding service to customers

Training
We are committed to providing a comprehensive training programme of continued development and upskilling for our staff and legal, regulatory and technical training continue to be our main priorities

During the year more than 1,600 people took part in a range of development programmes including regulatory and craft, IT, practical tool box talks and vocational professional development
We have continued to invest in a range of National Vocational Qualifications (NVQs), in our Operations and WECS divisions with staff successfully achieving NVQ certificates in electrical and mechanical engineering, sewage treatment, plant operation, customer services and team leadership

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

In addition, the business has launched a series of management and leadership programmes, ranging from induction for new managers to senior management development programmes, and HR masterclasses

Staff continue to develop key business skills through our Business 4 Life programme, run by Wessex Water and WaterAid, while supporting the charity We raise money for WaterAid by promoting regular employee donations and raising the charity's profile with our customers and stakeholders This year the total raised, including money from Business 4 Life, was a record £167,000

Learn @ Lunch
To complement staff training there is a comprehensive programme of internal lunchtime presentations from all areas of the business, designed to broaden staff knowledge as well as updating people on new ideas and ways of working

Health and safety
Health and safety remains a vitally important indicator of our performance and we continue to work hard to maintain high levels of welfare Health and safety advisers work throughout the business to ensure the safety of employees and others who could be affected by our activities

There were 12 reportable incidents in calendar year 2011, below the five-year average of 18 and 14 reportable incidents in 2010

Innovative working
Our Eureka! scheme has been running for seven years and encourages staff to suggest ways to improve efficiency and quality Financial rewards are given to those who suggest an idea that is successfully implemented

Since the programme began participation has grown and over the last year 143 entries were submitted with 26 staff receiving £100 for their suggestions Three overall winners were awarded a combined total of £10,000

Their ideas delivered efficiencies in de-sludging and improvements in the operation of biological aeration filters at sewage treatment works, and cost savings when replacing an automated control unit at Taunton sewage treatment works

Our innovation and technology forum continues to grow and is successful at trialling ideas, equipment and technologies which may provide the treatment solutions of the future The forum draws together experts from across the company to promote innovative work and fund prospective projects

Directors' report (continued)

During the year, seven projects were funded including several trialling systems to improve the efficiency of phosphorus removal and de-sludging, which will reduce energy consumption and costs and reduce our carbon footprint

Challenges
• Continued staff engagement is essential to ensure employees perform well and remain willing to go the extra mile for customers
• Leadership and staff development remain a high priority for the future
• Recruiting good candidates and continuing to build our reputation as a sought after employer is vital Work has begun on this by simplifying and updating our recruitment system to ensure a quick recruitment process
• Our performance appraisal system must be further developed
• Talent management and succession planning are critical to the continued high performance of our business

Case study - employees and drought
Drought poses a serious challenge requiring a co-ordinated response from many of our teams – effective collaboration ensures expertise and experience is shared to achieve a good outcome

Our employees continuously assess the water resource available to us, monitoring storage levels and using computer models to predict our water resource position, taking into account predicted weather patterns and rainfall

The water resource management plan (WRMP) is reviewed every five years and helps with business planning, and every three and a half years the drought plan is reviewed irrespective of the weather or water resource position Using guidelines from the Environment Agency, members of the water resources, supply planning and economic regulation teams all contribute to both the WRMP and drought plan

Every month representatives from the water resources, supply planning, regulatory science and network management teams attend supply strategy meetings to discuss the best way to proceed in the prevailing situation These meetings bring together different teams and network managers co-ordinate the delivery of the decisions, often through operational staff

Dry weather also prompts more enquiries from customers so when the Environment Agency announced an environmental drought earlier this year, staff from public relations and across the business worked to ensure accurate and useful information was given to customers through television, radio, newspaper reports and leaflets

Alongside the customer services unit they ensured up-to-date, accurate information was available to answer customer enquiries and concerns and to promote water efficiency

The water resources team regularly reports to the group management team (GMT) on the resource situation and in 2011 the prolonged dry weather led GMT to call for a dry weather action plan The water resources and supply planning teams drew up a list of potential work that could ease the situation if it were to continue for an extended period

From this action plan solutions were selected for implementation, upgrades and refurbishments at Monkton Combe and Poole were designed and implemented by staff in WECS (Wessex Engineering and Construction Services) and are due to be completed in summer 2012

These solutions were a result of the combined effort of staff from many different areas of the business and without coordination and cooperation it would be very easy for a challenging situation to become even more difficult

Directors' report (continued)

OUR INFRASTRUCTURE

Services and planning panel
The services and planning panel is chaired by David Elliott, director of regulation and assets and includes members from district, borough and county councils, as well as other major customers in the area The main topics the panel discusses are to do with future planning and development

In brief
- £196m invested in maintaining and improving services to our customers and the environment
- Met all our regulatory outputs
- Successful transfer of private sewer ownership while maintaining excellent levels of customer service despite increased workload
- Our 35th consecutive year without imposing water use restrictions for customers despite continued dry weather in our region
- Good progress on water supply grid to ensure increased security of supply
- Additional water source brought on stream to ensure supplies continue during dry periods
- £400,000 upgrade of Weymouth sewage treatment works to change the way air is used at the site reducing energy consumption costs by around £150,000
- Reduction in the number of properties at risk of flooding due to inadequate capacity
- Continued asset improvement to ensure first-class performance

Asset management
Our approach to risk and asset management is to ensure risks associated with operational service are understood and managed throughout the business in order to prioritise maintenance and investment

Installation of a new work and asset management system across the company has been managed to ensure maximum effectiveness The system is being extended to all parts of the business, enabling us to continue improving our asset knowledge processes

A new asset management framework is helping to develop a more integrated approach to the definition and monitoring of asset performance, condition, and compliance, and identifying further improvements to the management of operational service risk

Modelling and analytical tools applying a risk and value approach help us to prioritise investment based on
- a consistent method of assessing the impact and likelihood of service failure which can be applied across all our assets at an operational, tactical, and strategic level
- a review of all customer, environmental, legal, and regulatory risks
- reporting to senior management/board on strategic high-level risks and mitigation measures

The engineering auditor, Halcrow, says this approach is an example of asset management best practice

Using Ofwat's serviceability toolkit we assessed our serviceability as stable for the fifth consecutive year

Water supply
Work on our water supply grid continues with parts of the programme in outline design and advance preparations ongoing to minimise the risk of third party, land and planning constraints later in the scheme Construction has begun this year and will continue until 2018

The average supply interruption over the year was 0 6 hours Around 80% of our interruptions are planned work to improve the quality of our network and customers are warned in advance

Dry weather period
Two dry winters during 2010-2011 and 2011-2012 were followed by an exceptionally dry early spring in 2012 when February and March received only 36% of average rainfall and seven water companies in the south and east of England introduced temporary use bans (previously known as hosepipe bans)

Directors' report (continued)

Our water resources remained satisfactory with reservoirs around 84% full and groundwater levels low for the time of year, but above the very low levels of the 1975-76 drought Given this resource position Wessex Water did not impose any restrictions on customer use

During the dry weather we took a number of measures to support river flows, an issue of particular concern to our customers The measures included

• where possible reducing our abstraction from boreholes that affect sensitive rivers
• pumping up to 91 Ml/d of water into critical sections of rivers to support flows
• bringing on stream a new water resource at the lower end of the Bristol Avon to provide an additional 7 Ml/d of new water
• moving to next day repair of leaks
• mounting an extensive advertising campaign to encourage customers to play their part in water conservation

Wet weather returned in April and by the end of the month reservoirs were full, rivers in flood and groundwater rising strongly at most sites

Leakage
Over the last year we have continued to make good progress on leakage We have moved towards a next day repair of leaks and successfully beat our new lower leakage target

Sewage flooding
Despite a minor reverse from the previous year the total number of internal flooding incidents was below our long-term average and, when normalised against sewer length, we continue to lead the industry in this area

We have removed a total of 117 properties and external areas from our flooding registers and now have the lowest ever number of properties at risk of sewer flooding due to inadequate capacity

We are continuing to work with local councils in the development of surface water management plans and flood management strategies and have written to key contacts to encourage future jointly funded partnership schemes

Private sewers transfer
On 1 October 2011 an estimated 17,000km of private sewers and laterals were brought into Wessex Water ownership following changes made by the government

Prior to October a comprehensive transition plan was developed to ensure the transfer went smoothly with more than 1 2 million legal notices and other information distributed to sewerage customers about the changes, followed by a build-up of resources to ensure call centre, scheduling and operational workload could be managed A procurement exercise, initiated in 2010, engaged a framework of seven drainage contractors to supplement in-house unblocking and repair services

Nine months after transfer, workload on sewerage has more than doubled and is still increasing Our customer satisfaction survey shows more than 95% of customers rated the sewerage service they received as good or very good

Infrastructure improvements
Asset improvement continues and we have completed extensions at Hazelbury Bryan sewage treatment works in Dorset, in order to increase flows to treatment and reduce storm overflows

We have also made improvements to 11 overflows in Bristol, including completing an £8m scheme at Ashton Avenue sewage pumping station

The £26m scheme at Weston-super-Mare sewage treatment works is on track for completion next year and includes improved secondary treatment and storm storage to enhance quality of discharges and reduce frequency of spills

Directors' report (continued)

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

Construction work has been completed at Bishops Lydeard sewage treatment works in Somerset to improve the quality of effluent discharged to the river

Challenges

• Drought and the development of infrastructure to meet the demands of dry weather conditions, stream support infrastructure and identifying and bringing new water sources into supply are necessary
• Climate change bringing more frequent periods of dry weather and very heavy rainfall Planning for this now is critical to dealing successfully with these issues and providing infrastructure to capture rain when it is abundant and save it for times of drought will be essential
• The drainage infrastructure will need to cope with high rainfall and floods and continued investment in this area will be important
• Population growth will test our resources and infrastructure and advising customers and encouraging water saving behaviours will help with this

Case study - the water supply grid

The water supply grid is an eight-year project to improve the security of supply for customers By linking areas of our region that have a water deficit with areas of the region with surplus water it will allow us to meet customers' demand for water and provide increased resilience during periods of drought It will also help with managing the planned reduction in some of our abstraction licences to improve flows to rivers and help protect their ecology

The project comprises more than 25 new schemes across Somerset, Wiltshire and Dorset and will involve over 150 km of new pipelines, 30 new pumping stations and 11 new storage tanks

Using this more sustainable approach we are able to meet the demand for water, deal with deteriorating raw water quality, particularly due to nitrates, and deliver environmental benefits without developing new water resources or providing additional treatment

Our region is environmentally rich, containing protected species and a variety of designated sites including Sites of Special Scientific Interest (SSSIs), County Wildlife Sites and World Heritage Sites For example, Areas of Outstanding Natural Beauty (AONB) cover more than 50% of the area

To preserve these natural habitats and resources we undertake important environmental and engineering surveys to help us understand and address environmental considerations during design and construction

Construction techniques such as trenchless technology will be used to pass under sensitive river locations, railways and major roads We intend to build the new pipelines in a way that will cause minimum disruption to local communities and aim to build sustainably by minimising construction traffic movements and re-using materials where feasible

We are carrying out external consultation with key interest groups and members of the public to ensure the views of all stakeholders are incorporated into new site designs and pipeline routes The project, which began in 2010, will be completed in 2018, with some elements due to be completed in 2013

INNOVATING FOR A SUSTAINABLE FUTURE

The years since privatisation have seen very significant improvements in the water sector There have been marked improvements in service to customers and in the quality of our water environment and we have put sustainability at the core of our business

The sector has attracted £100bn of private investment to deliver these improvements – investment made because water companies are seen as low risk The stability and confidence of the legislative and regulatory regimes has meant cheaper finance, which in turn helps to keep customer bills lower than they might otherwise be

Directors' report (continued)

However, in this period bills have gone up by 50% more than inflation, environmental improvements are no longer so immediate and visible, climate change is set to increase pressure on resources, energy consumption has risen by 150% to meet new standards and business customers now want to see greater choice

During the year the government outlined its response to the challenges ahead in the water white paper and Ofwat has published its framework for setting price limits after 2015 We have worked constructively with both government and regulators to ensure those who make and implement policy are focusing on the key challenges We will continue to do so as government and regulators flesh out their proposals

We believe that reform is required but that it should be characterised by evolution and not by revolution, with recognition that there is an overriding need for stability

Challenges

• We provide very high levels of customer service – but customer expectations continue to grow

• We continue to make significant investments to address climate change and become more efficient – but affordability problems are worsening

• The benefits of more sustainable ways of managing water, such as catchment management initiatives are becoming clearer – but demanding timescales and quality improvements show little sign of abating

• We continue to innovate to deliver outcomes that are more sustainable and cheaper for customers – but complex regulation gets in the way by incentivising the wrong behaviours

Innovating for customers and service delivery

Recognising the need to meet future challenges in a more sustainable way we have taken the lead by innovating across a number of areas, including the following

Resilience

We are currently preparing to build a water supply grid so that if we have a problem in one part of our system, we can continue to supply water from others

This is an integrated, holistic way of delivering a number of outcomes, the grid will not only improve the resilience of our assets in the face of climate change, but also allow blending of water sources to overcome deteriorating raw water quality, reduce abstractions from environmentally sensitive rivers and allow transfers of water across our region

In addition it will enable trading with neighbouring companies and we are working with Sembcorp Bournemouth and Cholderton Water on the potential for trading water

This approach needs to extend across all water company boundaries and companies should be encouraged to share water We need Ofwat to reform incentives to encourage this to happen, eg, it could exclude the costs of buying water from its comparative efficiency assessments, and companies could keep the return they make from selling water to neighbours for longer

Affordability of charges

Around one in 10 customers spends more than 5% of their disposable income on water and sewerage services The number of customers falling into arrears continues to grow with bad debt now adding £15 a year to the average household bill

We believe in the need to keep water bills affordable for all and have responded by introducing our innovative Assist scheme, the first social tariff in the sector More than 7,000 households are benefiting, with an average discount of £200

We see the need to develop a sustainable charging system that will change customers' behaviour and increase satisfaction but we need government to give a stronger mandate on social tariffs

There should be a presumption that companies will introduce such tariffs and government must allow companies access to Department of Work and Pensions data on benefit claimants to cut the costs of administering these schemes In this way we could use our knowledge of our customers and affordability issues in our region to implement an effective scheme that all customers can support

Directors' report (continued)

Meeting customer expectations

We must respond to growing customer expectations For business customers this means greater choice in the services they receive and the bills they pay and, ultimately, competition in who supplies their services

We separated the majority of our retail function in 2001 creating a legally distinct joint-venture company with Bristol Water which has focused management on delivering outcomes and given greater visibility of costs, thus driving efficiency

Today we have the most efficient billing operation in the sector and our business customers are also served by a dedicated corporate solutions team

Effective customer engagement with all customers should be very much 'business as usual' for companies and we have established four customer liaison panels – customers and community, services and planning, environment and business, for this purpose Our new customer scrutiny group, which includes representatives from the panels, provides a further structured forum for the discussion of important topics, including options for the next business plan, ensuring customers' views will be reflected in matters such as price setting and the services they receive

Incentives for sustainable improvements to the quality of rivers and beaches

The water industry has made real improvements to water and effluent quality but frequently these have been asset and energy intensive, significantly increasing our carbon footprint

Over the last few years we have been implementing innovative solutions involving lower capital expenditure and energy costs, such as catchment management This costs less, is more sustainable, has wider benefit for the environment and involves working with the community Early work, including our River Frome pilot, is very promising

But we feel that Ofwat needs to offer incentives for these sustainable solutions and the Environment Agency must take a more flexible approach to consenting, eg, consents could vary by time of year and flow in the receiving water

Summary

On occasions the work of a water and sewerage company involves managing the extremes of drought and flood, a fact dramatically demonstrated this spring when parts of our region were declared in environmental drought, followed swiftly by April rainfall that was nearly 300% of average and resulted in widespread river flooding and full reservoirs

During the dry weather it was not necessary for us to impose restrictions on our customers' use of water – we have not done so since 1976 The level in our reservoirs dropped no lower than 84% but river flows, particularly in the Wylye, were low

So we implemented a number of measures to support flows, including pumping up to 30 million litres of water a day into critical sections of rivers If the dry weather had continued this would have increased up to 91 million litres a day

The rain is now getting down into the aquifers which are the source of much of our water – groundwater levels are back to normal and in some places above average The environmental drought status has been formally withdrawn

The work we have done together with our customers on water saving, alongside our innovative schemes and our efforts to bring leakage down to 15%, amongst the lowest in Europe, contributed significantly to our successful negotiation of the dry weather period

It proves that working together makes us stronger and demonstrates that in addition to our use of innovation and sustainable solutions we must always work with our customers to ensure we remain resilient to future challenges

Directors' report (continued)

WESSEX WATER ENTERPRISES LTD

The company generated turnover of £13 9m (£13 7m last year) from a number of unregulated activities in the Wessex Water Services Ltd region The principal unregulated activities were the treatment of organic waste, power generation, solicitors' searches and sale of industrial cooling water

SC TECHNOLOGY GmbH

Trading under the name Swiss Combi the turnover of the company for the year was £8 4m (£8 7m last year) The principal subsidiary in Holland operates two sludge drying plants and has long term contracts with two major customers

FINANCIAL PERFORMANCE

Profit after tax fell by £38 0m from £119 8m to £81 8m for the reasons listed below

Turnover increased by £22 5m or 4 8% to £489 9m, mainly driven by the increase in the regulated turnover of WWSL driven by the 5 4% allowed price increase in April 2011

Operational costs excluding depreciation increased by £13 6m from £139 5m to £153 1m However, these figures are distorted by a prior year accounting credit in respect of a change in the definition of pensionable salary for pension accounting Without this adjustment operating costs rose by £7 5m There were increases in WWSL for business rates (which accounted for £3 0m of this increase), carbon tax, the cost of new obligations and the costs associated with private sewers from October 2011

Depreciation charges (including the infrastructure maintenance charge and the disposal of assets) have increased by £10 8m as a result of the ongoing investment programme £3 1m, and a £7 7m increase in the infrastructure maintenance charge

Net interest charges increased by £15 1m, from £79 4m to £94 5m because of inflation on index linked bonds in WWSL and an increase in the terms of a loan in YTL Utilities (UK) Ltd

There was a tax charge in the year of £50 1m, an increase of £21 0m from £29 1m charged last year Corporation tax decreased by £12 6m because of a one-off credit in WWSL of £8 8m following agreement with HMRC over the tax treatment of certain infrastructure income There was also a fall in the corporation tax rate from 27 5% to 25 5%
Deferred tax moved from a £4 3m credit last year to a £29 3m charge this year The charge of £29 3m arose because of a £39 0m reduction in deferred tax discounting, plus a £2 1m FRS17 pension charge, offset by a £11 8m reduction in gross deferred tax Deferred tax discounting fell because the discount rate used at the year end had fallen significantly compared to the previous year end

Under FRS 17 'Retirement Benefits' the pension deficit of £71 8m at the start of the year increased to £135 8m at 30 June 2012, the increase in the liabilities of £85 0m being more than the £21 0m increase in asset values

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

Group operating profit as a percentage of turnover was 46 2% (2011 – 48 8%) as costs increases were proportionately more than the increase in turnover, and interest cover (excluding pensions finance charge) decreased to 2 4 times (2011 – 3 0 times) as net interest costs increased substantially

DIVIDENDS

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

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 the land and buildings of the group exceeds the book values of these assets at 30 June 2012

DIRECTORS AND DIRECTORS' INTERESTS

The directors who held office during the year and subsequently were as follows

Tiong Lay Yeoh *
Francis Sock Ping Yeoh *
Seok Kian Yeoh *
Seok Hong Yeoh *
Sock Siong Yeoh *
Seok Kah Yeoh *
John Gareth Jones *
Colin Frank Skellett

The following director has been granted ordinary share options of Malaysian Ringgit RM0 50 each in YTL Power International Berhad

2011 UK Plan

	Opening number 1/6/2012	Exercise price RM	Date of grant	Exercise date	Expiry date	Closing number 30/6/2012
CF Skellett	87,000	1 65	01/06/2012	01/06/2015	31/03/2021	87,000
CF Skellett	1,913,000	1 49	01/06/2012	01/06/2015	31/03/2021	1,913,000

No share options were exercised in the year,

* Shares held in YTL Power International Berhad and YTL Corporation Berhad are disclosed in the accounts of those companies

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

EMPLOYMENT

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

SUSTAINABILITY AND THE ENVIRONMENT

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

Directors' report (continued)

Thegroup protects, conserves and ımproves the envıronment and operates ın a socıally responsıble manner Workıng practıces are contınually revısed as ımproved technıques and technologıes become avaılable The envıronment polıcy ıs revıewed annually

SUPPLIER PAYMENT POLICY

The polıcy ın respect of ıts supplıers ıs to agree the payment terms for transactıons ın advance and to make payments ın accordance wıth those terms At 30 June 2012, trade credıtors ın the prıncıpal tradıng subsıdıary WWSL represented approxımately37days trade purchases (2011–31days) The group does not follow any specıfic external code or standard on payment polıcy

POLITICAL AND CHARITABLE CONTRIBUTIONS

Durıng the year £2,802,000(2011 £3,035,000) was donated to UK charıtıes

CORPORATE GOVERNANCE

WWSL ıs requıred, under Condıtıon F of ıts Instrument of Appoıntment as a water and sewerage undertaker, to take account of the prıncıples of good governance ın the UK Corporate Governance Code as approved for the purposes of the Lıstıngs Rules of the Fınancıal Servıces Authorıty Detaıls of complıance are shown ın the annual accounts of WWSL whose regıstered address ıs Wessex Water Operatıons Centre, Claverton Down, Bath, BA2 7WW

RE-APPOINTMENT OF AUDITOR

Pursuant to sectıon 487 of the Companıes Act 2006, the audıtorwıll be deemed to be reappoınted and KPMG Audıt Plc wıll therefore contınue ın office

By order of the board

Seok Hong Yeoh
Dırector

2 Lambs Passage
London
EC1Y 8BB
12 September 2012

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

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

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

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

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

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

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

We have audited the financial statements of YTL Utilities (UK) Limited for the year ended 30 June 2012 set out on pages 21 to 43 The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice)

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

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 19, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www frc org uk/apb/scope/private cfm

Opinion on financial statements

In our opinion the financial statements

• give a true and fair view of the state of the group's and of the parent company's affairs as at 30 June 2012 and of the group's profit for the year then ended,
• have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
• have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

• adequate accounting records have not been kept 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

A C Campbell-Orde (Senior Statutory Auditor)
For and on behalf of KPMG Audit Plc, 12 September 2012
Statutory Auditor
Chartered Accountants
100 Temple Street
Bristol, BS1 6AG

Consolidated profit and loss account

For the year ended 30 June 2012

	Note	2012 £m	2011 £m
Turnover			
Continuing operations	2	**489 9**	467 4
Raw materials and consumables		**(29 5)**	(27 8)
Staff costs	5	**(51 0)**	(42 6)
Depreciation and other amounts written off tangible and intangible fixed assets		**(110 5)**	(100 6)
Other operating charges		**(72 6)**	(69 1)
(Loss) / profit on disposal of fixed assets		**(0 7)**	0 1
Amortisation of grants and contributions		**0 8**	0 9
Operating profit	2	**226 4**	228 3
Interest payable and similar charges	6	**(95 1)**	(77 3)
Interest receivable	6	**1 8**	0 8
Other finance charges	6	**(1 2)**	(2 9)
Profit on ordinary activities before taxation	3	**131.9**	148 9
Tax on profit on ordinary activities	7	**(50 1)**	(29 1)
Profit for the financial year	22	**81 8**	119 8

The turnover and operating profit were generated from continuing activities

The notes on pages 25 to 43 are an integral part of this profit and loss account

Consolidated balance sheet

At 30 June 2012

	Note	2012 £m	2012 £m	2011 £m	2011 £m
Fixed assets					
Intangible assets	9		(91.1)		(98 8)
Tangible assets	10		2,157 2		2,087 4
			2,066 1		1,988 6
Current assets					
Stocks	12	7 5		6 8	
Debtors	13	135 6		115 6	
Cash at bank and in hand	14	174 0		2 2	
		317 1		124 6	
Creditors - amounts falling due within one year	15	(224 0)		(171 2)	
Net current assets / (liabilities)			93 1		(46 6)
Total assets less current liabilities			2,159 2		1,942 0
Creditors - amounts falling due after more than one year	16		(1,986 5)		(1,710 5)
Provisions for liabilities and charges	18		(124 0)		(96 8)
Retirement benefit obligations	19		(104 5)		(54 3)
Grants and contributions	20		(17 7)		(18 5)
Net (liabilities) / assets	2		(73 5)		61 9
Capital and reserves					
Called up share capital	21		-		-
Profit and loss account	22		(73.5)		61 9
Shareholders' (deficit) / funds			(73 5)		61 9

The notes on pages 25 to 43 are an integral part of this balance sheet

The financial statements on pages 21 to 43 were approved by the board of directors on12September 2012 and were signed on its behalf by

Seok Hong Yeoh
Director

Company balance sheet

At 30 June 2012

	Note	2012 £m	2012 £m	2011 £m	2011 £m
Fixed assets					
Tangible fixed assets	*10*		**0.1**		0 1
Investments	*11*		**351.3**		351 3
			351 4		351 4
Current assets					
Debtors	*13*	**25.2**		44 1	
Cash at bank and in hand	*14*	**1 0**		1 0	
		26.2		45 1	
Creditors - amounts falling due within one year	*15*	**(101.8)**		(101 7)	
Net current liabilities			**(75.6)**		(56 6)
Total assets less current liabilities			**275 8**		294.8
Creditors - amounts falling due after more than one year	*16*		**(221.8)**		(218 7)
Net assets			**54 0**		76 1
Capital and reserves					
Called up share capital	*21*		**-**		-
Profit and loss account	*22*		**54 0**		76 1
Shareholders' funds			**54 0**		76 1

The notes on pages 25 to 43 are an integral part of this balance sheet

The financial statements were approved by the board of directors on 12 September 2012 and were signed on its behalf by

Seok Hong Yeoh
Director

Statement of total recognised gains and losses

For the year ended 30 June 2012

	Group 2012 £m	Company 2012 £m	Group 2011 £m	Company 2011 £m
Profit for the financial year	**81 8**	**138 9**	119 8	130 7
Foreign currency adjustment	**(0 1)**	-	(0 6)	-
Actuarial (loss) / gain in the pension scheme	**(72 2)**	-	16 7	-
Deferred tax arising on actuarial (loss) / gain in the pension scheme	**16 1**	-	(6 1)	-
Total recognised gains and losses relating to the financial year	**25 6**	**138.9**	129 8	130 7

Reconciliation of movements in shareholders' funds

For the year ended 30 June 2012

	Group 2012 £m	Company 2012 £m	Group 2011 £m	Company 2011 £m
Opening shareholders' funds	61 9	76 1	23 3	36 6
Profit for the financial year	**81 8**	**138.9**	119 8	130 7
Dividends (note 8)	**(161 0)**	**(161 0)**	(91 2)	(91 2)
Foreign currency adjustment	**(0 1)**	-	(0 6)	-
Actuarial (loss) / gain in the pension scheme	**(72 2)**	-	16 7	-
Deferred tax arising on actuarial (loss) / gain in the pension scheme	**16 1**	-	(6 1)	-
Closing shareholders' funds	(73 5)	**54 0**	61 9	76 1

The note on pages 25 to 43 are an integral part of these financial statements

Notes

1 Accounting policies

Basis of preparation

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

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

The financial statements have been prepared on the going concern basis, not withstanding net liabilities of £73 5m (included in this amount is net £223 5m owed to group undertakings) The directors believe this is appropriate as they have received a signed letter from YTL Power International Berhad confirming that it will continue to provide the necessary support for 12 months from the date that the directors sign the company's accounts to enable the group to pay its debts as and when they fall due The principal trading subsidiary Wessex Water Services Ltd has confirmed that it will have access to new funds Wessex Water Services Ltd has a 25 year Licence to provide water and waste water services in South West England It has a statutory obligation to provide these services and the industry regulator OFWAT has an obligation to ensure that the Licensee can continue to trade As a result of the above, the directors have considered the financial position of the company and group and concluded that they will be able to meet their liabilities for a period of at least 12 months following the approval of these financial statements

Basis of consolidation

The consolidated financial statements include the financial statements of the company and its subsidiary undertakings made up to 30 June 2012 The acquisition method of accounting has been adopted Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal

An associate is an undertaking in which the group has a long term interest, usually from 20% to 50% of the equity voting rights, and over which it exercises significant influence A joint venture is an undertaking in which the group has a long term interest and over which it exercises joint control The group's share of the profits less losses of associates and of joint ventures is included in the consolidated profit and loss account and its interest in their net assets is included in investments in the consolidated balance sheet

Where a group company is party to a joint arrangement which is not an entity, that company accounts directly for its part of the income and expenditure, assets, liabilities and cash flows Such arrangements are reported in the consolidated financial statements on the same basis

Under section 408 of the Companies Act 2006 the company is exempt from the requirement to present its own profit and loss account

Negative goodwill

Negative goodwill is included within fixed assets and released to the profit and loss account in the periods in which the fair values of the non monetary assets purchased on the same acquisition are recovered, whether through depreciation or sale On the subsequent disposal or termination of a business acquired, the profit or loss on disposal or termination is calculated after crediting the unamortised amount of any related negative goodwill

Investments

In the company's financial statements, investments in subsidiary undertakings, associates and joint ventures are stated at cost less amounts written off

Tangible fixed assets and depreciation

Tangible fixed assets comprise infrastructure assets and other assets

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

1 Accounting policies *(continued)*

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

Depreciation is provided to write off the cost less the estimated residual value of other tangible fixed assets by equal instalments over their estimated useful economic lives as follows

Freehold buildings and operational structures	-	15 to 80 years
Plant, machinery and vehicles	-	3 to 30 years
Other assets	-	4 to 15 years

Foreign currencies

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

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

Grants and contributions

Grants and contributions in respect of specific expenditure on non infrastructure fixed assets are treated as deferred income and recognised in the profit and loss account over the expected useful economic lives of the related assets (see note 20)

Grants and contributions relating to infrastructure assets have been deducted from the cost of those assets This is not in accordance with the requirements of the Companies Act 2006 which requires assets to be stated at their purchase price or production cost, without deduction of grants and contributions which would be accounted for as deferred income The departure from the requirements of the Act is, in the opinion of the directors, necessary to give a true and fair view This is because infrastructure assets are not depreciated directly and accordingly the related grants and contributions would not be recognised through the profit and loss account The effect on the value of fixed assets is disclosed in note 10

Leases

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease

Post-retirement benefits

The Group operates a pension scheme providing benefits based on final pensionable pay The assets of the scheme are held separately from those of the Group Pension scheme assets are measured using market values Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full The movement in the scheme surplus / deficit is split between operating charges, finance items and, in the Statement of Total Recognised Gains and Losses, actuarial gains and losses The scheme has been closed to new members since 2009

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

The parent company is not a member of either pension scheme

Stocks and work in progress

Stocks and work in progress are stated at cost less any diminution in value

In respect of work in progress, costs include labour, materials and attributable overheads Long term contract turnover and profit are recognised according to the value of work done Where amounts received are different from the turnover recognised, they are included in debtors or creditors according to the circumstances of each individual contract

1 Accounting policies *(continued)*

Research and development expenditure

Expenditure on research and development is written off to the profit and loss account in the year in which it is incurred

Taxation

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

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

Financial instruments

Debt is initially stated at the amount of the net proceeds after the deduction of issue costs The carrying amount is increased by the finance costs in respect of the accounting year and reduced by payments made in that year

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

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

Turnover

Turnover for the group represents income receivable in the ordinary course of business, excluding VAT, for services provided to third party customers Turnover is recognised to the extent that it is probable that economic benefits will flow to the company In the period to 31 March 2011 and previous years, WWSL had chosen not to recognise as turnover bills raised for customers who have a record of at least two years' non-payment This policy was allowed under FRS5 Application Note G – Revenue Recognition For the regulatory year to 31 March 2012 and subsequently all bills raised are recognised as turnover to bring the accounting policy in line with the regulatory guidance issued by Ofwat In the year to June 2012 turnover has been increased by £0 8m and the bad debt charge within operating costs increased by the same value The prior year has not been restated as the impact on the financial statements is not material

Cash flow statement

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

2 Segmental information

Substantially all of the turnover, operating profit and net assets / (liabilities) are derived from activities within the United Kingdom

	Turnover 2012 £m	**Operating profit 2012 £m**	**Net (liabilities) 2012 £m**	Turnover 2011 £m	Operating profit 2011 £m	Net assets 2011 £m
Regulated	**469.1**	**224.9**	**(133 7)**	446 7	227 4	(14 2)
Unregulated	**20 8**	**1 5**	**60.2**	20 7	0 9	76 1
	489.9	**226 4**	**(73 5)**	467 4	228 3	61 9

Regulated activities arise from the trade of Wessex Water Services Ltd Unregulated activities comprise the trade of SC Technology GmbH and Wessex Water Enterprises Ltd as well as the holding company activities of Wessex Water Ltd and YTL Utilities (UK) Ltd

3 Profit on ordinary activities before taxation

	2012 £m	2011 £m
Profit on ordinary activities before taxation is stated after charging		
Fees paid to the auditors	0 4	0 3
Depreciation	118 1	108 2
Hire of plant and machinery - rentals payable under operating leases	1.3	1 4
Research and development expenditure	0 1	0 1
after crediting.		
Release of negative goodwill	7 7	7 7

	2012 £000	2011 £000
Auditor's remuneration		
Audit of these financial statements	26	25
Audit of financial statements of subsidiaries pursuant to legislation	264	222
Other services relating to taxation	98	-
Other services pursuant to legislation	17	10
	405	257

4 Remuneration of directors

Total directors' remuneration

Salary	558	544
Bonus	315	325
Benefits in kind	41	37
	914	906

The remuneration above is in respect of two executive directors (2011 – two) There were no contributions to pension schemes in respect of the directors

Remuneration of highest paid director

Salary	400	390
Bonus	285	250
Benefits in kind	27	24
	712	664

The highest paid director had an accrued pension entitlement of £157,457 at 30 June 2012 (2011 - £150,337)

5 Staff numbers and costs

The average number of persons employed by the group (ıncludıng dırectors) durıng the year, analysed by category, was as follows

	Number of employees 2012	Number of employees 2011
Wessex Water Servıces Ltd	1,720	1,643
Bıllıng joınt venture BWBSL	353	344
Wessex Water Enterprıses Ltd	9	9
Swıss Combı	19	18
Wessex Water Ltd	5	4
	2,106	2,018

The aggregate payroll costs of these persons were as follows

	2012 £m	2011 £m
Wages and salarıes	60 2	56 6
Socıal securıty costs	5 4	5.1
Other pensıon costs	9 5	5.1
	75.1	66.8

The aggregate payroll costs were charged as follows

Capıtal schemes	18 2	17 2
Infrastructure renewals expendıture	5 9	7.0
Staff costs	51 0	42 6
	75 1	66.8

6 Net ınterest payable and sımılar charges

Interest payable		
On bank loans and overdrafts	83 8	66 4
On loan from parent company (note 16)	3.1	2 9
On loan from other group company (note 16)	7.2	6 8
Fınance charges payable ın respect of finance leases and hıre purchase contracts	1.0	1 2
Interest receıvable		
On short term deposıts	(1 8)	(0 8)
Other		
Other finance charges	1 2	2 9
	94 5	79 4

Interest on loan from parent company has not been paıd, but has been rolled up and added to the prıncıpal The ınterest rate on thıs loan varıed between 6 1% and 6 3% (2011 – between 5 9% and 6 1%)

7 Taxation

Analysis of charge in the year	2012 £m	2012 £m	2011 £m	2011 £m
Corporation tax				
Current year corporation tax		31 6		36 0
Adjustments in respect of previous years		(10 8)		(2 6)
Total corporation tax charge		20 8		33 4
Deferred tax – current year				
Origination and reversal of timing differences	(18 0)		(15 0)	
Decrease in discount	40 4		9 6	
		22 4		(5 4)
Deferred tax – prior year				
Origination and reversal of timing differences	8.4		2 0	
(Increase) in discount	(1 5)		(0 9)	
		6 9		1 1
Total deferred tax charge / (credit)		29.3		(4 3)
Tax charge on profit on ordinary activities		50 1		29 1

Factors affecting the tax charge for the year

	2012 £m	2011 £m
Corporation tax reconciliation		
Profit on ordinary activities before taxation	131 9	148 9
Current tax at 25 5% (2011 – 27 5%)	33 6	40 9
Effects of		
Expenses not deductible for tax purposes	0 8	0 9
Capital allowances for the year less than depreciation	3 1	2 0
Adjustments in respect of previous years	(10.8)	(2 6)
Goodwill amortisation	(2.0)	(2 1)
Lease payment	(1.7)	(1 8)
Subsidiary company profits	(0 2)	(0 1)
Other timing differences	(2.0)	(3 8)
Total corporation tax charge (see above)	20 8	33 4

On 21 March 2012 the Chancellor announced the reduction in the corporation tax rate from 26% to 24% with effect from 1 April 2012 This change reduced the corporation tax rate to 25 5% for the year to June 2012 and reduced the deferred tax liability (note 18) and the deferred tax asset (note 19)

The Chancellor also announced a reduction in the corporation tax rate by 1% per annum to 22% by 1 April 2014, but these changes were not substantially enacted by 30 June 2012, and the impact has not been included above Had this change been enacted at the balance sheet date the deferred tax provision (note 18) would have decreased by £11 6m to £112 3m, and the deferred tax asset (note 19) would have decreased by £2 7m to £29 9m

8 Dividends

	Group 2012 £m	Company 2012 £m	Group 2011 £m	Company 2011 £m
Ordinary dividends – interim dividends	**95 1**	**95.1**	58 3	58 3
– final dividend from prior year	**65.9**	**65.9**	32 9	32 9
	161 0	**161 0**	91 2	91 2

9 Intangible fixed assets

Group	**Negative goodwill £m**
Cost	
At 1 July 2011	(168 3)
Additions	-
At 30 June 2012	**(168 3)**
Amortisation	
At 1 July 2011	69 5
Credited in the year	7 7
At 30 June 2012	**77 2**
Net book value	
At 30 June 2012	**(91 1)**
At 30 June 2011	(98 8)

10 Tangible fixed assets

Group	Freehold land and buildings £m	Infrastructure assets £m	Plant, machinery and vehicles £m	Office equipment £m	Payments on account and assets in course of construction £m	Group total £m
Cost or valuation						
At 1 July 2011	585 4	1,112 7	959 3	108 4	59 6	2,825 4
Additions	1 5	57 7	39 5	8 0	89 3	196 0
Exchange differences	(0 2)	-	(1 7)	-	-	(1 9)
Transfers on commissioning	2 3	6 4	31 2	2 1	(42 0)	-
Disposals	(0 8)	-	(10 6)	-	-	(11 4)
Grants and contributions	-	(5 5)	-	-	-	(5 5)
At 30 June 2012	**588.2**	**1,171.3**	**1,017 7**	**118.5**	**106 9**	**3,002 6**
Depreciation						
At 1 July 2011	109 5	245 9	343 3	39 3	-	738 0
Charge for the year	13 8	42 0	56 0	6 3	-	118 1
Exchange differences	-	-	(1 1)	-	-	(1 1)
Disposals	(0 2)	-	(9 4)	-	-	(9 6)
At 30 June 2012	**123 1**	**287 9**	**388.8**	**45.6**	**-**	**845 4**
Net book value						
At 30 June 2012	**465 1**	**883 4**	**628.9**	**72.9**	**106 9**	**2,157 2**
At 30 June 2011	475 9	866 8	616 0	69 1	59 6	2,087 4

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

The net book value of assets held under finance leases is £45 0m (2011 - £51 5m)

The depreciation charge for the year on assets held under finance leases is £6 5m (2011 - £6 5m)

The net book value of infrastructure assets at 30 June 2012 is stated after the deduction of grants and contributions amounting to £127 5m (2011 - £122 0m) in order to give a true and fair view (see note 1)

Included in the cost of infrastructure assets is £454 2m (2011 - £406 7m) of expenditure on maintaining the network charged to the infrastructure renewals provision in previous years, and £445 7m (2011 - £403 7m) of depreciation included in the profit and loss account as an infrastructure renewals charge in previous years

Included in freehold land and buildings above is an amount of £10 9m (2011 - £10 5m) in respect of land which is not depreciated

10 Tangible fixed assets (continued)

	Company Plant, machinery and vehicles £m
Cost	
At 1 July 2011	0 1
Additions	-
At 30 June 2012	**0.1**
Depreciation	
At 1 July 2011	-
Charge for the year	-
At 30 June 2012	-
Net book value	
At 30 June 2012	**0 1**
At 30 June 2011	0 1

11 Fixed asset investments

	Company Interests in subsidiary undertakings £m
Cost	
At 1 July 2011	351 3
Transfer to fixed assets	-
At 30 June 2012	**351.3**
Provisions	
At 1 July 2011	-
Movement	-
At 30 June 2012	-
Net book value	
At 30 June 2012	**351.3**
At 30 June 2011	351 3

11 Fixed asset investments (continued)

The principal undertakings, in which the group or company interest at the year end is 10% or more, are as follows

	Country of incorporation	Principal activity	Class and percentage of shares held
			Company
Subsidiary undertakings			
Wessex Water Limited	United Kingdom	Water supply and waste water services	60p ordinary shares, 100%
Wessex Water Services Limited	United Kingdom	Water supply and waste water services	£1 ordinary shares, 100%
YTL Events Limited	United Kingdom	Event promotions	£1 ordinary share, 100%
SC Technology GmbH	Switzerland	Waste treatment processes	CHF 1,000 ordinary shares, 100%
Wessex Water Services Finance Plc	United Kingdom	Issue of bonds	£1 ordinary shares, 100%
GENECO Limited	United Kingdom	Waste water services	£1 ordinary shares, 100%
Wessex Engineering & Construction Services Limited	United Kingdom	Engineering services	£1 ordinary shares, 100%
Wessex Water Enterprises Limited	United Kingdom	Water supply and waste water services	£1 ordinary shares, 100%
Wessex Promotions Limited	United Kingdom	Concert promotion	£1 ordinary shares 100%
Joint Arrangements			
Bristol Wessex Billing Services Ltd	United Kingdom	Billing services	£1 ordinary A shares, 50%
Searchlight Collections Ltd	United Kingdom	Billing services	£1 ordinary A shares, 50%

12 Stocks

	Group 2012 £m	Group 2011 £m
Raw materials and consumables	**3 1**	2 9
Work in progress	**4 4**	3 9
	7 5	6 8

13 Debtors

	Group 2012 £m	**Company 2012 £m**	Group 2011 £m	Company 2011 £m
Trade debtors	**61.3**	**-**	48 8	-
Amounts owed by group undertakings	**0 2**	**25 1**	-	44 1
Other debtors	**6 7**	**0.1**	3 0	-
Prepayments and accrued income	**67 4**	**-**	63 8	-
	135 6	**25 2**	115 6	44 1

Amounts owed by group undertakings comprised amounts due to the company from Wessex Water Ltd of £24 9m including a dividend of £24 3m (2011 - £44 1m including a dividend of £43 5m), and £0 2m from a parent company YTL Utilities Ltd Cayman

14 Cash at bank and ın hand

	Group 2012 £m	Company 2012 £m	Group 2011 £m	Company 2011 £m
Short-term cash deposıts	173 0	-	-	-
Cash at bank	1 0	1 0	2 2	1 0
	174 0	1 0	2 2	1 0

£36 0m of short-term bank deposıts mature withın 1 month, £30 0m withın 4 months, £90 0m withın 7 months, £5 0m withın 10 months and £12 0m withın 11 months

15 Creditors amounts fallıng due withın one year

	Group 2012 £m	Company 2012 £m	Group 2011 £m	Company 2011 £m
Bank overdraft repayable on demand	15.1	-	-	-
Loans repayable	54.5	-	5 5	-
Oblıgatıons under finance leases	7 0	-	35 6	-
Trade credıtors	10 0	-	12 7	-
Amounts owed to parent undertakıng	-	-	0 1	0 1
Amounts owed to subsıdıary undertakıng	-	99 3	-	99 3
Amounts owed to fellow subsıdıary undertakıng	1 7	1 7	1 6	1 6
Amounts owed to associate companıes	0 2	-	0 4	-
Taxatıon and socıal securıty	18.3	-	21 2	-
Other credıtors	2 1	-	3 1	-
Accruals	115 1	0 8	91 0	0 7
	224.0	101.8	171 2	101 7

16 Credıtors: amounts fallıng due after more than one year

	Group 2012 £m	Company 2012 £m	Group 2011 £m	Company 2011 £m
Bonds	1,397 1	-	1,169 0	-
Other loans	315 0	-	292 4	-
Oblıgatıons under finance leases	51 6	-	29 4	-
Loans from group undertakıngs	221.8	221.8	218 7	218 7
Other credıtors	1 0	-	1 0	-
	1,986.5	221.8	1,710 5	218 7

Oblıgatıons under finance leases are repayable

	Group 2012 £m	Group 2011 £m
In more than 1 year, but no more than 2 years	7 8	3 6
In more than 2 years, but no more than 5 years	29.1	13 3
In more than 5 years	14.7	12 5
	51.6	29 4

There are two loans from group undertakıngs The first ıs from YTL Utılıtıes Fınance Ltd with a prıncıpal sum of £169 9m (2011 – £169 9m) Interest ıs payable at LIBOR plus 3 0%, and the loan ıs repayable on 1 July 2013 The second of £51 9m (2011 - £48 8m) ıs from a holdıng company YTL Utılıtıes Lımıted and only comprıses rolled up ınterest Under the terms of the loan agreement, sıgned on 15 May 2002 for a maxımum of £120m, ınterest ıs results dependent, ın that whılst the ınterest ıs agreed on a quarterly basıs, no ınterest ıs treated as havıng accrued unless on certaın specıfied quarterly dates the company has suffıcıent dıstrıbutable profits To the extent that the company does have suffıcıent dıstrıbutable profits, the ınterest that accrues forms a separate amount owıng to YTL Utılıtıes Lımıted whıch ıs payable on such date as the company elects, or to the extent then outstandıng, on 31 October 2020 Interest ıs payable at LIBOR plus 5 0%

16 Creditors: amounts fallıng due after more than one year (contınued)

The bonds were ıssued by a subsıdıary company Wessex Water Servıces Fınance Plc as follows	Group 2012 £m	Group 2011 £m
Bond at 5 375% repayable ın March 2028	**198 3**	198 2
Bond at 5 75% repayable ın October 2033	**346 2**	346 0
Bond at 4 0% repayable ın September 2021	**197 5**	-
Index lınked bonds		
At 3 52% plus ınflatıon repayable ın July 2023	**68.7**	65 6
At 2 186% plus ınflatıon repayable ın June 2039	**56.3**	54 3
At 1 75% plus ınflatıon repayable ın July 2046	**89.7**	85 5
At 1 75% plus ınflatıon repayable ın July 2051	**89.8**	85 6
At 1 369% plus ınflatıon repayable ın July 2057	**89.7**	85 6
At 1 374% plus ınflatıon repayable ın July 2057	**89.8**	85 6
At 1 489% plus ınflatıon repayable ın November 2058	**57 0**	54 2
At 1 495% plus ınflatıon repayable ın November 2058	**57.0**	54 2
At 1 499% plus ınflatıon repayable ın November 2058	**57.1**	54 2
	1,397.1	1,169 0

17 Fınancıal ınstruments

Short term debtors and credıtors have been excluded from the financıal ınstrument dısclosures below other than £174 0m (2011 - £2 2m) of cash ın hand and £76 6m (2011 - £41 1m) of short term borrowıngs The group has financed ıts actıvıtıes through a combınatıon of short term borrowıngs, long term loans and leases, bonds ıssued by a subsıdıary company Wessex Water Servıces Fınance Plc and loans from group undertakıngs

Analysıs of net debt

	Group 2012 £m	Company 2012 £m	Group 2011 £m	Company 2011 £m
Cash at bank and ın hand	**(174 0)**	**(1.0)**	(2 2)	(1 0)
Due on demand, one year or less	**76.6**	**-**	41 1	-
Due between one and two years	**8 0**	**-**	54 0	-
Due between two and five years	**299 6**	**169 9**	285 2	169 9
Due ın five years or more	**1,677 9**	**51.9**	1,370 3	48 8
	1,888 1	**220 8**	1,748 4	217 7

Amounts repayable ın more than five years

	Group 2012 £m	Company 2012 £m	Group 2011 £m	Company 2011 £m
Loans	**280 8**	**51 9**	201 3	48 8
Bonds	**1,397.1**	**-**	1,169 0	-
	1,677.9	**51 9**	1,370 3	48 8

Interest rate and currency exposure

	Fıxed rate borrowıngs 2012 £m	Floatıng rate borrowıngs 2012 £m	Total 2012 £m	Fıxed rate borrowıngs 2011 £m	Floatıng rate borrowıngs 2011 £m	Total 2011 £m
Sterlıng	**1,397 1**	**491 0**	**1,888.1**	1,169 0	579 4	1,748 4

17 Fmancial mstruments (contmued)

The average mterest rates and average penod to maturity of the fixed rate borrowmgs are as follows

	Interest rate 2012 %	Penod 2012 Years	Interest rate 2011 %	Penod 2011 Years
Sterlmg	3.8	26 9	3 8	30 6

Fair value is the amount at which a financial instrument could be exchanged in an arms length transaction between willing parties, other than a forced or liquidation sale

	Book value 2012 £m	Fair value 2012 £m	Book value 2011 £m	Fair value 2011 £m
Borrowmgs less than 1 year	(97 4)	(97.4)	38 9	38 9
Floatmg rate borrowmgs over 1 year	588 4	588.4	540 5	540 5
Fixed rate borrowings over 1 year	1,397.1	1,701 3	1,169 0	1,284 8
	1,888.1	2,192 3	1,748 4	1,864 2

18 Provisions for liabilities and charges

	Deferred taxation £m	Restructurmg costs £m	Total £m
Group			
At 1 July 2011	96 7	0 1	96 8
Ongmation and reversal of tımıng dıfferences	(11 8)	-	(11 8)
Decrease in discount	39 0	-	39 0
At 30 June 2012	123 9	0 1	124 0

The restructurmg costs provision is in respect of a redundancy programme announced by WWSL

The elements of deferred taxation are as follows

	2012 £m	2011 £m
Difference between accumulated depreciation / amortisation and capital allowances	262 3	274 1
Other tımıng dıfferences	(0 6)	(0 6)
Undiscounted provision	261.7	273 5
Discount	(137 8)	(176 8)
Discounted provision	123 9	96 7

19 Pension scheme

	Group 2012 £m	Group 2011 £m
FRS 17 pension liability (see below)	**135 8**	71 8
FRS 17 deferred tax asset	**(32.6)**	(18 7)
Unfunded and compensatory added years pension	**1.3**	1 2
	104 5	54 3

The group operates the Wessex Water Pension Scheme (WWPS) providing benefits based on final pensionable pay Contributions to the defined benefit pension scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company The contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method The latest actuarial valuation for WWPS was undertaken at 31 December 2010 The assumptions which have the most significant effect on the results of a valuation are those relating to the discount rate for scheme liabilities and the rate of increase in salaries and pensions It was assumed that the pre retirement discount rate would be 6 3% and the post retirement discount rate would be 5 3%, that salary increases would be 3 5% in year 1, 3 0% in years 2 and 3 and 4 3% thereafter and that present and future pensions would increase between 2 2% and 3 3% per annum The market value of the WWPS assets as at 31 December 2010 was £345 3m which represented 81 2% of the actuarial value of the accrued benefits of £425 2m, a deficit of £79 9m The next actuarial valuation will be at 31 December 2013

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

The total pension cost for the year under FRS 17, including amounts set aside for early retirees and other finance income, was £10 7m (2011 - £8 0m) Actuarial gains and losses have been recognised in the period in which they occur through the Statement of Total Recognised Gains and Losses

Liabilities for an unfunded arrangement and a compensatory payment for added years' service are held outside the defined benefit scheme No employees of the company are members of the group scheme

The actuarial valuation described above was updated as at 30 June 2012 by a qualified actuary using revised assumptions that are consistent with the requirements of FRS 17 Investments have been valued, for this purpose, at fair value The major assumptions used by the actuary in this valuation were

	2012	2011
Rate of increase in salaries – short term	**2 5%**	**3.1% to 3 5%**
Rate of increase in salaries – long term	**3 8%**	**4 4%**
Rate of increase in pensions in payment	**2.3% or 2 9%**	**2 7% or 3 3%**
Rate of increase in pensions in payment – reduced level members	**2 1%**	**2.2%**
Discount rate	**4 4%**	**5 6%**
Inflation assumption - RPI	**3 0%**	**3 6%**
Inflation assumption - CPI	**2 3%**	**2 7%**

The mortality assumptions are based upon recent actual mortality experience of members within the scheme, and the assumptions also allow for future mortality improvements The assumptions are that a member currently aged 60 will live, on average, for a further 27 0 years after retirement if they are male, and for a further 28 8 years if they are female For a member who retires in 2032 at age 60 the assumptions are that they will live, on average, for a further 28 6 years after retirement if they are male, and a further 30 4 years if they are female

19 Pension scheme (continued)

The value of the assets and liabilities were as follows:

	2012 £m	2011 £m
Equities	**172 2**	170 6
Property	**26 6**	23 7
Government bonds	**98.2**	146 7
Corporate bonds	**82 8**	18 4
Cash	**1 0**	0 4
Total fair value of the assets	**380 8**	359 8
Present value of defined benefit obligations	**(516 6)**	(431 6)
Deficit in the scheme	**(135 8)**	(71 8)

The expected rates of returns were as follows:

	%	%
Equities	**7.7**	8 3
Property	**6 7**	8 0
Government bonds	**2.7**	4 3
Corporate bonds	**3.6**	5 0
Cash	**1.6**	1 5
	5.4	6 5

Narrative description of the basis used to determine expected value

The group employs a building block approach in determining the long-term rate of return on pension assets Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles The assumed long-term rate of return of each asset class is set out within this note The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation of the scheme as at 30 June 2012

Analysis of profit and loss charge

	2012 £m	2011 £m
Current service cost	**9 2**	9 9
Past service cost	**0 3**	(4 8)
Interest cost	**24 0**	22 0
Expected return on scheme assets	**(22 8)**	(19 1)
Expense recognised in profit and loss account	**10.7**	8 0

Changes to the present value of defined benefit obligations during the year

	2012	2011
Opening present value of defined benefit obligations	**431.6**	411 4
Current service cost	**9 2**	9 9
Interest cost	**24 0**	22 0
Contributions by scheme participants	**0.3**	0 6
Actuarial losses on scheme liabilities	**67 3**	8 0
Net benefits paid out	**(16 1)**	(15 5)
Past service cost	**0.3**	(4 8)
Closing present value of defined benefit obligations	**516.6**	431 6

19 Pension scheme (continued)

Changes to the fair value of scheme assets during the year

	2012 £m	2011 £m
Opening fair value of scheme assets	**359.8**	311 6
Expected return on scheme assets	**22 8**	19 1
Actuarial (losses) / gains on scheme assets	**(4 9)**	24 7
Contributions by the employer	**18 9**	19 3
Contributions by scheme participants	**0 3**	0 6
Net benefits paid out	**(16 1)**	(15 5)
Closing fair value of scheme assets	**380 8**	359 8

Actual return on scheme assets

	2012 £m	2011 £m
Expected return on scheme assets	**22 8**	19 1
Actuarial (losses) / gains on scheme assets	**(4 9)**	24 7
Actual return on scheme assets	**17 9**	43 8

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

	2012	2011
Total actuarial (losses) / gains	**(72.2)**	16 7
Cumulative amount of losses recognised	**(164.9)**	(92 7)

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

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Fair value of scheme assets	**380 8**	359 8	311 6	277 7	295 1
Present value of scheme liabilities	**(516 6)**	(431 6)	(411 4)	(323 6)	(358 6)
Deficit in scheme	**(135 8)**	(71 8)	(99 8)	(45 9)	(63 5)
Experience (losses) / gains on scheme assets	**(4.9)**	24 7	10 8	(45 7)	(19 6)
Experience (losses) / gains on scheme liabilities	**(3 1)**	0 8	2 8	10 5	(5 2)

20 Grants and contributions

	Group £m
At 1 July 2011	**18 5**
Received in year	**-**
Less amortisation	**(0 8)**
At 30 June 2012	**17.7**

21 Called up share capital

	2012 £	2011 £
Group and Company		
Authorised		
100 Ordinary shares of £1 each	**100**	100
Allotted, called up and fully paid		
2 Ordinary shares of £1 each	**2**	2

22 Profit and loss account

	Group £m	Company £m
At 1 July 2011	**61 9**	**76 1**
Retained profit for the year	**81 8**	**138 9**
Dividends (note 8)	**(161 0)**	**(161 0)**
Actuarial gains net of taxation	**(56 1)**	**-**
Foreign currency adjustments	**(0 1)**	**-**
At 30 June 2012	**(73 5)**	**54 0**

23 Contingent liabilities

The group has provided performance guarantees on behalf of SC Technology GmbH on the tendering for contracts, the maximum liability in respect of which at 30 June 2012 was £0 3m (2011 - £0 3m)

24 Commitments

a Capital commitments at the end of the financial year, for which no provision has been made, are as follows

	Group 2012 £m	Company 2012 £m	Group 2011 £m	Company 2011 £m
Contracted	**84 8**	**-**	65 2	-

b There were £0 1m of operating lease payments under leases on land and buildings due within the next year, which expire after 5 years (2011 – £0 1m) There are no commitments under other operating leases

25 Share based payments

Group

YTL Power International Berhad (a subsidiary of the ultimate parent company YTL Corporation Berhad) operates share option schemes under which options are granted to employees of the group The previous scheme "YTL Power ESOS" expired on 29 November 2011 and a new scheme "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

YTL Power ESOS

The vesting date and exercise price of the share options are shown below

Granted – Ordinary shares of RM0 50 each	Vesting date	Exercise price RM
13/12/2002 Unapproved	13/12/2005	1 32
26/12/2002 Approved	26/12/2005	1 39
12/12/2003 Unapproved	12/12/2006	1 53
12/12/2003 Approved	12/12/2006	1 70
16/05/2005 Unapproved	16/05/2008	1 82
16/05/2005 Approved	16/05/2008	2 02
07/08/2006 Unapproved	07/08/2009	1 74
07/08/2006 Approved	07/08/2009	1 93
20/08/2007 Unapproved	20/08/2010	2 04
20/08/2007 Approved	20/08/2010	2 27
26/06/2008 Unapproved	20/08/2010	1 80
28/11/2008 Unapproved	28/11/2011	1 61
28/11/2008 Approved	28/11/2011	1 78

Under FRS 20 equity settled share-based payments are measured at the fair value at the date of the grant, and the fair value is expensed on a straight line basis over the vesting period A charge of £0 1m was recognised in the profit and loss account for FRS 20 The options movements in the period were as follows

Granted – Ordinary shares of RM0 50 each	Outstanding at 30 June 2011	Forfeited	Exercised	Expired	At 29 November 2011
13/12/2002 Unapproved	7,683,750	-	(2,266,250)	(5,417,500)	-
26/12/2002 Approved	2,828,000	(34,000)	(406,000)	(2,388,000)	-
12/12/2003 Unapproved	634,000	-	(434,000)	(200,000)	-
12/12/2003 Approved	980,000	-	(136,000)	(844,000)	-
16/05/2005 Unapproved	3,259,900	-	(452,000)	(2,807,900)	-
16/05/2005 Approved	3,508,000	-	(38,000)	(3,470,000)	-
07/08/2006 Unapproved	500,000	-	-	(500,000)	-
07/08/2006 Approved	4,095,650	(102,000)	(34,000)	(3,959,650)	-
20/08/2007 Unapproved	800,000	-	-	(800,000)	-
20/08/2007 Approved	2,869,000	(34,000)	-	(2,835,000)	-
26/06/2008 Unapproved	80,000	-	(10,000)	(70,000)	-
28/11/2008 Unapproved	5,720,000	-	(2,195,000)	(3,525,000)	-
28/11/2008 Approved	9,060,000	(68,000)	(68,600)	(8,923,400)	-
TOTAL	42,018,300	(238,000)	(6,039,850)	(35,740,450)	-

25 Share based payments (continued)

2011 UK Plan

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

Granted – Ordinary shares of RM0 50 each	Vesting date	Expiry date	Exercise price RM	Fair value RM
01/06/2012 Unapproved	01/06/2015	31/03/2021	1 49	0 22
01/06/2012 Approved	01/06/2015	31/03/2021	1 65	0 16

Under FRS 20 equity settled share-based payments are measured at the fair value at the date of the grant, and the fair value is expensed on a straight line basis over the vesting period The fair value was calculated using a trinomial model with the following key assumptions

Scheme	Weighted ave share price at grant RM	Expected volatility %	Expected option life years	Risk free rate %	Dividend yield %
01/06/2012 Unapproved	1 63	21 2	3	3 14	5 6
01/06/2012 Approved	1 63	21 2	3	3 14	5 6

The following options were outstanding at 1 June 2012 and 30 June 2012

Granted – Ordinary shares of RM0 50 each	Granted 1 June 2012	Forfeited	**Outstanding at 30 June 2012**
01/06/2012 Unapproved	9,997,000	-	**9,997,000**
01/06/2012 Approved	41,919,000	-	**41,919,000**
TOTAL	51,916,000	-	**51,916,000**

26 Related party disclosures

Inter company loan transactions are disclosed in notes 6, 13, 15 and 16 and directors remuneration in note 4

27 Ultimate parent company and parent undertaking of larger group

The company is controlled by YTL Utilities Holdings Ltd, the immediate holding company The ultimate controlling party is YTL Corporation Berhad, the ultimate holding company

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