WESSEX WATER SERVICES FINANCE PLC

Annual report and financial statements
30 June 2017

Registered in England and Wales No. 3704265

CONTENTS

STRATEGIC REPORT

PRINCIPAL ACTIVITIES

The sole activity of the Company is to issue bonds, the proceeds of which are lent to the immediate parent company Wessex Water Services Ltd (WWSL).

The bonds are admitted to the Official List of the UK Listing Authority and to the London Stock Exchange plc.

The bond proceeds are lent to WWSL on the same terms as the bonds themselves. WWSL guarantees the bonds, hence protecting the Company from any risk.

The market and fair values of the bonds are disclosed in note 10, along with a description of the risks associated with the financial instruments.

PROFIT AND DIVIDEND

There was no profit in the year (2016 - £nil).

The Directors did not recommend the payment of a dividend in either year.

REVIEW OF ACTIVITIES

The only activity of the Company is to issue Bonds on behalf of the parent company WWSL.

There are no employees and no expenses incurred by the Company.

Note 10(d) explains the strength of WWSL in terms of its Licence to operate. It also explains how the risks on the Bonds are mitigated. WWSL guarantees the bonds, hence protecting the Company from any risk.

All Bonds are repayable in more than 5 years and there are no immediate plans for any further Bonds to be issued on behalf of WWSL.

The Directors conclude that the Company does not run any major risks and they are confident about the future viability of the Company.

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

Mark Watts
Director

DIRECTORS' REPORT

The Directors present their report and accounts for the year to 30 June 2017.

GOVERNANCE REPORT

Wessex Water Services Finance Plc is committed to high standards of corporate governance and has particular regard to the UK Corporate Governance Code as approved for the purposes of the Listings Rules of the Financial Services Authority (the "Code"). The Code is not a rigid set of rules and provides general principles of best practice. The Code is made up of "Main Principles", "Supporting Principles" and "Code Provisions". The Code Provisions are subordinate to the Principles. Whilst the Code is generally regarded as embodying best practice in UK Corporate Governance, its main focus is the relationship between a listed company and its shareholders. Wessex Water Services Finance Plc, although a listed company, has a single shareholder and, accordingly, it is able to address some issues more directly and completely than it could if it had many shareholders.

The Company's focus is on complying with the Principles and spirit of the Code in its particular context as a public listed company with a single shareholder. In practice, the Company complies with the Code Principles and Code Provisions with no exceptions.

INTERNAL CONTROL AND RISK MANAGEMENT

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

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

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

CHARITABLE AND POLITICAL DONATIONS

There were no charitable or political donations in either year.

DIRECTORS

The Directors of the Company during the year were;

Colin Skellett
Mark Watts

Directors' emoluments in respect of services to group companies are disclosed in the accounts of Wessex Water Services Ltd, Wessex Water Ltd and YTL Utilities (UK) Ltd (see note 13).

The Directors were granted ordinary share options of Malaysian Ringgit RM0.50 each in YTL Power International Berhad, a parent company (see note 13).

	Opening number 30/6/2016	Exercise price RM	Date of grant	Exercise date	Expiry date	Exercise	Closing number 30/6/2017
2011 UK Plan							
Colin Skellett	87,000	1.65	01/06/2012	01/06/2015	31/03/2021	-	87,000
Colin Skellett	1,913,000	1.41	01/06/2012	01/06/2015	31/03/2021	-	1,913,000
Mark Watts	87,000	1.65	01/06/2012	01/06/2015	31/03/2021	-	87,000
Mark Watts	913,000	1.41	01/06/2012	01/06/2015	31/03/2021	-	913,000

DIRECTORS' REPORT (continued)

DISCLOSURE OF INFORMATION TO AUDITOR

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

RE-APPOINTMENT OF AUDITOR

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

By order of the Board
L Fisher-Hoyle
Company Secretary
Claverton Down
Bath BA2 7WW
19 September 2017

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the Company financial statements in accordance with applicable law and regulations.

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

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the results for that period. In preparing the Company financial statements, the Directors are required to:

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

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

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, and Corporate Governance Statement that complies with that law and those regulations.

Responsibility statement of the Directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company; and
- the strategic report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board
L Fisher-Hoyle
Company Secretary
Claverton Down
Bath BA2 7WW
19 September 2017

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

1 Our opinion is unmodified

We have audited the financial statements of Wessex Water Services Finance Plc ("the Company") for the year ended 30 June 2017, which comprise the Income Statement and Statement of Other Comprehensive Income, Balance Sheet, Cash flow statement, and the related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of Company's affairs as at 30 June 2017 and of its result for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were appointed as Auditor by the Directors on 22 February 2002. The period of total uninterrupted engagement is the 15 years ended 30 June 2017. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

2 Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matter, in arriving at our audit opinion above, together with our key audit procedures to address that matter and, as required for public interest entities, our results from those procedures. The matter was addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Recoverability of intra-group receivables balances
(£1.617 billion; 2016: £1.603 billion)
Refer to page 12 (accounting policy) and page 14 (financial disclosures).

The risk
Low risk, high value

The carrying amount of the company's intra-group receivables balances, held at amortised cost less impairment represents 100% of the company's total assets.

We do not consider the recoverable amount of these receivables to be at a high risk of significant misstatement, or to be subject to a significant level of judgement. However, due to their materiality in the context of the Company financial statements as a whole, this is considered to be the area which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our Company audit.

Our response

Our procedures included:

- **Tests of detail:** Comparing the carrying amount of the intra-group receivable with the respective net asset values to identify whether the net asset values of the counterparty, being an approximation of their minimum recoverable amount, were in excess of their carrying amount.
- **Historical comparisons:** Observing the historic profitability of the counterparty to establish trends in repayment of long term loans, to assess the counterparty's ability to accurately forecast and pay debts as they fall due;

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WESSEX WATER SERVICES FINANCE PLC (continued)

- **Our sector experience**: Inspecting the regulated business plan of the counterparty (covering the period to 31 March 2020) and its 25 year rolling licence conditions to compare the counterparty's mid and long term forecast cash flow with the terms of intra-group repayments. We have additionally assessed that forecast cash flows are in line with our own expectations based on our knowledge of the entity and experience of the industry in which it operates;

- **Funding assessment**: Assessing whether there have been any breaches of covenants within the counterparty's external long term loans to evaluate any impact on future cash flows and therefore the recoverability of the intra-group receivables balance.

Our results
We found the assessment of the recoverability of the inter-group receivable to be acceptable.

3 Our application of materiality and an overview of the scope of our audit

Materiality for the statutory financial statements as a whole was set at £7.1 million, determined with reference to a benchmark of total assets, of which it represents 0.4% (2016: 0.6%).

We reported to the Audit Committee any corrected or uncorrected identified misstatements exceeding £357,000, in addition to other identified misstatements that warranted reporting on qualitative grounds.

The audit team performed the audit of the statutory financial statements as if it was a single set of financial information. The audit was performed using the materiality levels set out above, covering 100% (2016: 100%) of the profit before taxation and total assets held.

4 We have nothing to report on going concern

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

5 We have nothing to report on the Strategic Report and the Directors' Report

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

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

- we have not identified material misstatements in those reports;

- in our opinion the information given in the Strategic Report and the Directors' Report for the financial year is consistent with the financial statements; and

- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

6 We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WESSEX WATER SERVICES FINANCE PLC (continued)

7 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 5, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud, other irregularities, or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. The risk of not detecting a material misstatement resulting from fraud or other irregularities is higher than for one resulting from error, as they may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control and may involve any area of law and regulation not just those directly affecting the financial statements.

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

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

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

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

Income Statement and Statement of Other Comprehensive Income
For the year ended 30 June 2017

	Note	2017 £000	2016 £000
Revenue		-	-
Operating result	2	-	-
Financial income	3	**68,002**	65,741
Financial expenses	3	**(68,002)**	(65,741)
Net financing result		-	-
Result before tax and after tax		-	-

The notes on pages 12 to 18 are an integral part of these financial statements.

Balance Sheet
At 30 June 2017

	Note	2017 £000	2016 £000
Non-current assets			
Other financial assets	4	**1,584,046**	1,572,084
		1,584,046	1,572,084
Current assets			
Trade and other receivables	5	**31,045**	31,064
Cash and cash equivalents	6	**13**	13
		31,058	31,077
Total assets		**1,615,104**	1,603,161
Current liabilities			
Trade and other payables	7	**(31,045)**	(31,064)
		(31,045)	(31,064)
Non-current liabilities			
Other interest-bearing loans and borrowings	8	**(1,584,046)**	(1,572,084)
		(1,584,046)	(1,572,084)
Total liabilities		**(1,615,091)**	(1,603,148)
Net assets		**13**	13
Equity			
Share capital	9	**13**	13
Retained earnings		**-**	-
Total equity		**13**	13

Registered in England and Wales No. 3704265.

The notes on pages 12 to 18 are an integral part of these financial statements.

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

Mark Watts
Director

Cash Flow Statement

For the year ended 30 June 2017

	Note	2017 £000	2016 £000
Cash flows from operating activities			
Profit for the year		-	-
Adjustments for:			
Financial income	3	**(68,002)**	(65,741)
Financial expense	3	**68,002**	65,741
		-	-
Decrease / (increase) in trade and other receivables		**19**	(157)
(Decrease) / increase in trade and other payables		**(19)**	157
		-	-
Tax paid		-	-
Net cash from operating activities		-	-
Cash flows from investing activities			
Interest received		**56,020**	55,856
Net cash from investing activities		**56,020**	55,856
Cash flows from financing activities			
Interest paid		**(56,020)**	(55,856)
Net cash from financing activities		**(56,020)**	(55,856)
Increase / (decrease) in cash and cash equivalents		-	-
Cash and cash equivalents at 1 July	6	**13**	13
Cash and cash equivalents at 30 June		**13**	13

Notes to the financial statements

1. Accounting policies

1.1 Basis of preparation

Wessex Water Services Finance Plc (the "Company") is a private company incorporated, domiciled and registered in England in the UK. The registered number is 2366648 and the registered address is Wessex Water Operations Centre, Claverton Down, Bath, BA2 7WW.

The Company financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs").

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

Judgements made by the Directors, in the application of these accounting policies, that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 14.

No statement of changes in equity is disclosed within the accounts, given that the company has no distributable profit within the current or prior year. A reconciliation of share capital is performed in note 9.

1.2 Measurement convention

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

1.3 Going concern

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

1.4 Financial instruments

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

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

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

1.5 Impairment excluding inventories and deferred tax assets

Financial assets (including receivables)

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

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

Notes to the financial statements – Accounting policies *(continued)*

1.6 Expenses

Financing income and expenses

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

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

1.7 Taxation

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

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

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

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

1.8 Dividends

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

1.9 Adopted IFRS not yet applied

The following Adopted IFRS has been issued but has not been applied in these financial statements:

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

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

Notes to the financial statements *(continued)*

2 Operating profit

There were no expenses incurred by the Company in either year, audit fees of £3k (2016 - £1k) were borne by other group companies.

3 Finance income and expense

Recognised in the income statement

	2017	2016
	£000	£000
Finance income		
Interest receivable from parent company	**68,002**	65,741
Total finance income	**68,002**	65,741
Finance expense		
On bond issues	**(68,002)**	(65,741)
	(68,002)	(65,741)
Net interest payable	**-**	-

4 Other Financial Assets

	2017	2016
	£000	£000
Non-current		
Intercompany loans repayable in more than 12 months	**1,584,046**	1,572,084
	1,584,046	1,572,084

Intercompany Loans consist of bonds lent to the parent with the same terms as bonds issued by the Company. *See Note 8 for details of bonds issued by the Company.*

5 Trade and other receivables

	2017	2016
	£000	£000
Interest receivable	**31,045**	31,064
	31,045	31,064

6 Cash and cash equivalents

	2017	2016
	£000	£000
Cash at bank	**13**	13

Notes to the financial statements *(continued)*

7 Trade and other payables

	2017 £000	2016 £000
Current		
Interest payable	**31,045**	31,064
	31,045	31,064

8 Other interest-bearing loans and borrowings

	2017 £000	2016 £000
Non-current liabilities		
Inter-company loans	**1,584,046**	1,572,084
	1,584,046	1,572,084

Terms and debt repayment schedule

	Currency	Nominal interest rate	Year of maturity	Face value 2017 £000	Carrying amount 2017 £000	Face value 2016 £000	Carrying amount 2016 £000
Inter-company loans							
Fixed Rate Bond	Sterling	5.375%	2028	**198,854**	**198,487**	198,747	198,385
Fixed Rate Bond	Sterling	5.75%	2033	**347,082**	**346,021**	346,904	345,873
Fixed Rate Bond	Sterling	4.00%	2021	**302,764**	**302,764**	303,432	303,432
Index Linked Bond	Sterling	3.52%	2023	**75,511**	**75,511**	74,373	74,373
Index Linked Bond	Sterling	2.186%	2039	**62,905**	**62,889**	60,975	60,960
Index Linked Bond	Sterling	1.75%	2046	**101,565**	**101,565**	100,036	100,036
Index Linked Bond	Sterling	1.75%	2051	**101,566**	**101,566**	100,035	100,035
Index Linked Bond	Sterling	1.369%	2057	**101,566**	**101,566**	100,035	100,035
Index Linked Bond	Sterling	1.374%	2057	**101,566**	**101,566**	100,036	100,036
Index Linked Bond	Sterling	1.489%	2058	**64,037**	**64,037**	62,973	62,973
Index Linked Bond	Sterling	1.495%	2058	**64,037**	**64,037**	62,973	62,973
Index Linked Bond	Sterling	1.499%	2058	**64,037**	**64,037**	62,973	62,973
				1,585,490	**1,584,046**	1,573,492	1,572,084

Notes to the financial statements *(continued)*

9 Share capital

Ordinary shares

	2017	2016
	£	£
Authorised		
Allotted, called up and fully paid		
49,998 shares of £0.25 each	**12,500**	12,500
2 shares of £1 each	**2**	2
Issued at 30 June 2017	**12,502**	12,502
Shares classified as liabilities	-	-
Shares classified in shareholders' funds	**12,502**	12,502
	12,502	12,502

10 Financial Instruments

(a) Fair values of financial instruments

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

The fair value of long term fixed rate inter-company loans are classified as level 1 in the IFRS 13 fair value hierarchy and have a carrying value of £1,584,046k and a fair value of £2,240,914k.

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

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

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

	Carrying amount	**Fair Value**	**Level 1**	Carrying amount	Fair Value	Level 1
	2017	**2017**	**2017**	2016	2016	2016
	£000	**£000**	**£000**	£000	£000	£000
Loans and receivables						
Cash and cash equivalents (Note 6)	**(13)**	**(13)**	**(13)**	(13)	(13)	(13)
Total financial assets	**(13)**	**(13)**	**(13)**	(13)	(13)	(13)
Other interest-bearing loans and borrowings (Note 8)	**1,584,046**	**2,240,914**	**2,240,914**	1,572,084	1,955,293	1,955,293
Total financial liabilities	**1,584,046**	**2,240,914**	**2,240,914**	1,572,084	1,955,293	1,955,293
Total financial instruments	**1,584,033**	**2,240,901**	**2,240,901**	1,572,071	1,955,280	1,955,280

Notes to the financial statements *(continued)*

10 Financial Instruments *(continued)*

(b) Credit risk

Financial risk management

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

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

	2017	2016
	£000	£000
Cash and cash equivalents	**13**	13
	13	13

(c) Cash flow hedges

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

(d) Liquidity risk

Financial risk management

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

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

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

	Carrying amount	**Contractual cash flows**	**Year 1**	**Years 2 to 5**	**Over 5 years**
	2017	**2017**	**2017**	**2017**	**2017**
	£000	**£000**	**£000**	**£000**	**£000**
Non derivative financial instruments					
Inter-company loans	**1,584,046**	**3,852,556**	**56,700**	**530,300**	**3,265,556**
Total financial instruments	**1,584,046**	**3,852,556**	**56,700**	**530,300**	**3,265,556**

	Carrying amount	Contractual cash flows	Year 1	Years 2 to 5	Over 5 years
	2016	2016	2016	2016	2016
	£000	£000	£000	£000	£000
Non derivative financial instruments					
Inter-company loans	1,572,084	3,053,200	56,100	226,300	2,770,800
Total financial instruments	1,572,084	3,053,200	56,100	226,300	2,770,800

Notes to the financial statements *(continued)*

10 Financial Instruments *(continued)*

(e) Market risk

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

Interest rate risk

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

	2017	2016
	£000	£000
Fixed rate instruments	**847,272**	847,690
Floating rate instruments	**-**	-
Index linked instruments	**736,774**	724,394
	1,584,046	1,572,084

The Company policy is to keep an appropriate mix of fixed rate and index linked financial instruments.

Sensitivity

There are no floating rate instruments where the interest charge is subject to changes in the interest rate.

11 Contingencies

There are no material contingent liabilities at 30 June 2017 for which provision has not been made in these accounts (2016: £nil)

12 Related parties

There were no transactions with Directors.

There have been no transactions with pre-penultimate, penultimate and ultimate holding companies described in note 13.

13 Ultimate parent company and parent company of larger group

The immediate parent company is Wessex Water Services Ltd.

The smallest group into which the financial statements of the Company are consolidated is that headed by Wessex Water Ltd, a company incorporated in England whose registered address is Wessex Water Operations Centre, Claverton Down, Bath, BA2 7WW.

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

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

14 Accounting estimates and judgements

In preparing the financial statements and applying the accounting policies, the Company is required to make reasonable estimates and judgements based on the available information. The carrying value of bonds is based on known factors determined by the bond agreements and fair values as estimates as described in note 10.