Annual review and accounts 2015

www.wessexwater.co.uk

Wessex Water
a YTL company

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About Wessex Water

Wessex Water continues to be a leader amongst water and sewerage companies and is committed to delivering the highest levels of customer service and environmental performance at a price that customers can afford.

We treat and supply:

280 million litres of water a day to 1.3 million customers (on average more than a ton of water to every customer weekly)

We take away and treat:

470 million litres of sewage from 2.7 million customers every day

We have:

209 water sources and water treatment works
200 booster pumping stations
300 service reservoirs and water towers
11,600 kilometres (7,200 miles) of water mains

We have:

34,500 kilometres (21,500 miles) of sewers
407 sewage treatment works
1,600 sewage pumping stations

15 catchments actively managed to improve environmental impact

For further information about Wessex Water see our website
www.wessexwater.co.uk

Chairman's foreword

On behalf of the Board of Directors of Wessex Water, I am pleased to present the Annual Review and Accounts for the financial year ending 30 March 2015.

In the 13 years since YTL acquired Wessex Water I have seen the industry evolve considerably. I remain very positive about UK water regulation, and see it as the global gold standard for regulatory regimes in terms of strong, independent regulation and the stability it provides for investors.

Wessex Water has an unparalleled record in customer and environmental performance. The ongoing improvements have put the business in a good position to meet the challenges of climate change, a growing population and increasing customer expectations.

Our biggest long-term environmental challenge is indeed climate change. In 2014 the Intergovernmental Panel on Climate Change concluded that warming of the climate is unequivocal and that human influences – mainly from burning fossil fuels – were the dominant cause of the warming seen in the last 60 years. The main impacts for Europe are expected to be extreme heat events, increased water restrictions and increased flood losses.

Between 2010 and 2014, communities in the Wessex Water region experienced very cold, very dry and very wet weather events that were far removed from average conditions. With global warming we can expect to see such extreme events happening more frequently than in the past, and already there is growing evidence that extreme rainfall events are occurring more often in the UK.

For Wessex Water, a major focus of our investment programme is to maintain the resilience of our excellent water and sewerage services during extreme weather. The major investment that is already underway to create a more integrated water supply grid will significantly improve our ability to deliver services in extreme conditions in the future and to maintain our record of no water restrictions for 38 years.

The 2015 UN Climate Change Conference in Paris is critical for international efforts to reduce greenhouse gas emissions. For our part, we continue to work hard on energy efficiency and renewable energy generation. Our new gas-to-grid connection at Bristol sewage treatment works has diversified how we can use biogas produced by the anaerobic digesters. During the next five years we will be upgrading sludge digesters at other sites, increasing the amount of renewable biogas we produce overall. This is part of our aspiration to be an environmental leader in our sector and contribute to the environmental leadership goals of the wider YTL group.

Customers remain at the heart of everything we do. Our business plan to 2020 was developed with the help of more of our customers and stakeholders than ever before. This 'more for less' plan kept bill rises below inflation while delivering higher levels of service alongside continued environmental improvements, and acts as a stepping stone to achieving our long-term vision of being a fully sustainable water company.

YTL have already demonstrated a long-term commitment to the sector and I remain determined that we will continue to invest for customers and the environment, to deliver the highest standards, and to continually innovate in the pursuit of service excellence.

I thank God for His continuous blessings and all at Wessex Water for their continual passion and commitment to providing the best in class customer service and also all our customers for their continuing support.

Dr Francis Yeoh CBE
Chairman

Chief executive's introduction

Overall performance

The year covered by this report was the last in the five-year regulatory control period that began on 1 April 2010. These five years have been the most challenging since Wessex Water was privatised just over 25 years ago, driven by both the economic climate and the growing impact of the changing physical climate.

Our focus has been on understanding the changing needs of our customers and responding to the pressures that many have been under as a result of the recession. At the same time we have maintained the highest levels of environmental and quality compliance, continued to invest in creating greater resilience to climate change and supported economic growth across the Wessex Water region.

Throughout the period we have delivered first class customer service, with very high levels of customer satisfaction, enabling us to top the customer service league tables for water and sewerage companies for the seventh consecutive year.

We have continued to provide more choice to customers in the way they interact with us, including greater use of social media and text messaging, the introduction of online billing and a complete relaunch of our website.

We also provide tailored assistance programmes for customers who struggle to pay their bills with more than 18,000 customers now benefiting from our social tariffs or restart programmes.

Average bills were frozen in real terms for 2014-15 and reduced by 5% from 1 April 2015.

Service standards remain high; it is 38 years since restrictions on water use were last imposed in the Wessex Water supply area.

For the reporting year our drinking water compliance was 99.97% and sewage treatment compliance was 99.7%. Whilst the varying weather patterns caused problems, we achieved a reduction in the total number of pollution incidents and halved the number of serious incidents. However, we know more needs to be done to deal with the changing rainfall patterns – longer dry periods and more intense rainfall – so we have committed to further major investments over the coming years.

Investing for customers

Through careful planning, innovative approaches and greater use of in-house resources we delivered our largest ever investment programme. We met all regulatory outputs, which included major customer focused programmes to reduce leakage and sewage flooding. Our overall investment programme was delivered under budget and the efficiency savings shared between customers and investors.

We are now more than halfway through the construction of our integrated water supply grid, which will improve resilience of supplies to customers and deliver improvements in the water environment. As part of this project we have developed an innovative system to optimise the supplies of water across the region, so minimising future operating costs. The whole grid project is on track for completion in 2018.

Innovation is a key element of our investment programme. We use industry leading no-dig techniques to replace and renew below ground assets, so minimising the impact on customers and communities. Many new ideas come from our employees; these are supplemented by trials of new technologies and our joint research programme with the University of Bath, as part of which we have developed a centre for water research and innovation based at the university.

We invest for the long term and take very seriously our role to maintain our assets for future generations. This was recognised by our regulator and all our assets achieved a stable serviceability rating throughout the last five years, a period that included the transfer to us of private sewers, which doubled the length of our sewer network. The transfer was completed without any additional funding and with no impact on services to customers.

Working in partnership

While we play a major part in the provision of essential services, we are not the only contributors. We recognise our place in the wider community and within the environment and have continued to work with stakeholders to develop partnership arrangements.

These include a multi-agency bathing water group set up to improve the bathing waters at Burnham, and working with local councils in developing surface water management plans, such as the 'super pond' constructed at Weston-super-Mare.

We have also introduced focused customer information campaigns to improve awareness of water and environmental issues. This has included our Be Smart Love Your Loo campaign to inform customers about the problems caused by non-flushable wipes.

We are passionate about sharing our know-how with young people and last year more than 24,000 students benefited from school visits and trips to our sites. We are also a science, technology, engineering and mathematics (STEM) ambassador and have helped run workshops to promote science and engineering to young learners.

Our Watermark award scheme has been operating for more than 20 years to support organisations with their environmental projects across the region. We also work closely with wildlife trusts and local nature partnerships on areas such as biodiversity.

We argued hard to remove the historical boom-bust investment cycle between five-year price review periods, which was both inefficient and a source of frustration for suppliers. We have implemented a programme which has allowed us to successfully smooth our investment and secure local jobs for the long term.

Not only has this programme helped our supply chain but, as a major regional employer, it has also allowed us to invest in more apprenticeship and trainee programmes.

The quality and dedication of our employees is key to our success. We are developing our future leaders to ensure we have the diverse, fully skilled and fulfilled employees we require to successfully provide on-going outstanding service to our customers, communities and environment.

We take our responsibilities to protect our staff, contractors and customers extremely seriously and continue to embed a strong health, safety and welfare culture in all our operations.

Financial results

Turnover for 2014-15 was £540.3m and profit after tax £140.7m. Capital investment in the year was £198.4m. Operating costs rose by £8.5m to £291.9m, largely as a result of new plant coming on stream to meet new obligations.

We have a simple corporate structure, pay the expected level of corporation and other taxes and are classed by the Inland Revenue as low risk.

Planning for the future

The latest price review covering the five years from 1 April 2015 was extremely tough, reflecting the difficult economic climate. Bills for customers will come down in real terms, investment will be at the highest level ever and we will need to be even more innovative to deliver all the outputs, maintain our industry leading service standards and deliver satisfactory returns to investors.

Our customers were at the heart of the price review; over 24,000 customers and more than 90 organisations were consulted. Our customer liaison panels and the independent customer scrutiny group played major roles and I am grateful to all those involved.

Customers and partnerships will continue to be central to all we do over the next five years as we deliver the commitments we have made, prepare for the opening of a competitive retail market for business customers and tackle the challenges of upstream reform and ongoing climate change.

Wessex Water is extremely fortunate in having an excellent long-term owner, YTL, a loyal, skilled workforce and a first class board of directors. I must particularly thank Peter Costain, who retired from the board during the year after many years of dedicated service. Peter provided wisdom, expertise and an acute sense of the right question to ask.

We are fortunate to have as Peter's replacement Huw Davies, who brings a wealth of financial and construction expertise to the board.

To prepare for the period ahead we have restructured our business and renewed our mission, aims and values. Providing customers with first-class affordable services remains our key aim. Wessex Water is in excellent shape and fully ready to take on the challenges of the next five years.

Colin Skellett, Chief executive

Customers and communities

We put customers and the communities we serve at the heart of everything we do.

We aim to deliver the highest levels of customer satisfaction and increase customer loyalty. We do this by providing what is important to our customers: excellent water and sewerage services, choice in the way they can communicate with us, a real person to answer the telephone, resolving problems quickly and first time, keeping them informed at all times, checking they are happy with the outcome if they have a problem and compensating where things go wrong.

It's often the little things that matter so we encourage our staff to go the extra mile whenever they can.

We remain the top performer in the water sector on customer service and our standards of service and package of customer guarantees are among the best in the industry.

Day to day feedback shows customers are generally very satisfied with our service and see it as good value for money. But we know there is more to do, particularly as new channels of communication become more popular and customers increasingly compare us to the best service providers outside the utility sector.

We also need to recognise that any customer can become vulnerable and so we are committed to ensuring our services are accessible and inclusive for customers at all times. This commitment, combined with effective working partnerships with vulnerable customer organisations and our leading support for customers in financial difficulty, has helped us to build customer confidence and trust.

In brief

- Maintained high levels of customer satisfaction and retained our government Customer Service Excellence award.
- Once again reduced the number of complaints we received – the fewest of any water and sewerage company.
- Topped the water and sewerage company league table in Ofwat's trials of the new look service incentive mechanism (SIM).
- Launched our new look website including a new interactive map detailing where we have projects in progress.
- Used our online customer panels to seek their views on our Wessex Water Promise, free leak repair scheme, sewer misuse and water efficiency.
- Worked with University of Bath on a behaviour change campaign in Salisbury encouraging customers to Be Smart Love your Loo.
- Made great progress on our affordability action plan leading to a 20% increase in the number of low income customers receiving support with their bills.
- Shortlisted for a national Money Matters award for improving financial literacy and money management.
- Demonstrated our commitment to accessible and inclusive services for all by our attainment of the British Standard for Inclusive Services (BS 18477) and the award of the Louder than Words charter mark.
- Ran our Sewage Week during which thousands of customers visited our sewage treatment works.

Topped

the water and sewerage company league table

In detail

Drinking water quality

We are committed to ensuring that the highest quality drinking water remains at the forefront of all we do.

Our overall performance in 2014 was 99.97% – the same as in 2013 and achieved despite the tightening of the standard for lead that took effect at the end of 2013. Compliance has not fallen below 99.95% for the last 10 years.

We successfully completed mains rehabilitation work in Taunton during the year, resulting in significant improvements to local water quality. And we commissioned a multi million pound refurbishment of Sutton Bingham water treatment works, which supplies Yeovil and the surrounding area.

Throughout 2014 customer contacts about water quality were in line with expectations with similar numbers received as previous years. Further reductions in the number of contacts we receive from our customers will be achieved through ongoing investment in our distribution system and improved ways of keeping customers informed.

Customer service

Last year Ofwat trialled its new look SIM and, once again, we emerged as the top water and sewerage company – a result supported by our own satisfaction and value for money surveys.

However, there is more to do and we need to meet customers' growing and more diverse expectations. So it is important that we listen to them and use their feedback to identify ways to improve our services, processes, training and communication, and deal better with those experiencing recurring problems.

To make sure we get this right, we are introducing measures that compare us to the best service providers outside the utility sector.

Alternative communication channels are becoming more and more popular and while we embrace these we do also remain committed to offering choice. So we have retained personal telephone answering, which customers really value, while at the same time expanding self-service opportunities, text messaging and Live Chat.

We continue to work even harder to keep customers better informed when we have problems either on our network, such as a burst water main, or when we are fixing a problem at their own home or premises. Text messaging has proved a great way to keep in touch and let customers know what the problem is, what we're doing to resolve it and by when.

We have also expanded our customer care team so we can give customers a key point of contact while we resolve their problem and can make sure they are happy with the outcome.

Our new look website features employees from across the company so customers can discover more about the people who are delivering high levels of service to them.

The site features a new interactive map enabling customers to find details of local projects in progress.

Complaints fell again, this year by 5%. We are also resolving more complaints first time and have seen a reduction of 5% in escalated complaints.

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.

To complement our Wessex Water Promise we have introduced Simply Thank You, a service enabling us to send bespoke gifts to customers where our service has fallen short of expectations.

We know that our customers have a wide range of needs, abilities and personal circumstances and that a customer can become vulnerable at any time.

Our commitment to accessible and inclusive services for all is demonstrated in our attainment of the British Standard for Inclusive Services (BS 18477), and the award of the Louder than Words charter mark.

And our staff have worked with Wiltshire Mind on mental health awareness training and with the Money Advice Trust on how best to spot signs of financial difficulty.

Customer engagement

Through our online panels we asked customers what they thought about our Wessex Water Promise, free leak repair scheme and saving water.

We want to make sure our policies in these areas meet their needs and after each survey we sent a newsletter to participants explaining the findings and what we are doing as a result.

Affordability, tariffs and debt recovery

For the great majority of customers our bills are affordable but this is often not the case for those on the lowest incomes.

Through our assistance programme, **tap**, we are helping more than 18,000 vulnerable customers to pay ongoing charges and repay debt, while offering practical help to reduce water and energy bills.

Working closely with debt advisers we give each customer a tailored solution to meet their own financial circumstances. In 2014-15 we increased our work with organisations who offer customers telephone and online advice, such as StepChange and National Debtline.

Under the guidance of our expert affordability advisory group we have focused on delivering our affordability action plan to raise awareness of our work and increase take-up of our schemes and low rate tariffs.

The action plan includes a growing number of partnerships with community based organisations and advice agencies and as a result we have increased uptake of our schemes by 20%.

We also made Money Matters awards to a further five organisations running community based financial literacy and money management projects involving young people and vulnerable customers.

Retail competition

We have long supported moves to extend customer choice in the sector and are in the process of preparing for full retail market opening for business customers.

During the year our joint venture billing and customer services provider, BWBSL, separated its business customer operations from its domestic so there is clear separation of costs. We have also formed a shadow board as we move to a greater level of separation.

We have been actively assisting Ofwat and others with the development of the future market rules and have applied to Market Operator Services Ltd which will procure the centralised systems that will allow the market to function smoothly.

Education and water saving

We help customers of all ages to conserve water and with their assistance we have continued to reduce leakage – our aim is to fix all visible leaks within one working day.

We offer free water saving devices through our online shop and a free water home check service and include information in our customer magazine and a range of other leaflets.

We continue to raise awareness of the causes behind sewer blockages and are encouraging people not to flush items such as wet wipes down the toilet.

Last year alone we dealt with 13,000 blockages which cost £5m to clear. Our Be Smart Love Your Loo campaign aims to raise the alarm on this issue and asks customers to do their bit to prevent blockages.

We worked with the University of Bath on a behaviour change campaign in Salisbury to encourage customers not to flush wet wipes.

During the last year more than 24,000 students across our region were among those to benefit from school visits and trips to water and sewage treatment works.

Our three education advisers, who cover Bristol, Bath, Somerset, Wiltshire, South Gloucestershire and Dorset, taught topics ranging from the water cycle to what happens to waste once it has been flushed down the toilet, to students of all ages and community groups,

We are also a STEM ambassador and help run workshops promoting science to young learners.

Watermark awards

For more than 20 years our Watermark award has supported organisations across our region with their environmental projects. Organisations that have benefited include the Butterfly Conservation's Munching Caterpillar education project.

We dealt with

13,000

blockages which cost £5m to clear

Finance

The UK group structure has remained the same since 2002 with the company wholly owned by Wessex Water Limited which is in turn wholly owned by YTL Utilities (UK) Limited. Both these entities are holding companies and neither provides any intra-group funding to the company. Virtually all of the debt raised in the UK group sits within the company and all borrowings are at market rates provided by financial third parties.

Gearing, as measured by net debt to RCV, stands at 62% at the end of AMP5 but incorporating Ofwat's AMP6 opening adjustments and the pension deficit is 70% at the start of AMP6, albeit still at an acceptable level.

During the year the board has continued to pay particular attention to the projected level of the company's gearing ratio with a view, when declaring dividends, to protect the company's existing credit ratings at all times. The board remains committed to maintaining the current level of credit ratings and regards anything below BBB+, or equivalent, as unacceptable in terms of securing ready access to the capital markets as and when required.

With respect to its tax affairs, the company's relationship with HMRC remains open and transparent and HMRC continues to view the company as a low risk taxpayer. Any tax rebate or credit that the company benefits from has been fully discussed in advance with HMRC and is only recorded in the company's accounts after mutual agreement regarding its specific treatment.

For the year just ended the company is reporting a tax credit of £14m which has arisen purely from the first-time adoption of IFRS. The company decided to adopt IFRS one year earlier than the mandatory date to do so.

The company continues to enjoy strong relationships with the banking community including the European Investment Bank and the major UK banks. Financing transactions concluded over the last 18 months, in addition to cash on the balance sheet, means that the company commences AMP6 with a very healthy liquidity position.

In brief

- Operating profit increased by £6.9m to £248.4m with the allowed turnover increases exceeding the additional operating costs in the year.
- The cost of debt fell from 4.3% to 4.1% as we maintained a balanced mix of financial instruments, further increasing profit before tax.
- Profit before taxation of £171.8m incurred a corporation tax charge of £12.8m which was after a £14.3m tax credit arising on first-time adoption of IFRS. The credit related to items of infrastructure income taxed in previous years now recognised as profit and taxed in future years under IFRS.
- Capital expenditure delivered in the year of £198.4m was £25.0m less than last year as we completed the AMP5 programme.
- Gearing, as measured by net debt to regulatory capital value, was 62.4% which is prudent in water sector terms.
- We achieved all our financial Key Performance Indicators (as stipulated by Ofwat) in the year and for the five-year price review period.
- Dividends in the year were declared in accordance with board policy which at all times is to preserve our existing credit ratings and access to new capital.
- This year's financial results have been prepared for the first time under IFRS and the prior year comparative has also been restated under IFRS.

In detail

Financial performance

In the final year of the current price review period the company has delivered a solid set of results, with operating profit increasing by £6.9m or 2.9% from £241.5m to £248.4m. The turnover increase was £15.4m but there was pressure on the cost base, which saw costs increasing by £8.5m.

The company adopted International Financial Reporting Standards (IFRS) for the first time in 2014-15. The impact of adopting IFRS is shown in note 29 to the accounts with the accounting policies being found in note 1. In the first year of adoption the company is required to restate the prior year under the IFRS accounting convention.

Turnover

Turnover increased by £15.4m or 2.9% from £524.9m to £540.3m.

The price increase allowed by Ofwat at 1 April 2014 was 4.6%, comprising November 2013 RPI of 2.7%, a K factor of 1.5% and an allowance for rebalancing the tariffs of 0.4%.

The board of directors decided not to pass the 1.5% K factor increase on to customers and hence the allowed price increase for the year was 3.1%.

Turnover actually increased by less than 3.1% due to the impact of new customers and improving economic conditions in the region being slightly less than the impact of existing customers switching from un-metered to metered supply.

Operating costs

Operating costs (excluding depreciation, amortisation and disposal of assets) increased by £5.3m from £186.9m to £192.2m due to a number of cost pressures:

- the cost of meeting new obligations
- business rates continuing to rise through the central government valuation process
- inflation
- increased activity on non-tariff basket activities (matched by increased turnover)
- bad debts
- one-off central costs.

Capital investment

In 2014-15 we delivered gross capital expenditure of £198.4m, which is £25.0m lower than the £223.4m delivered last year. This profile is typical of a five-year capital programme where the largest expenditure is in year four to ensure all outputs are delivered by the end of year five.

However, in the year we also began design work on our AMP6 programme which has enabled us to maintain a smooth flow of work to our supply chain across the two price review periods.

At the end of the five-year price review period our capital expenditure represented 86% of the Final Determination allowance.

In 2014-15 we have delivered all regulatory outputs including major capacity and compliance projects at Taunton, Glastonbury, Wells and Mere. Our catchment management programme continued across 15 catchments and the integrated water supply grid is now more than 50% complete.

Depreciation

Depreciation costs increased by £3.2m from £96.5m to £99.7m. Under IFRS the infrastructure maintenance charge has been replaced by an IFRS repairs charge and depreciation of underground assets. There was a £3.9m increase in the depreciation of above ground and below ground assets and a £0.7m reduction in the cost of disposal of fixed assets.

Interest charges

Interest charges decreased from £81.1m last year to £76.6m this year. The £4.5m decrease was split between an interest payable reduction of £3.9m, a £1.1m reduction in the interest costs associated with pension accounting and a £0.5m decrease in interest receivable.

The £3.9m decrease in interest payable arose because the impact of the fall in the cost of debt from 4.3% to 4.1% in respect of floating rate and index linked borrowings was greater than the additional interest on the increase in net debt during the year, which rose from £1,840.3m to £1,847.9m.

There is a prudent mix of debt between fixed rate, index linked and floating rate instruments. At the year end the debt split was 45% fixed, 37% index linked and 18% floating, with the index linked debt based on either November or March RPI. The maturity of debt is generally long term with £1,575m of debt maturing after 2020.

Taxation

The corporation tax charge in the year was £12.8m, a small increase on £12.5m last year.

In 2014-15 there was a £14.3m tax credit on first time adoption of IFRS. The credit related to items of infrastructure income taxed in previous years now recognised as profit and taxed in future years under IFRS.

In the prior year there was a £16.7m credit which was a result of an industry-wide agreement with HMRC for the re-categorisation of capital allowances from Industrial Buildings Allowances (IBA) into Long Life Plant. The agreement followed the government decision to reduce the IBA over a period from 4% in the year to March 2008 to zero in the year to March 2012.

In addition the corporation tax rate reduced from 23% last year to 21% this year.

Corporation tax is paid to HMRC quarterly. The company has a statutory year end of 30 June and the tax computation is prepared for the 12 months to 30 June each year.

We use an independent expert to ensure correct capital allowances are claimed. We take a prudent approach to tax affairs, claiming the tax relief to which we are entitled, but not submitting complicated tax schemes that could endanger our relationship with HMRC.

Deferred tax has moved significantly from a credit of £13.1m last year to a charge of £18.3m this year. Both of these years have been restated under IFRS which has no deferred tax discounting.

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 has agreed to ensure that pensions adjusted gearing stays at or below 70% in order to maintain its current credit ratings and give the company continued ready access to the capital markets.

Cashflow and gearing

Net debt increased by £7.6m from £1,840.3m to £1,847.9m. This comprised:

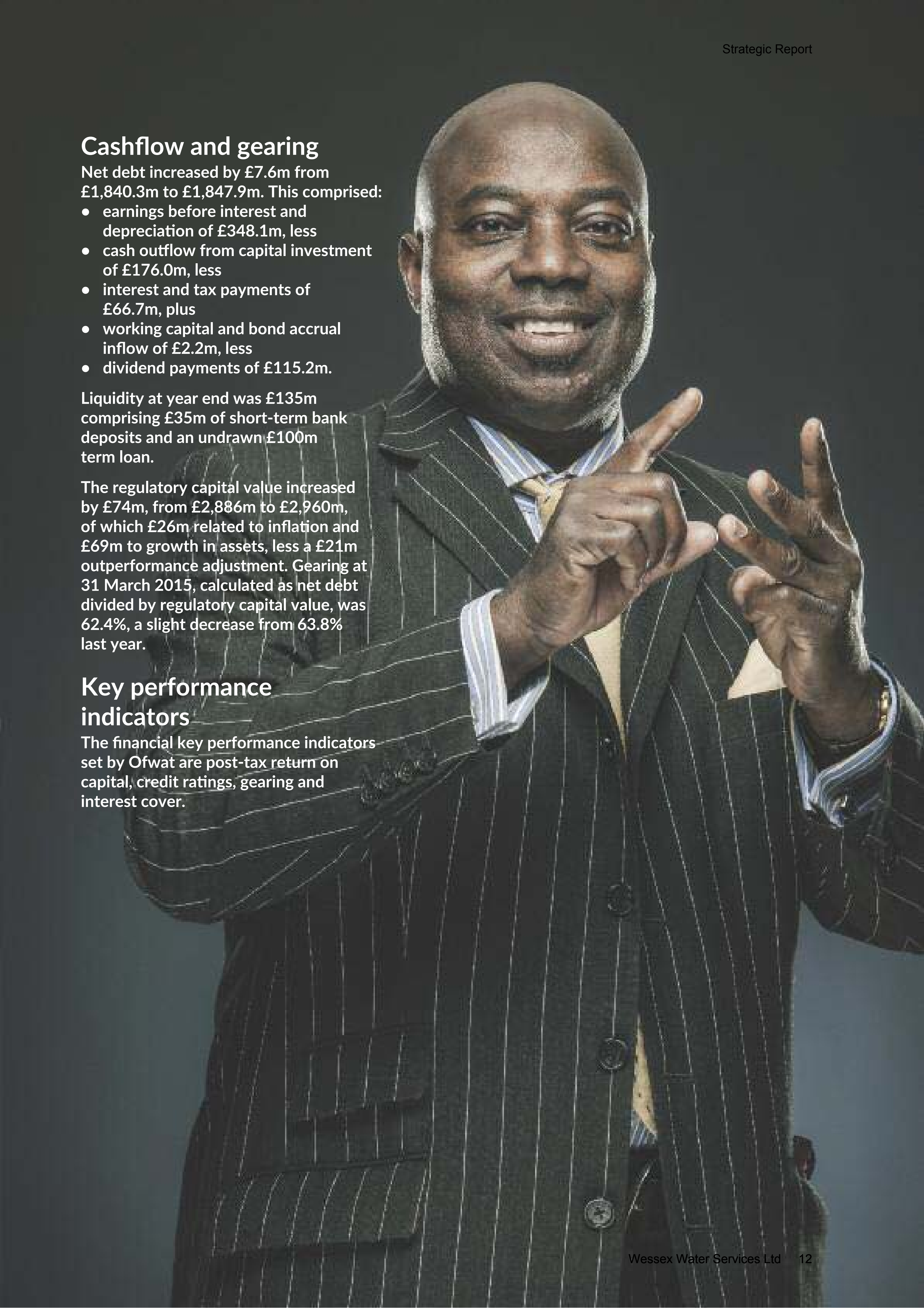
- earnings before interest and depreciation of £348.1m, less
- cash outflow from capital investment of £176.0m, less
- interest and tax payments of £66.7m, plus
- working capital and bond accrual inflow of £2.2m, less
- dividend payments of £115.2m.

Liquidity at year end was £135m comprising £35m of short-term bank deposits and an undrawn £100m term loan.

The regulatory capital value increased by £74m, from £2,886m to £2,960m, of which £26m related to inflation and £69m to growth in assets, less a £21m outperformance adjustment. Gearing at 31 March 2015, calculated as net debt divided by regulatory capital value, was 62.4%, a slight decrease from 63.8% last year.

Key performance indicators

The financial key performance indicators set by Ofwat are post-tax return on capital, credit ratings, gearing and interest cover.



Environment

We aim to provide high quality, sustainable water and environmental services, while protecting and improving the environment. Resources and services provided by the environment are central to our work and we take care to minimise our impacts on water, land, the atmosphere and biodiversity.

In brief

- 100% compliance with abstraction licences.
- 100% compliance with sewage discharge consents (sanitary standards) and 99.7% compliance with all standards.
- No prosecutions.
- Above average performer according to the Environment Agency's annual Environmental Performance Assessment.
- Lowest number of total pollution incidents.
- Continuation of Frome and Piddle catchment initiative – a Defra sponsored collaborative project, to test the catchment based approach – and the launch of a similar initiative in the Bristol Avon.
- Awards for our gas to grid and Bio-Bus projects (Rushlight Awards), for energy demand reduction at Chilton Trinity sewage treatment works and for energy data collection and analysis (The Energy Awards).
- Findings of earlier environmental investigations built into our business plan for investment during 2015-20.

In detail

Environmental performance

Following an increase in pollutions in 2013, we implemented a pollution action plan which has seen the number of pollutions reduce in 2014. In particular, the number of serious incidents halved from six to three. However, we know that more needs to be done to deal with changing rainfall patterns and we have committed to further major investments over the coming years.

We maintained industry leading effluent discharge consent compliance from our sewage treatment works at 99.7%.

Bathing waters

Once again all bathing waters in our region passed the EU's mandatory compliance standard.

The revised Bathing Water Directive takes effect in 2015 and means that our Coastwatch spill notifications to councils and beach managers are of increasing importance for compliance. We have worked with the Environment Agency (EA) and others to identify sites that will need further improvement between 2015 and 2020.

Planned work includes sewer improvements in Bridgwater and ultraviolet disinfection of storm spills at Highbridge, both of which will improve water quality at Burnham-on-Sea

We have approached the EA to explore the potential for cost and carbon saving by switching off ultraviolet plants at certain sewage treatment works during the winter – sites where treatment has been provided purely to achieve bathing water compliance but the bathing waters are not used.

If the agency agrees in principle, we will first need to prove minimal use outside the bathing season by surveying the relevant beaches – this is planned for winter 2015-16.

In February 2015 we launched a consultation to collect the views of a wide range of interested parties. We are targeting bathing waters on our north coast, eg, Minehead and Berrow.

Water resources

Groundwater levels were above average for most of the year, although a very dry September meant that the winter recovery was slightly delayed. Reservoir storage was particularly healthy, never dropping below 67% full.

Our water resources management plan was published in June 2014. It sets out how we will balance water supplies with water demands while protecting the environment for the next 25 years.

The plan included changing abstraction licence conditions for five sources by 31 March 2015 to ensure that continued abstraction from these sources is environmentally sustainable. These changes have been made and further abstraction licence changes will be made on completion of the grid scheme.

Catchment services

We have continued our catchment management work to try and solve the impact of nitrates and pesticides on drinking water quality by working with farmers rather than adopting the more traditional, but less sustainable and more expensive, approach of end-of-pipe treatment.

Following two very wet winters in 2012-13 and 2013-14 the last winter was a lot drier. This meant that we did not see the peak levels of nitrate in the water sources that we had seen during the wetter winters of previous years.

Our work to control the level of pesticides, and metaldehyde in particular, continues to be industry leading. The voluntary 'no use' approach that we have championed appears to be the only way to successfully avoid metaldehyde reaching rivers and reservoirs.

In AMP6 the catchment work will be expanded to a further six nitrate sites and an additional two sites for pesticides. We will also be working with farmers in the catchments of our reservoirs to reduce the nutrient (nitrogen and phosphorus) load entering the reservoir. These nutrients encourage the growth of algae which make the water much more difficult to treat.

Environmental investigations

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

We delivered 27 environmental investigations covering a number of sites, river reaches and aquifers during AMP5, providing data and evidence to ensure that environmental investment decisions have been based on sound science.

The results of this work have informed our AMP6 business plan, providing the following innovative solutions and delivering the best environmental outcomes at the lowest cost to customers.

- The first catchment permitting trial in the UK. In the Bristol Avon catchment we will be piloting a catchment scale permitting trial to limit phosphorus discharges from our assets. This is £25m cheaper than traditional solutions but delivers the same level of Water Framework Directive compliance.
- The first nitrogen offsetting trial in the UK. In the Poole Harbour catchment we will be working with farmers to reduce nitrate runoff and leaching into the River Frome. This helps to reduce contributions at source rather than constructing a £6m nitrogen removal end-of-pipe treatment plant at Dorchester sewage works.
- Trialling different compensation flow releases at our reservoir sites to provide more naturalised river flows, enabling ecological potential in downstream waterbodies to be achieved.

Wildlife and conservation

We have extensively surveyed our key conservation sites over the last five years, resulting in changes to their management. The benefits of this work to wildlife and local communities include:

- implementation of Higher Level Stewardship (agri-environment agreements) at land surrounding Sutton Bingham reservoir, resulting in improvements to our hay meadows and woodlands
- improvements to the nature trail at Clatworthy reservoir and new visitor information highlighting the wildlife visitors may see at our major reservoirs, and improvements to the ancient hillfort
- two new pedestrian bridges at Sutton Poyntz to protect our Site of Special Scientific Interest (SSSI) and provide safe access for the public into our woodland
- improved management of SSSI heathland at Nutscale reservoir, agreed with Natural England, and a new bridge to facilitate access for this conservation work
- work at a significant scale to remove invasive non-native plants from our land.

In addition we have improved access to our Bleadon Levels nature reserve, adjacent to Weston-super-Mare sewage works. On this site, we manage nearly 19 hectares of saltmarsh and tidal creek habitat as well as a further eight hectares of grassland, reedbed and open freshwater lagoons. This year we have improved the footpaths, signage and displays and erected two new bird hides.

Our management of nearly 300 hectares of land designated as a SSSI ensured that the condition of these vital habitats exceeded government targets: 99.5% of our SSSIs were assessed as being in favourable or unfavourable but recovering status.

The wildlife projects funded by our Biodiversity Action Plan Partners Programme have also been very productive over the last five years. These include scientific research, partnership working and activities that align with our core services.

Highlights include:

- South Wiltshire Farmland Bird Project: a specialist adviser has worked with 119 farmers in southern Wiltshire to provide more than 800 hectares of farmland bird habitats, including safe nesting areas, summer insect food and winter seed food
- Dorset Wild Rivers:11km of river has been restored since 2010 and more than seven hectares of wet woodland have been planted with nearly 5,000 trees
- Buglife's Wessex Springs and Seepages for Invertebrates: identifying the habitats of rare insects such as the Cliff tiger beetle, Southern damselfly, Bog hoverfly and Southern yellow splinter to guide future management to help conserve populations.

We will be supporting the following projects between 2015 and 2020:

- South Wiltshire Farmland Bird Project – Cranborne Chase AONB
- Dorset Wild Rivers – Dorset Wildlife Trust
- Wessex Chalk Streams Project – Wiltshire Wildlife Trust
- Restoring coastal and floodplain grazing marsh in the North Somerset Levels – Avon Wildlife Trust.

Carbon management

One of our long-term sustainability goals is to be carbon neutral in our annual operations. This requires efforts to avoid greenhouse gas emissions, improve energy efficiency and increase renewable energy generation.

Nearly three quarters of our carbon footprint is due to electricity use, which increased steadily between the early 1990s and 2010 due to tighter sewage treatment standards. Through our energy management group we continue to work on improving energy efficiency and identifying unnecessary power use.

Much of this work involves close investigation of electricity consumption data to pinpoint sites using more power than we would expect, allowing focused maintenance and improvements to be carried out.

Our energy data hub initiative received an award at The Energy Awards 2014 for its success in gathering data from 2,500 sites and providing clear and accurate energy use information to managers and operators alike.

Our energy use is also closely linked to the weather. Dry conditions such as those experienced in 2011-12 result in less use of energy for pumping, while the very wet weather of 2012-13 and winter 2013-14 saw the opposite, with a lot of additional pumping needed to maintain a good sewerage service to our customers.

With rainfall close to the long-term average during 2014-15, the benefits of our energy efficiency work have been more evident, rather than being cancelled out by adverse weather conditions as in previous years.

We installed a 50 kW solar photovoltaic array on the roof of our refurbished water treatment works at Sutton Bingham in Somerset. We also completed a facility for exporting biomethane from Bristol sewage treatment works, operated by our subsidiary business GENeco, to the local gas grid.

The exported biomethane, produced from the biogas that originates in anaerobic digesters at the site, equates to the gas use of 8,300 homes. The biomethane is also being used to power a bus being operated by First West in Bristol, that is capable of running for 300km on a single full tank.

Employees

Wessex Water is proud of its people, their professionalism and their exceptional commitment. The efforts, skills and goodwill of our employees are central to our success and to maintaining our reputation as a leading and trusted employer.

We take pride in equipping our employees with the skills and expertise they need to be successful in everything they do. We ensure they have the technical, legal, regulatory, leadership and management skills they require to provide an outstanding service to our customers, the company and each other.

We have continued to focus on attracting existing and new skills into the business with a commitment to developing staff to their full potential through a range of development programmes. Our Institute of Leadership and Management level 5 and Chartered Management Institute level 7 strategic programmes have been an outstanding success this year.

Our apprenticeship programmes continue to be a key focus and this year we had the first intake of our engineering apprenticeship scheme. We continue to develop new apprenticeship programmes with the objective of providing young people with career and skill development opportunities and building a strong and skilled workforce for the future.

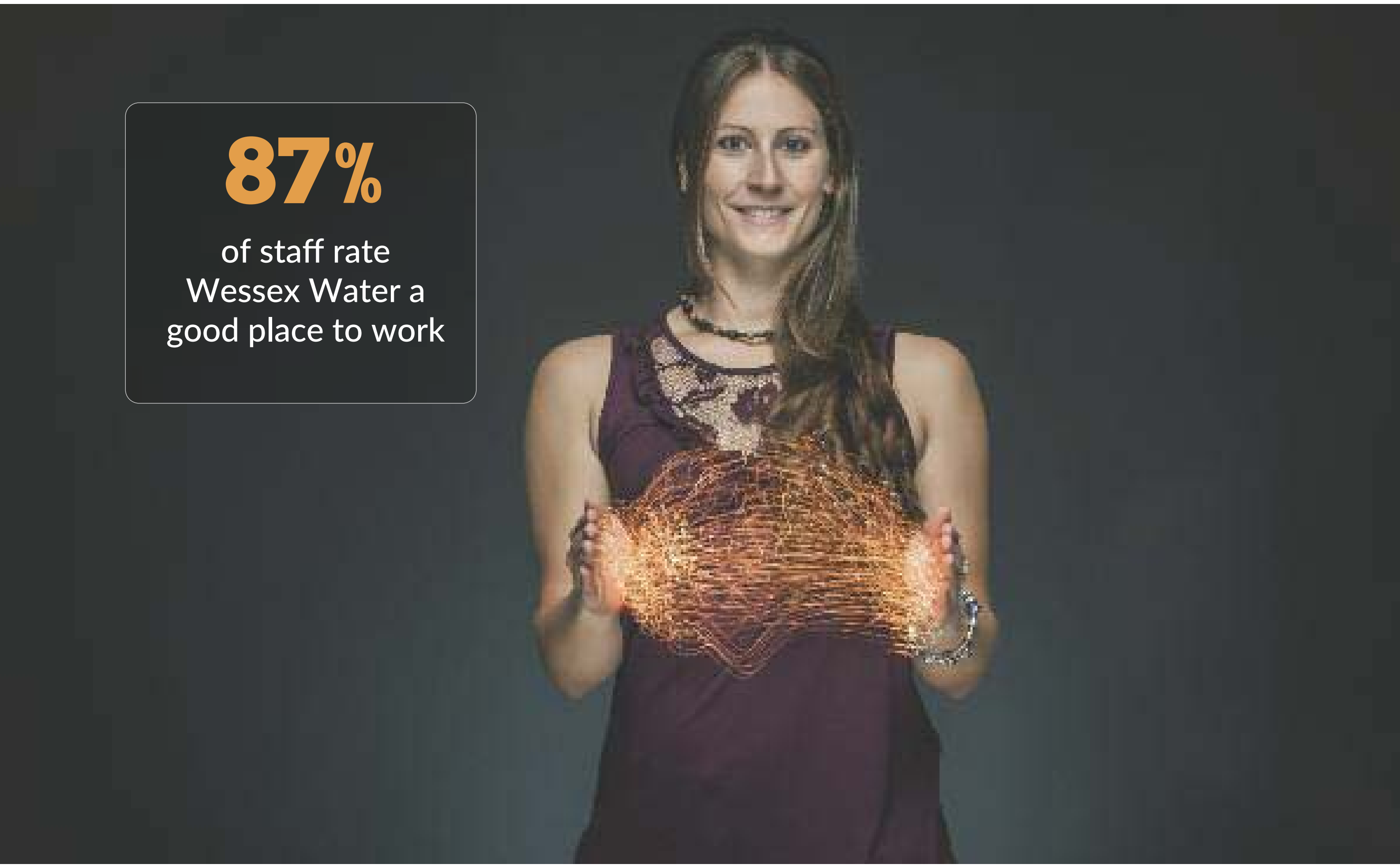
Promoting diversity and inclusion in our workplace has been important again this year with the development of a diversity strategy, action plan and diversity scorecard.

We take pride in looking after the wellbeing of our employees and providing them with a variety of employee benefits.

Protecting the health, safety and welfare of our staff, contractors and customers remains vital with new programmes planned for next year.

In brief

- A strong and engaging culture.
- Leadership development programmes – two intakes studying Institute of Leadership and Management level 5 programme and one intake of the Chartered Management Institute level 7 extended diploma in strategic leadership.
- An average of three days' development training for all staff.
- 99% retention rate of apprentices.
- Development of a diversity strategy, three-year action plan and diversity scorecard.
- Good safety performance with a renewed focus on behavioural safety and near miss reporting.
- A revised health, safety and welfare strategy ensuring we deliver continuous improvement and best practice over the next five years.
- We received health and safety awards from the British Safety Council (international safety award merit) and the Royal Society for the Prevention of Accidents (gold safety award).
- Continued focus on supporting employees with professional development through a range of professional and chartered institutes.



In detail

Training

We are committed to offering all our staff the training and development they need to do their jobs to the highest standards. We encourage progression through learning and ensure that all those looking to build a career with us have the opportunity to do so at a level and pace that suits both them and the company.

Current and future management and leadership remains a priority for us and along with our accredited level 5 and level 7 management and leadership programmes, we run a range of management development schemes aimed at supporting our leaders from new manager to senior management level.

On average we deliver a ratio of three days' training for each member of staff per year. The majority of our training schemes are health and safety, technical and craft programmes ensuring our people are highly skilled and competent, keeping themselves, their colleagues and our customers safe at all times.

Our apprenticeship schemes continue to flourish across the business and we continuously monitor and update our schemes in order to ensure young people are given the best training possible.

Our apprenticeship retention rate is 99%, supporting our mission to recruit, develop and retain competent people in order to build a strong and skilled workforce for the future.

We continue to actively support staff to complete professional development through a range of accredited professional development bodies relevant to our industry. We currently have 30 employees undertaking study to achieve professional qualifications.

Diversity

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

This year a diversity taskforce of senior managers finalised a diversity policy and action plan aimed at ensuring there is continued and improving equality, diversity and inclusion in our workplace.

We have published our diversity and inclusion policy and action plan, introduced shared parental leave, reviewed maternity and paternity leave policies and developed a diversity scorecard and monitoring system.

The diversity and inclusion scorecard will be reported to our board's corporate responsibility committee on a six-monthly basis and will be published on our intranet. The diversity scorecard records our progress in achieving the goal of strengthening our position as a diverse and inclusive company.

We currently have 2,306 employees, of whom 610 are women and 1,696 are men.

There are 13 directors, of whom 11 are men and two are women, and 46 senior managers of whom seven are women and 39 are men.

Culture

We have a strong, friendly and positive culture and staff enjoy working for the company and with each other. Our employees are highly engaged, with 87% of staff rating Wessex Water a good place to work.

This year, we reviewed our company mission, aims and values. Our mission is to be the best water and environmental services company.

"We have a strong, friendly and positive culture and staff enjoy working for the company and with each other."

Our aims are to provide customers with excellent affordable services, protect and improve the environment, be a great place to work in which all employees can reach their full potential, and give our investors a good return.

Our values are:

- behaviours – we respect and value everyone's contribution and always operate with integrity and openness
- excellence – we aspire to excellence in everything we do
- service – serving customers is at the heart of our business and we always go the extra mile
- teamwork – we are one team working together to deliver our mission.

We are launching a programme aimed at further strengthening and improving our culture and embedding and measuring our behaviours, ensuring we act as one team and keep customers' interests at the heart of everything we do.

Health and safety

Protecting the health, safety and welfare of our staff, contractors and customers remains an established and shared responsibility that is essential to our reputation as a leading and trusted employer.

We continue to develop and embed a strong health, safety and welfare culture in our day-to-day operations, based around Safety, Quality, Time and Cost, that targets zero accidents. We acknowledge that this does not mean there won't be another accident, but we aim to work for as long as possible without an injury.

In 2014 we saw an increase in the number of incidents that were reportable to the Health and Safety Executive, particularly in the period September to December 2014.

This is disappointing given that we have established controls to reduce levels of risk and injury. To ensure we learn from each of these incidents, all significant injuries or incidents with the potential to cause serious injury are investigated and root cause analysis is completed to allow areas of concern to be identified and to assist in developing our overall safety culture.

In 2014 the principal areas of concern were:

- risk perception and inattention of workers
- risk management and safe systems of work.

A number of safety initiatives have been put in place to improve these areas and include:

- near miss reporting in operations
- Make it right – a behavioural safety campaign in engineering and construction
- Check 5 – a dynamic risk assessment that provides an opportunity for everyone to challenge themselves and others to ensure safety comes first.

As we enter a new asset management plan period we have revised our health, safety and welfare strategy to ensure that we deliver continuous improvement. The strategy will further enhance our safety culture and be based around four integrated themes.

Progress against targets to deliver these four themes will be monitored and reviewed by our health and safety management group, who will be responsible for reporting performance to our board of directors.

Infrastructure

We aim to manage and maintain our assets by ensuring they operate efficiently and effectively, providing high quality services to our customers and the environment. We fully integrate sustainability principles and practice into the delivery of our capital programme and selection of solutions.

In brief

- £198.4m invested to maintain and improve services to our customers and environment.
- Largest infrastructure investor in the region providing more than 1,000 jobs directly in constructing new assets and in the regional supply chain.

The last year saw the conclusion of the five-year investment programme that we began in 2010. Over the five years we have:

- met all our regulatory outputs
- progressed our water supply grid, a key component of our 25-year water resource plan
- completed our mains rehabilitation programme, including work in Taunton to improve the appearance of the water
- invested to reduce sewer flooding and worked in partnership with councils to reduce flood risk
- renovated more than 50km of water mains and 20km of sewers
- completed a major investment scheme at our Weston-super-Mare sewage treatment works (STW) to help improve the bathing water quality. Invested in additional treatment at seven STWs to remove nutrient (phosphorus) and a further six STWs to improve river water quality
- completed a major investment scheme at Trowbridge sludge treatment centre to provide a new advanced digestion plant and at Berry Hill and Taunton to extend and improve the existing conventional digestion.

In detail

Leakage

We met our leakage target for the year despite the long hot summer of 2014 causing challenges because of ground shrinkage. We deployed extra detection and repair resources through the winter to achieve a satisfactory position by year end.

Sewage flooding

Last winter saw typical levels of rainfall which provided a respite from the two wettest winters of 2013 and 2014. We have produced emergency plans so that in future we are better prepared to deal with emergency flooding conditions caused by groundwater inundation.

We are delivering a prioritised programme of infiltration reduction plans at catchments that have suffered, although many of the problems can only be resolved through a partnership approach with other flood risk management authorities, such as local authorities and the Environment Agency (EA).

Work continues with unitary and local councils in developing surface water management plans and flood management strategies. This included a scheme in Weston-super-Mare where we worked with North Somerset Council and the EA on the construction of a 'super pond' to make space for flood water.

We have invested more than £9m to reduce the probability of flooding at 129 properties and external areas in the past year. Our £40m AMP5 flooding programme successfully achieved our regulatory commitment of removing more than 527 properties and areas from the flooding risk.

Asset management

Our asset management framework has helped us develop a more integrated approach to risk and investment decision making. We have maintained our certification to the new international standard for asset management, ISO55001:2014.

A key component of this framework has been the implementation of work and asset management systems and these are being extended to all parts of the business to enable us to continue improving our asset knowledge and operational efficiency.

For the eighth consecutive year serviceability was assessed as stable using Ofwat's criteria. We have retained two of the underground asset condition indicators (mains bursts and sewer collapses) as part of our performance commitments for the next five years.

Infrastructure improvements

In Taunton we completed our £16m investment to modernise ageing water mains. The work has both improved the appearance of the water and provided increased security of supply. This completes our AMP5 mains rehabilitation programme.

We continue to use no-dig techniques to replace water mains, thus minimising the impact on customers and businesses during construction. In total over the past five years we have replaced more than 250km km of our underground water mains.

Implementation of our water supply grid has passed the half-way point. During the year we completed construction of four new service reservoirs in Dorset and pumping stations at Monkton Deverill and Sturminster Marshall are well advanced.

Large sections of the transfer pipeline have been laid, including a crossing over the River Stour. We completed four schemes to eliminate the standalone nature of some of our sources and the overall project is scheduled to be completed by 2018.

With respect to our sewerage networks, in 2014-15 we completed 11km of structural renovation and a further 9km of sewer sealing to make our sewers watertight against groundwater inundation. In total over the past five years we have completed 75 km of proactive sewer improvements.

We have completed our AMP5 combined sewer overflow (CSO) improvements in Bristol. This £30m programme improved 63 CSOs in the period 2010-2015. In 2014-15 we invested almost £5m to improve 12 CSOs including an innovative solution using real-time control.

We completed schemes at sewage treatment works in Glastonbury and Wells, to reduce levels of phosphorus discharged into rivers on the Somerset Levels.

We also installed phosphorus removal at Paulton STW to further protect the River Avon. At Taunton, Mere and Iwerne Minster sewage works we completed major schemes to improve the quality of the effluent discharged to the rivers from these works.

We also completed construction of major extensions to Christchurch sewage works to provide additional treatment capacity.

At Wimbleball dam in Exmoor we successfully completed a complex project to replace the grout curtain under a 50 metre high concrete dam. Leakage under the dam is now at its lowest level since its construction in the late 1970s. This work was undertaken in conjunction with South West Water.

Innovation

Innovation is a central theme across our business. Many of the most promising innovations come via our employees, through their work to improve the efficiency of our operations and the decisions taken for asset investment. Our Eureka! programme directly rewards staff who have implemented projects that save money, improve service to customers, reduce risk and improve our working methods in general.

The most successful ideas in 2014-15 involved new gear boxes in the mixers at Maundown water treatment works; a method for improving the efficiency of the methanol dosing system at Poole sewage treatment works and an upgrade to the pumping system at Tucking Mill to avoid importing higher cost water from Bristol Water.

We also carry out trials of new technology that are being introduced by other companies. Trials in the last year or planned for the year ahead include remote methods for chemical dosing at sewage treatment works (using programmable pumps and temperature sensors); units that measure the uptake of oxygen within activated sludge chambers in order to optimise aeration; a 'double-packer' that allows sewer rehabilitation work to continue during wet weather when there are high flows of rainwater in the sewer; and a solar powered unit that emits ultrasound waves to inhibit the growth of algal blooms in water supply reservoirs.

We invested more than
£9m
to reduce the probability of flooding

One trial in 2014-15 has been recognised as a world first. This involves a waste water meter developed in conjunction with Dynamic Flow Technologies Limited and Elster Water Metering. This uses non-invasive microwave technology to measure trickle flows as low as 0.02 litres per second, up to virtually full bore flows. If successful, this innovation would greatly assist customers who would prefer to pay for sewerage services based on measured volumes of waste water that they generate, instead of estimates.

Our joint research programme with the University of Bath continued during 2014-15. The five main themes are:

- low energy nutrient recovery from sewage
- methods for increasing biogas from sewage sludge digesters
- emerging pollutants in waste water
- customer engagement to discourage disposal of inappropriate items in toilets
- and improved techniques for comparing the whole life costs of physical assets and catchment management.

This year also saw the launch of a water innovation and research centre at the university. This will enable further research into water technologies and resource management, contributing to future water policy and the development of innovative sustainable water treatment systems.

Looking ahead to 2020

Our business plan was submitted to the water regulator Ofwat in June 2014 following an in-depth customer consultation exercise which involved obtaining the views of more than 24,000 customers and 90 organisations such as Which? and Citizens Advice – our biggest ever consultation with customers.

The plan set out how we expect to perform against nine long-term promises that we developed in consultation with customers. This consultation was overseen by an independent customer scrutiny group which submitted its views on the plan.

Ofwat published its final decision in December 2014 explaining the levels of bills and the service levels it required between 2015 and 2020.

A new business model

The business model developed at privatisation has been effective over the past 25 years and has brought significant benefits for customers and the environment.

Now is the time for a change to a new business model and the industry needs a new sustainable direction.

In the period up to 2020 we will:

- deliver higher levels of service alongside continued environmental improvements through a £1.2bn investment programme
- meet or exceed all our statutory obligations while keeping investment as low as possible through innovation.

Benefits for customers

We will:

- keep average bill rises below inflation for the next five years
- continue to provide the highest levels of satisfaction and service in the industry
- extend **tap** – the most extensive range of affordability measures in the UK
- give customers more choice in the way they deal with us and further extend our interactive digital communications
- complete our water grid and provide greater security of supply together with the opportunity to trade water
- improve the resilience of our services, halving the number of properties fed from one source and solving flooding problems
- reduce leakage further and aim to fix reported leaks within a day
- replace customers' leaky and lead pipes free of charge
- maintain and operate pumping stations previously owned by customers
- provide more on-site services and tariff choices for business customers
- introduce an independently chaired customer advisory panel made up of consumer organisations to hold us to account.

Benefits for the environment

We will:

- reduce water abstracted from sources affecting rivers with low flows by 25Ml/day
- remove more than 250 tonnes of unwanted nutrients from rivers in our region
- aim to have no significant pollution incidents from our assets
- extend our innovative catchment services to achieve environmental improvements in a less costly and more effective way
- improve bathing waters
- ensure greater biodiversity in our landholdings
- reduce our carbon footprint by 20%
- continue to target 100% compliance with our environmental permits
- introduce an independently chaired catchment panel to monitor our environmental performance and encourage catchment based solutions.

Impact on our investors

Returns to our shareholder through dividends will be reduced and our shareholder is accepting greater risks in the implementation of our plan.

How we are delivering our plan

As well as sharing with customers the efficiencies we have delivered in the last five-year period we are taking further steps as part of a new business model, including:

- meeting tough efficiency targets
- using innovative catchment services approaches to achieve environmental improvements in a less costly way, supported by improved incentives to encourage customers to save water
- taking opportunities to programme improvements over a longer timescale, completing them post 2020 in some cases so we invest based on good scientific evidence and deliver greater value
- further targeting our asset maintenance plans by finding more efficient ways to maintain services and by monitoring our network in real-time.

With an expected total expenditure plan of £1.8bn we have a programme of works to deliver major investments to:

- complete our integrated water grid
- begin our north Bristol sewerage programme
- make improvement works to help the water quality at Burnham Jetty bathing water.

Detailed case studies of our major investments and details of our work programmes near you are available from our website.

Performance indicators

We monitor a number of performance indicators that reflect the service, compliance and environmental standards that are most important to our customers and regulators. Key performance indicators that Ofwat asks us to publish annually as part of a balanced approach to regulation are shown below.

Key performance indicators	Performance level			Performance vs five-year average	Status against 2014-15 target
	Five-year average	2013-14	2014-15		
CUSTOMER EXPERIENCE					
Service Incentive Mechanism (out of 100)	85	87	87	Better	●
WATER SUPPLY					
Water quality compliance	>99.9%	>99.9%	>99.9%	Same	●
Supply interruptions (hours per property)	0.5	0.4	0.3	Better	●
Total leakage (million litres per day)	70	69	69	Better	●
Security of supply index	100%	100%	100%	Same	●
Serviceability non-infrastructure	Stable	Stable	Stable	Same	●
Serviceability infrastructure	Stable	Stable	Stable	Same	●
SEWERAGE					
Repeat flooding incidents	70	64	45	Better	●
Serviceability non-infrastructure	Stable	Stable	Stable	Same	●
Serviceability infrastructure	Stable	Stable	Stable	Same	●
ENVIRONMENTAL STANDARDS					
Discharge permit consent	99.3%	99.0%	99.7%	Better	●
Pollution incidents (sewerage) per 10,000km	40.9	48.2	44.1	Worse	●
Serious pollution incidents (sewerage) per 10,000km*	0.9	3.5	1.7	Worse	●
Satisfactory sludge disposal	100%	100%	100%	Same	●
Greenhouse gas emissions (000t CO_2 eq)	151	144	148	Better	●
FINANCIAL					
Post-tax return on capital	6.2%	5.9%	6.3%	Better	●
Credit rating	A3/A-/BBB+	A3/A-/BBB+	A3/A-/BBB+	Same	●
Gearing	64%	64%	62%	Better	●
Interest cover	3.4	3.6	4.0	Better	●

No official SIM this year as Ofwat has been consulting on the new SIM methodology and trialling its new satisfaction survey. The new SIM went live in April 2015. To monitor our performance this year and calculate a SIM score based on the old methodology, McCallum Layton have conducted monthly replicas of the old SIM satisfaction survey and we have continued to monitor the contact and complaints metrics. As well as the key performance indicators that Ofwat requires we have also included the water quality compliance measure as an important indicator of both our service to our customers and specific compliance.

The extremes in weather over the year have resulted in a higher than five-year average number of pollution incidents, although there has been a significant improvement on last year's performance.

The previous five-year figures for greenhouse gas emissions have been revised as a result of DECC recalculations of the grid electricity emission factor post published figures.

Principal Risks

The management of risk is of fundamental importance to the Company, in the interests of avoiding both financial loss and customer dissatisfaction. Customers, regulators and the press have increasing expectations and are less willing to accept failure. 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 a tiered system of groups from operational staff, senior management, executive directors and the Wessex Water Services Limited Board. The Board reviews and holds ultimate responsibility for the risk process and for the identification and mitigation of risks.

Wherever possible, a risk is measured by its potential financial and environmental impact in the next five years, whether direct or indirect, including any possible impact on the price review process. A Risk Group meets twice a year and submits the current corporate risk register and summary report to an Executive Group, again meeting twice a year.

The Executive Group scrutinises and challenges the risks included within the register and requires additional work where necessary to better classify the risk or explore other mitigation methods which may be available.

The Chief Executive submits an annual risk review paper to the Board for its review and agreement. This paper details the risk review process, identifies the current principal risks to the business and the mitigation measures in place. It also records the status of emergent risks that have been identified and provides details to the Board of any changes in the National Risk Register (NRA) and the National Resilience Planning Assumptions (NRPAs).

The nine principal risks identified and agreed by the Board are:

1. **Government/regulatory action.** Changes to legislation or other regulatory action can adversely affect the way in which the business operates and its profitability. In particular risks related to the preparation for retail market opening are being kept under review. Relationships with politicians and regulators are maintained so that the Company's views are heard about the impact on the Company and its customers of any proposed legislative changes.

2. **Digital security.** The Security Service has identified the growing threat of cyber-attack or industrial espionage as a high risk to both businesses and utilities. This is particularly important for Wessex Water assets that are considered part of critical national infrastructure. The Company also holds and processes large quantities of data which are considered sensitive within the meaning of the Data Protection Act. Failure to process and protect the data in the prescribed manner is an offence. Additionally the Information Commissioner can take enforcement action which would require the Company to take prescribed actions for improvements in the future. A quarterly Information Security Forum has been setup to maintain the focus on mitigating this risk.

3. **IS business resilience.** Most activities undertaken by the business are reliant on the availability of IT services and facilities, and the Company continues to examine ways in which IT resilience can be maintained and where appropriate improved. In particular, the IS team are currently implementing a technology enhancement programme enabling real time site to site data replication that will vastly improve the current system recovery times in the event of a disaster situation.

4. **Inappropriate staff actions.** Considerable damage could be done to the reputation of the Company by a rogue or radicalised employee or contractor. References are obtained for all new starters whether permanent or contract. DBS checks are undertaken for all new permanent and fixed term staff.

5. **Major pollution incident.** Control of the escape of polluting matter to the environment is central to the Company's business. Significant effort is made to prevent such an incident occurring through staff adherence to Company processes and procedures. New staff are trained in these processes and procedures and their importance. Local Emergency Plans are in place to protect the local environment at key installations.

6. **Health and safety incident.** Serious injury or death of a staff member or third party could expose the Company to prosecution under health and safety legislation and the Corporate Manslaughter Act. Health and safety processes and procedures are implemented via staff training and regularly monitored to maintain compliance and protect people from harm.

7. **Unfit water.** A major failure of process or contamination of the water supply is a key risk. Significant effort is made to prevent such an incident occurring through staff adherence to Company processes and procedures. New staff are trained in these processes and procedures and their importance.

8. **Availability of new finance.** The bond markets are used extensively to fund new investment. The current economic climate has shown the volatility of these markets. Careful management of the relationship with both the ratings agencies and lenders has ensured that, to date, finance has always been available at affordable rates. The relationship with bond markets and rating agencies will be maintained and the Board will continue to ensure that the Company operates within prudent financial parameters.

9. **Leakage.** Failure to control leakage could breach a regulatory output and lead to loss of an important resource at times of drought and result in reputational damage with customers and stakeholders. The Company sets a tighter level of leakage than the official regulatory target.

Many other areas which would be expected as standard areas for consideration, such as fraud, have been assessed and determined to be risks which are well controlled with current mitigations.

Complacency is avoided through regular reviews and challenges within the Risk Group and Executive Group. The internal audit programme includes a rolling review of principal mitigation measures with regular reports to the Audit Committee.

Market overview

For the 25 years since privatisation investment and growing the asset base have been the norm and customer service, water quality and environmental performance have all improved. However, the industry is now entering a new phase with increasing focus on value for money, customer experience and ageing assets.

We are active in working with regulators and stakeholders in creating the future framework including the following initiatives.

Governance and performance

The 2014 price review placed the ownership and responsibility of the business clearly with each company. To support this Ofwat has set out expectations of greater assurance and governance requirements.

A key element of this is the arrangements we are implementing for the measurement and reporting of our performance. Ofwat is consulting on the specific requirements it wants including risk reviews, self-reporting and the content of an annual performance report.

We are developing our processes to clearly demonstrate our performance, including delivery of our performance commitments and any penalties and rewards that might apply. Our performance will be reported to independent customer and catchment panels and be subject to external audit.

Retail market opening

We are working hard with the rest of the industry to prepare for the implementation of the retail services market for non-household customers by April 2017. This is a tight timescale but the result will allow non-household customers to receive the services they want and are willing to pay for, at the level of safety and reliability that they want.

Upstream markets

We have structured the business to be prepared for the introduction of markets for wholesale water and waste water services. We will continue to work closely with Ofwat as it develops the future model for the industry in the Water2020 project.

Board endorsement of the Strategic Report

On the 22 June the Audit Committee considered the Strategic Report, where it had the opportunity to question the Executive Directors and relevant senior managers. It was recommended to and approved by the Board on the 25th June.

The Board is satisfied that it can make the Strategic Report in the form appearing above.

Francis Yeoh
Chairman

Wessex Water Services Ltd
Board of Directors - Executive Directors

Colin Skellett – Chief Executive
A chartered chemist and engineer by training, he has worked in the water industry for more than 40 years, holding a number of positions in the management and control of both water supply and sewage treatment.

He joined Wessex Water in 1974 and was appointed its Chief Executive in 1988. Colin oversaw the move from the public to the private sector and the transformation of Wessex Water into a highly rated UK plc. Colin was awarded an OBE for services to business and WaterAid in the 2012 Queen’s Birthday Honours and has an Honorary Doctorate in Engineering from the University of the West of England, He is Chairman of the West of England Local Enterprise Partnership.

Mark Watts – Director of Finance
A qualified treasurer, Mark spent eight years in international banking before joining the treasury department of Wessex Water in 1991. He was appointed Treasury Manager in 1994 before becoming Treasurer in 1999.

Mark is highly experienced in raising finance, from both the capital markets and the banking sector, as well as having a long history in dealing with various corporate finance issues. He was appointed Finance Director and Treasurer on 16 March 2010.

Wessex Water Services Ltd
Board of Directors - Non-Executive Directors

Independent

David Barclay – former Vice Chairman of Dresdner Kleinwort and Non-Executive Deputy Chairman of John Lewis plc. Senior Independent Director of Wates Group Limited. Deputy Chairman of the Board of the British Library. Appointed 1 November 2005. Senior Independent Director and Chairman of Audit Committee.

Gillian Camm – appointed in November 2011 and Chair of the Wessex Corporate Responsibility Committee. Chair of the Board of Governors – University of the West of England, Deputy Lieutenant Gloucestershire, vice president Quartet Community Foundation, member Society of Merchant Venturers.

Peter Costain FCA – chartered accountant, former Chief Executive of Costain Group Plc from 1980 to 1995 and Deputy Chairman from 1995 to 1997. Non-Executive Director since 1999. Chair of Pensions Committee. Retired from the Board on 21 November 2014.

Huw Davies FCA – appointed in September 2014 and Chair of Pensions Committee. Chief financial officer and company secretary of the Wates Group for the last 10 years, Huw was previously head of corporate finance at Taylor Woodrow plc. He has also held key positions with KPMG, Ernst and Young and the Government of Oman and is formerly an independent non-executive director of West Bromwich Building Society and WSP plc. He is chairman of Business in the Community South-East advisory board, a non-Executive Director of Hydro International plc and Trustee of the children's communication charity I CAN.

Fiona Reynolds DBE – appointed in August 2012 and chair of the Sustainability Panel. Other non-executive roles include the Executive Board of the BBC and Chair of the Green Alliance. Director-General of the National Trust from 2001 to 2012. Master of Emmanuel College, Cambridge from September 2013.

Wessex Water Services Ltd
Board of Directors - Non-Executive Directors

Shareholder

Francis Yeoh CBE – (Chairman) Managing Director of YTL Corporation Berhad, Malaysia since 1988. A founder member of the Malaysia Business Council, member of Malaysia's Capital Markets Advisory Council and Independent Non-Executive Director of The Hong Kong and Shanghai Banking Corporation Limited. Director since May 2002.

Hong Yeoh – Director of YTL Corporation Berhad, Malaysia since 1985, Executive Director of YTL Power International Berhad. Responsible for YTL Group's utilities and construction divisions. Director since May 2002. Chairman of Remuneration Committee.

Mark Yeoh – Executive Director responsible for the YTL hotels and resorts division. Graduated from King's College, University of London with an LLB (Hons) and was subsequently called to the Bar at Gray's Inn, London in 1988. He joined the YTL Group in 1989 and serves on the Board of YTL Corporation Berhad, YTL Power International Berhad, YTL Land & Development Berhad, YTL Cement Berhad and Wessex Water Limited. Director since October 2003.

Hann Yeoh – Non-Executive Director of Wessex Water since August 2012. Executive Director of YTL Power Generation Sdn Bhd (wholly-owned subsidiary of YTL Power International Berhad) and part of the business development team of YTL Power International Berhad. He also sits on the board of YTL PowerSeraya Pte Limited in Singapore and is a graduate of Oxford University with a Master of Engineering in Engineering Science.

Kathleen Chew – Non-Executive Director of Wessex Water since April 2014. Group Legal Counsel to the YTL Corporation Group. She holds a LLB (Hons) degree from the University of Birmingham and was called to the Bar at Gray's Inn, London in 1982. She joined YTL Corporation Berhad in 1988 to set up its legal department after being in practice at the Malaysian Bar for five years. Prior to joining the YTL Group, she was a partner in the law firm of Abdul Aziz Ong and Co in Kuala Lumpur from May 1987 to January 1988.

Risk and Compliance Statement for the regulatory year 2014-15

Introduction

The Water Services Regulation Authority (WSRA/Ofwat) requires the Board to provide an annual Risk and Compliance Statement (the Compliance Statement). The Compliance Statement is to confirm that the Company has complied with all its relevant statutory, operating licence and regulatory obligations that have not been confirmed by other processes, and that it is taking appropriate steps to manage and/or mitigate the risks it faces. The Company is required to report by exception any instances where a regulatory output has not been met. The annual review contains information about progress with outputs and gives details of key performance and financial information for customers, investors and regulators.

Most of the information in the annual review and used for the purposes of the Compliance Statement is based on factual information from events that have occurred. Occasionally, reliance is placed on estimates that have been made in good faith, based on reasonable assumptions and consistent with those made in previous years except where otherwise stated.

Compliance Statement

Ofwat requires the Board to confirm in the Compliance Statement that:

- the Board has a full understanding of and is meeting, in all material respects, its statutory, licence and regulatory obligations
- the Company has met, in all material respects, relevant regulator and customer expectations as demonstrated by those outputs and service standards set out in its business plan and funded through the Final Determination
- the Board is satisfied that the Company has sufficient processes and internal systems of control to fully meet its obligations, or has disclosed any modification or failure to meet such obligations
- the Company has appropriate systems and processes in place to allow the Board to identify, manage and review risks. Principal risks and the appropriate management of them are set out in the Strategic Report section of this document
- the Company has sufficient financial and management resources for the whole year
- the Company has sufficient rights and assets available to enable a special administrator to run the business
- any trade with associate companies was at arm’s length and no cross subsidy arose
- Directors’ pay is linked to standards of performance as disclosed on page 61
- any failure to deliver outputs agreed at the Final Determination has been disclosed
- the Company is compliant with condition F6A.6 on credit ratings
- the Board considered and approved the proposed charges for 2015-16 and the associated assurance statement confirming that the Company had met Ofwat’s charging expectations and all regulatory and statutory obligations
- greenhouse gas reporting complies with Defra reporting requirements.

Output review

Outputs agreed with regulators or promised to customers in the Final Determination were kept under constant review by the Company. Regular reports were prepared for Directors and senior managers detailing progress with the delivery of outputs and highlighting instances where such delivery may have been at risk.

Where there was a risk of failing to deliver an output, potential mitigation strategies were assessed to see if the project could be brought back on schedule. If a major issue, such as land acquisition or planning permission, had meant that an output could not be met, senior managers engaged with the relevant regulator, the Environment Agency (EA) or the Drinking Water Inspectorate (DWI), to discuss the future course of action, including the potential advancement of other outputs.

A report was made to each Board meeting showing progress against scheduled outputs. The Board reviewed the report and proposed mitigations where difficulties had been experienced.

The Company has met in all material respects, relevant regulator and customer expectations as demonstrated by those outputs and service standards set out in its business plan and funded through the Final Determination. 186 individual regulatory outputs were included in the Final Determination for 2010 – 2015 and all were delivered to the required standard and timescales.

The customer experience is continuously monitored through a range of mechanisms:

- feedback cards are left with all customers visited, upon departure
- our customer care team contacts customers within an hour or two of work being completed at their property to check the problem is resolved, the site has been left clean and tidy and the customer is satisfied
- each month an independent telephone satisfaction survey replicating the SIM survey is undertaken of a random selection of customers whose billing or operational contacts have been resolved. There has been no formal SIM survey this year while Ofwat has been piloting its new survey process
- this year we have set up a Topaz team who contact customers during their operational journey to keep them informed of progress on their contact with us
- each year, an independent image tracking survey gauges customer views
- our online customer panel, Have Your Say, is used to gather customers' views on our service now and in the future including satisfaction, value for money and customer effort scoring, along with other topical issues
- our four customer liaison panels have been used as part of the PR14 price setting regime to consider various aspects of the business for the future. These panels reported to the customer scrutiny group, which comprised an independent chairman, representatives of the regulators and representatives of the customer liaison panels. This group has this year considered and reported on the key issues to be addressed in the PR14 business plan.

Customer information

Licence conditions G, H and I on providing customer information are currently satisfied by a suite of individual codes of practice which are regularly reviewed.

We believe that our communication process with customers is consistent with Ofwat's requirements for the provision of customer information as detailed in Information Note 13/04, with all information provided being reviewed for its accuracy, transparency, clarity, accessibility and timeliness.

We consult with CCWater to ensure that the information provided meets customer requirements. Both the nature of the information provided, and the way we provide it, are reviewed annually by CCWater when customer charges are revised, as well as at other times during the year as and when individual leaflets are updated. A change log of this process is maintained.

Risk review

The management of risk is of fundamental importance to the Company, to guard against both financial loss and customer dissatisfaction. Customers, regulators and the press have increasing expectations and are less willing than ever to accept failure. The Company's policy on risk identification and management is subject to annual review by the Board and the status of the principal risks is reviewed by the Board twice a year.

The risk environment changes through time as some risks become less likely or less damaging while new ones emerge. The Company's processes are designed to respond flexibly to these changes and to ensure that the necessary controls and mitigation measures are put in place. In considering the annual programme of internal audits, the Audit Committee includes internal audits which review the status of the principal risks and the mitigation measures in place.

Risk process

The identification and management of risk is delivered through a tiered system of groups from operational staff, senior management, Executive Directors and the Board. The Board reviews and holds ultimate responsibility for the risk process and for the identification and mitigation of risks.

Asset and operational risks are reviewed, assessed and recorded monthly by operational staff. Risks are scored using a best practice process which assesses probability and impact on a five by five matrix. Risk mitigation plans are recorded and implemented where appropriate and pre and post mitigation scores are recorded.

The risks identified act as a foundation for a separate corporate risk register which is maintained by a Risk Group comprising senior managers from throughout the business. The Risk Group reviews all business risks, including emerging and strategic risks. All risks are assessed by experts responsible for the relevant part of the business. Where a high scoring risk is identified the Risk Group considers additional measures to reduce its impact to an acceptable level.

Wherever possible, a risk is measured by its potential financial and environmental impact over the next five years, whether direct or indirect, including any possible impact on the next price review. The Risk Group meets twice a year and submits the current corporate risk register and summary report to an Executive Risk Group comprising the Executive Directors and key senior managers, again meeting twice a year.

The Executive Risk Group scrutinises and challenges the risks included within the register and requires additional work where necessary to better classify the risk or explore alternative mitigation methods.

The Chief Executive submits an annual risk review paper to the Board for its consideration and approval. This paper sets out the risk review process and identifies the current principal risks to the business and the mitigation measures in place. It also records the status of emergent risks that have been identified and provides details for the Board of any changes in the National Risk Register (NRR) and the National Resilience Planning Assumptions (NRPAs).

Assurance and Board endorsement of the Compliance Statement

In compiling the Compliance Statement the Company pays close attention to its performance reporting and verification procedures. It has a detailed procedures manual setting out the process for completing every aspect of the annual review including the Compliance Statement. This is annually reviewed, updated and reported to Audit Committee, to reflect all changes to reporting requirements.

On 26 May 2015 the Board considered the Compliance Statement and other annual review documents which were to be subject to a detailed review by the Audit Committee. The Audit Committee met on 22 June 2015 to consider the full annual review document, including this Compliance Statement.

The Committee received presentations from senior managers involved in compiling the annual review and the Compliance Statement, from KPMG (the Auditor) and from CH2MHILL (the Engineering Auditor). With recommendations from the Audit Committee the annual review including the Compliance Statement were subsequently reviewed and approved by Board members on 26 June 2015.

The Board is satisfied that it can make the Compliance Statement in the form appearing above.

Francis Yeoh
Chairman

Governance Report

Chairman’s introduction

Wessex Water is committed to high standards of corporate governance. Under Condition F of its Instrument of Appointment as a water and sewerage undertaker (the “Licence”) Wessex Water is required to conduct its water and sewerage business as if it were the Company’s sole business as a public limited company. The Licence also requires Wessex Water to have 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 has a single shareholder and, accordingly, it is able to address some issues more directly and completely than it could if it were a listed company.

Wessex Water’s focus is on complying with the Principles and spirit of the Code in its particular context as a private limited company with a single shareholder. In practice, the Company complies with the Code Principles and Code Provisions with only very limited exceptions. In those few areas where we have decided not to follow the precise requirements of the Code we explain why, and how good governance is nevertheless achieved.

The following parts of this Governance Report explain how good governance is at the heart of the Company’s business and underpins the Company’s relationships with its customers, shareholder, and other stakeholders. The Board regards it as fundamental to the long-term success of the Company to provide excellent customer service and satisfaction. Governance arrangements are kept under constant review. We continue to reflect best practice and maintain our position as the leading water and sewerage company for customer service and satisfaction. We have set out our commitment to best practice in our Code of Practice for Corporate Governance a copy of which is available on our website.

We believe that our governance arrangements ensure that the Company continues to operate effectively and efficiently to the benefit of our customers, shareholder, and other stakeholders with clear accountability for decision making.

Francis Yeoh - Chairman

Governance Structures

The Board

All decisions which affect Wessex Water are ultimately the responsibility of the Board, which controls and directs the undertaking of the regulated water and sewerage business. During the reporting year the Board composition was as shown on page 40.

The Board annually reviews and approves the Company's Organisation and Control Arrangements (O&CA) which set out the framework for control of the Company's affairs. The O&CA also specify requirements for the competency of members of the Board and its Committees, for effective management of the Company and for the granting of delegated powers and authorisations.

The principal duties of the Board, the matters reserved for its decision and the terms of reference of its Committees are fully documented and copies are available on our website. Matters reserved to the Board include strategy, charges, material changes to the Company's management and control structure, Board appointments, approval of material contracts, risk management, health and safety policies, disposal of material assets, approval of the annual operating budgets, employee pension arrangements, significant changes in accounting policies and defence and settlement of material litigation.

There are no matters specifically reserved to the shareholder. In practice the Board operates (and has operated continuously for more than a decade) without the requirement for shareholder resolutions. As part of its responsibility for the management of risk, the Board has determined criteria which control the extent of dividends paid and consequently the financial gearing of the Company. As with all Board decision making, these criteria were determined with the active involvement of the Independent Non-Executive Directors.

There are two Executive Directors, both appointed on one-year rolling contracts. During the year there were at least four Independent Non-Executive Directors, exceeding by one the requirements of Condition P of the Licence. Five further Non-Executive Directors are appointed by the Company's sole shareholder including the Chairman of the Board.

This balance on the Board ensures a high level of engagement and dialogue with the Company's customers and shareholder. In this way, Wessex Water complies with and exceeds the principles and spirit of the Code without the need for compliance with certain specific Code Provisions (including those in relation to the use of an annual general meeting to communicate with investors and encourage participation) which are not relevant to a company with a single shareholder.

The Non-Executive Directors scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance. In addition, the Independent Non-Executive Directors, led by the Senior Independent Director, reviewed the performance of the Chairman. They also form or participate in the various Committees, assessing the integrity of financial information and whether financial controls and systems of risk management are robust and defensible, determining appropriate levels of remuneration for Executive Directors, assisting in appointing and, if necessary, removing Executive Directors, and assisting in succession planning.

The Board ensures that Directors (and in particular the Independent Non-Executive Directors) have access to independent professional advice at the Company's expense where they judge it necessary to discharge their responsibilities as Directors. The Board also ensures that the Committees are provided with sufficient resources to undertake their duties.

The Company arranges appropriate Directors' and Officers' insurance against the usual legal risks faced through holding office.

If Directors have concerns about the running of the Company or a proposed action which cannot be resolved, they are encouraged to ensure that their concerns are recorded in the Board minutes and the Independent Non-Executive Directors are encouraged, on resignation, to provide a written statement to the Chairman highlighting any such concerns.

Due to the Company having a single shareholder, the Code provisions in relation to Directors being subject to annual election by shareholders are of limited relevance and not applied.

Wessex Water complied with the Code's Main Principles and Supporting Principles as to the composition of the Board. Moreover, Wessex Water exceeded the requirements of the Code (designed for listed rather than privately held companies) by having more than three Non-Executive Directors, during the reporting year who are directors or employees of the Malaysian holding company, thus enabling effective dialogue with the shareholder.

While the Board has a majority of Non-Executive Directors, it does not have a majority of Independent Non-Executive Directors as envisaged by the relevant Code Provision. The Ofwat Board Leadership, Transparency and Governance Principles are based on the Code, which applies to UK listed companies. The principal purpose of the Code is to ensure that the interests of a company's members are protected and represented at board level. The preface to the Code states that "the function should be to help boards discharge their duties in the best interests of their companies." The preamble to the Ofwat Principles states that "any departures from the [Ofwat] principles should be by exception in the spirit of corporate governance for listed companies." In the context of a privately held company with a 100 per cent. shareholder, we consider it to be in accordance with good corporate governance practice for there to be a significant number, if not a majority, of shareholder representatives on the Board. In Wessex Water's case, the shareholder appointed Non-Executive Directors (excluding the Chairman) are not a majority on the Board and are no greater than the number of Independent Non-Executive Directors. Further, Wessex Water has four highly capable and experienced Independent Non-Executive Directors.

The Board considers its current composition ensures an appropriate balance of skills, experience, independence and knowledge so that no single group can dominate decision taking and that the Board does not become too unwieldy.

The search for Board candidates is conducted, and appointments and re-appointments are made, on merit, against objective criteria, and with due regard to the benefits of diversity on the Board, including gender diversity. All directors receive induction training on joining the Board and regularly update and refresh their skills and knowledge.

The following were Directors during the year under review:

Executive Directors	**Independent Non-Executive Directors**	**Shareholder Non-Executive Directors**
Colin Skellett	David Barclay	Francis Yeoh
Mark Watts	Gillian Camm	Hann Yeoh
	Peter Costain+	Hong Yeoh
	Huw Davies++	Mark Yeoh
	Fiona Reynolds	Kathleen Chew

\+ retired on 21/11/2014
++ appointed 01/09/2014

Chairman and Chief Executive

Throughout the financial year under review Francis Yeoh was the Company's Chairman.

Colin Skellett continued in his role as Chief Executive. He brings more than 40 years' water industry experience to the Company including 27 years as Chief Executive covering privatisation of the industry and two changes of ownership.

The Chairman leads the Board, ensuring its effectiveness while taking into account the interests of all stakeholders and promoting the highest standards of business ethics and governance. The Chairman is responsible for ensuring that Directors receive accurate, timely and clear information. The Chairman also promotes a culture of openness and debate by facilitating the effective contribution of Non-Executive Directors, in particular ensuring constructive relations between Executive and Non-Executive Directors, and ensuring effective communication with the Company's shareholder. Board agendas are agreed in consultation with other Directors and the Company Secretary.

Any Director or the Company Secretary may request an item be included on the agenda. During the reporting year the Chairman met regularly with fellow representatives of the Company's shareholder.

New Directors receive a full, formal and tailored induction on joining the Board (including an opportunity to meet with representatives of the shareholder). Further training is given as required.

In his role as Chief Executive Colin Skellett has responsibility for the day to day business of the Company, making proposals for its strategic direction and communicating with customers and other stakeholders.

Senior Independent Director

The Board has appointed David Barclay as the Senior Independent Director. He chairs the Audit Committee and is a member of the Remuneration Committee and of the Nominations Committee. He would chair Board meetings if the Chairman were unavailable. The Senior Independent Director's role is to act as a sounding board for the Chairman and to serve as an intermediary for the other Directors when necessary. He is also available as an additional point of contact for the shareholder and other stakeholders.

As the Senior Independent Director and appointed in accordance with the Licence, he is well placed to provide an independent link to WSRA, our regulator. His responsibilities during the reporting year included leading the evaluation of the performance of the Chairman. Led by the Senior Independent Director, the Independent Non-Executive Directors met without the other Directors present to appraise the Chairman's performance and to discuss any other relevant matters.

Independent Non-Executive Directors

The Company's Independent Non-Executive Directors are appointed from a range of different backgrounds to bring to the Board external experience and insight. They provide independent thought and challenge to the Board's decision making. The Board has reviewed their status and concluded that they are all independent. In particular, the Board considers these directors to be independent in character and judgement. The Board are not aware of any relationships or circumstances which are likely to affect, or could appear to affect, any Independent Non-Executive Director's judgement.

Independent Non-Executive Directors are appointed, after consultation with Ofwat and with the agreement of the Company's shareholder, for an initial three-year term (subject to statutory provisions relating to removal) that may be extended. Since 2011 we have seen the appointment of three new Independent Non-Executive Directors and two new shareholder Non-Executive Directors.

Any term beyond six years for an Independent Non-Executive Director is subject to particularly rigorous review and takes into account the need for progressive refreshing of the Board balanced against the requirement for skills, experience, independence and knowledge and to provide continuity over AMP periods. The Board considers that both Peter Costain and David Barclay remained independent and that the Board is refreshed at sufficient intervals, and accordingly the Company is compliant with the spirit of the Code in this respect.

Independent Non-Executive Director	**Appointed**	**Current term expires**
David Barclay	1/11/2005	31/10/2015
Gillian Camm	1/11/2011	01/11/2017
Peter Costain	1/12/1999	Retired 21/11/2014
Huw Davies	1/09/2014	31/10/2017
Fiona Reynolds	1/08/2012	31/07/2015

All Independent Non-Executive Directors are appointed on written terms setting the time commitments and standards required of them. In accordance with Code Provision B.3.2, terms of engagement are regulated by letters of appointment (copies of which are available on the Company's website). Non-Executive Directors representing the Company's sole shareholder do not have formal terms of appointment and receive no payments from the Company. In accordance with Code Provision B.4.1, all Directors are required to participate in an induction process to familiarise themselves with the Company's governance arrangements, business, regulatory framework and ethos. Introductory meetings are held with all Executive and Non-Executive Directors, the Company Secretary and senior managers across the Company's business.

Visits are made to the Company's principal offices and representative operational sites.

Company Secretary

All Directors have access to the Company Secretary and the Company's internal solicitors. The Company Secretary's responsibilities include ensuring good information flows within the Board and its Committees and between senior management and Non-Executive Directors, as well as facilitating induction and assisting with professional development as required. The Company Secretary is responsible for ensuring that the Company's O&CA and Board procedures are followed, and for advising on suggested changes.

The Company Secretary gives legal and regulatory advice as required by the Board or any Director and is responsible for advising the Board on governance matters. The Board is kept informed of major changes to law and regulation affecting the Company's business. The Company Secretary also advises on Directors' duties and conflicts. All Directors are aware that any conflicts of interest must be reported to and registered with the Company Secretary.

The appointment or resignation of the Company Secretary is a matter for consideration by the Board as a whole.

Board Meetings

The Board meets a minimum of six times a year at approximately bi-monthly intervals, which is considered sufficiently regularly to enable the Board to discharge its duties effectively. It may meet on such further occasions as may be required.

Board attendance in the financial year under review was as follows:

Board Attendance 2014 – 15			
Colin Skellett	6/6	Mark Watts	6/6
David Barclay	6/6	Francis Yeoh	6/6
Gillian Camm	6/6	Hann Yeoh	6/6
Peter Costain	4/4	Hong Yeoh	6/6
Huw Davies	4/4	Mark Yeoh	6/6
Fiona Reynolds	6/6	Kathleen Chew	6/6

Board Committees and Advisory Panels

Four formal Committees operated throughout the financial year under review:

- Audit Committee
- Remuneration Committee
- Nominations Committee
- Corporate Responsibility Committee

These Committees operate under the authority of the Board and assist the Board in carrying out its duties. The Committees report back to the Board on decisions and actions taken together with any specific recommendations. Reports from the Chair of each of the Committees are set out on pages 47 to 71.

The Board also receives reports from its Sustainability Panel and four Liaison Panels as part of the Company's commitment to wide stakeholder engagement.

The Sustainability Panel is chaired by Fiona Reynolds. It keeps under review all sustainability, health and environmental issues affecting the Company. This Panel includes Colin Skellett and Gillian Camm. By invitation a range of external scientific and technical expertise is brought to this Panel.

The Panels are established to build strong relationships with outside stakeholders. They afford opportunities for direct discussion between the Company and a wide variety of interest groups on all areas affected by the Company's activities and its proposals for future development. The Liaison Panels cover customers and communities, business customers, services and planning and environment. The Customer and Communities Liaison Panel is chaired by Gillian Camm.

The Liaison Panels include representatives from local authorities, the Environment Agency, Natural England, National Farmers Union, Country Landowners Association, environmental wildlife interest groups, schools, universities, hospitals, business, industry, Citizens Advice Bureaux and other charitable bodies.

Liaison Panel arrangements have been reviewed for AMP6 and the operation of newly formed Futures, Customer Advisory and Catchment Panels will be reported upon next year.

Board, Committee and Director Performance

The Board has agreed to review its own performance, and the performance of its Committees, the Chairman, the Executive Directors and the Independent Non-Executive Directors, annually in accordance with the Code. Generally the Board will engage the services of an external Board evaluation consultant at least one year out of three. Between external evaluations, reviews are facilitated by the Company Secretary.

In accordance with the Code, a Board, Chairman and Committee effectiveness review was carried out in May 2015. Evaluation of the Board considers the Board's balance of skills, experience, independence and knowledge of the Company and how the Board works together as a unit, and other factors relevant to its effectiveness. A questionnaire was sent by the Company Secretary to all Directors. Individual responses were aggregated and analysed on an anonymised basis, and the results presented to and discussed by the Board at its meeting on 26 May 2015 with several improvements adopted as a result. These included adopting a more forward looking focus and revised arrangements to monitor company performance.

Directors' Remuneration

Details of Directors' remuneration are set out in the Remuneration Committee Report.

Directors' Interests and Conflicts

Directors are aware of the requirement to disclose interests in contracts with the Company and any conflicts of interest. No such interests or conflicts were disclosed during the year.

Whistleblowing

The Company has adopted and publicised to all its employees a whistleblowing policy for reporting instances of malpractice or inappropriate activity across all areas of business, including water regulation, health and safety, bribery, corruption and fraud. All reports are treated on a strictly confidential basis. Reports on whistleblowing are made to the Audit Committee and details are set out in the Audit Committee Report. One material whistleblowing issue arose in the year which led to the departure of a member of staff from the business.

Anti-corruption

The Company has adopted a formal policy on business ethics. Directors and employees are expected to commit to the highest standards of professional and ethical conduct in order to protect the Company's reputation and standing. Bribery and corruption are not tolerated. All Directors and employees are made aware of the Company's policy and that breaching it will result in disciplinary action.

Procurement

The Company has in place procurement rules that ensure awards of contracts for works, services and supplies are made after compliance with the Utilities Contracts Regulations 2006 and for contracts below the relevant thresholds in accordance with clear internal rules. The rules promote fair competition for potential suppliers. All relevant staff are required to certify to internal audit through the year that they have complied with the rules or to disclose non-compliance. No material instances of non-compliance were recorded during the year.

Group Structure

Ofwat's published document Board Leadership, Transparency and Governance – Holding Company Principles sets out the principles it expects the holding companies of a regulated water company to follow to demonstrate adherence to the highest standards of governance, particularly in its interaction with a regulated water company. The Holding Company Principles build upon and supplement the Company's Licence provisions dealing with its relationship with its owners.

The Company's ultimate holding company is a Malaysian company YTL Corporation Berhad that is listed on the main market of Bursa Malaysia Securities Berhad. It addresses the Holding Company Principles as described in the paragraphs below.

A diagrammatic representation of the Group's structure appears below showing ownership of the regulated Company through to YTL Corporation Berhad and each company's country of incorporation and role in the structure. YTL Corporation Berhad at 31 March 2015 was 50.70% owned by third party shareholders and 49.30% owned by Yeoh Tiong Lay & Sons Holdings Sdn Bhd

All companies 100% owned unless stated	Principal activities	Company details
YTL Corporation Berhad	Investment holding and management company	Incorporated in Malaysia and quoted on the Main Market of Bursa Malaysia Securities Berhad
56.78%		
YTL Power International Berhad	Investment holding and provision of administrative and technical support services	Incorporated in Malaysia and quoted on the Main Market of Bursa Malaysia Securities Berhad
YTL Power Generation Sdn Bhd	Development, constructing, completing, maintaining and operating power plants	Incorporated in Malaysia to create a tax efficient structure
YTL Utilities Limited	Investment holding company	Incorporated in Cayman Islands to look for global mergers & acquisitions in the utilities sector
YTL Utilities Holdings Limited	Investment holding company	Incorporated in Cayman Islands to look for global mergers & acquisitions in the utilities sector
YTL Utilities (UK) Limited	Investment holding company	Incorporated in United Kingdom, the acquisition vehicle for the purchase of the Wessex Water group of companies
Wessex Water Limited	Investment holding company	Incorporated in United Kingdom, also owns SC Technology AG, Wessex Water Enterprises Ltd and 50% of Bristol Wessex Billing Services Ltd
Wessex Water Services Limited	Water supply and waste water services	Incorporated in United Kingdom, granted a Licence as a water and sewerage undertaker under the Water Industry Act 1991

The following Directors of the Company are also Directors of the Group companies above:

Colin Skellett and Mark Watts are Directors of Wessex Water Ltd, YTL Utilities (UK) Ltd and YTL Utilities Holdings Ltd.

Francis Yeoh and Mark Yeoh are Directors of Wessex Water Ltd, YTL Utilities (UK) Ltd, YTL Utilities Ltd, YTL Power Generation Sdn Bhd, YTL Power International Berhad and YTL Corporation Berhad. Hong Yeoh is a Director of Wessex Water Ltd, YTL Utilities (UK) Ltd, YTL Utilities Holdings Ltd, YTL Utilities Ltd, YTL Power Generation Sdn Bhd, YTL Power International Berhad and YTL Corporation Berhad. Hann Yeoh is a Director of YTL Utilities Holdings Ltd and YTL Power Generation Sdn Bhd.

YTL Corporation Berhad's consolidated debt and equity are shown in its annual accounts available at its YTL Corporation website. The Company has no borrowings from other Group companies.

The Company operates independently. There are no matters specifically reserved to the shareholder. In practice the Board operates (and has operated continuously for more than a decade) without the requirement for shareholder resolutions. A list of those Directors of the Company who also hold office within the Group structure appears above. Disclosure of the interests of such Directors has been made to the Company.

Governance of YTL Corporation Berhad is in accordance with the requirements of Bursa Malaysia and corporate law in Malaysia which include a requirement to publish statements in its annual accounts on corporate governance, risk, risk management and internal control and the workings of its audit committee.

YTL Corporation Berhad and YTL Power International Berhad gave undertakings to Ofwat in 2002 upon the acquisition of the Company that they and their subsidiaries would comply with the requirements of Licence Condition P. The Condition P undertakings provide that:

- they would give the Company all information as may be necessary to enable the Company to comply with the conditions of its appointments as a water and sewerage undertaker
- to refrain from any action which would cause or may cause the company to breach any of its obligations under the Water Acts or the conditions of its Licence
- to ensure that at all times the Company's Board contains not less than three Independent Non-Executive Directors.

YTL Corporation Berhad has confirmed that it:

- fully understands the duties and obligations of the Company arising under statute and its Licence
- is aware of and is complying with the obligations of Condition P of its Licence
- discharges these obligations by various means including through its knowledge of the terms of the Licence, the appointments of shareholder directors to the Board of the Company and their involvement in the affairs of the Company and the advice of its UK corporate lawyers
- will provide the Company with the information it legitimately needs to assure itself that it is not at risk from activities elsewhere in the YTL Group
- will identify and disclose to the Company promptly in writing any issues, if such should arise, within the YTL Group which may materially impact upon the Company for publication on the Company's website or disclosure in its annual report any relevant announcements made on Bursa Malaysia
- will facilitate, so far as it is reasonably able, compliance with the Company's Code of Practice for Corporate Governance
- will support the Company's decision making processes so that it can make strategic and sustainable decisions in the interests of the Company for the long term.

Audit Committee Report

All the independent non-executive directors of the Board as below were members of the Audit Committee in the financial year under review:

David Barclay (Chair)
Gillian Camm
Peter Costain (replaced by Huw Davies)
Fiona Reynolds

On 1 September 2014, Huw Davies joined the Committee replacing Peter Costain who retired from the Board on 21 November 2014.

The Board is satisfied that through David Barclay, Peter Costain and Huw Davies, the Committee has relevant financial experience as described on page 32.

Role and Report on Activities

In accordance with Code Provision C.3.2., our Governance Arrangements which are available on the Company's website, provide full terms of reference for the Audit Committee.

This report provides details of the role of the Audit Committee and the work it has undertaken during the financial year under review.

The members of the Audit Committee receive updates on financial reporting, the regulatory framework and performance throughout each financial year. In addition to the Committee members the following routinely attend the Committee meetings by invitation: the Director of Finance, senior managers responsible for Customer and Retail Services, and for Environment and Assets, Head of Internal Audit, Financial Controller and the audit partner from the external auditor KPMG. Other senior management and the Company's engineering auditor are also invited to attend as appropriate.

Following each meeting the Audit Committee reports to the subsequent meeting of the Board on the Audit Committee's work.

The Audit Committee met five times in the financial year under review, which it considered sufficient to enable it to discharge its duties effectively. Its work focused on:

- overseeing the Company's financial reporting processes and accounting policies
- ensuring that the Company has adequate internal controls and that they are appropriately reviewed and implemented
- overseeing the internal and external audit programmes
- ensuring compliance with the regulatory reporting obligations of the Company, including the Risk and Compliance Statement and the Company's key performance indicators.

In accordance with Code Provision C.3.8, key issues discussed during the financial year under review included:

- providing assurance to the Board on the process for compiling data, and ensuring its validity, for the June 2014 final submission of the PR14 Business Plan
- Company performance on a number of internal processes to deliver regulatory outputs and KPI data
- detailed independent consideration of the half year results, annual results and annual review document prior to their ultimate approval by the Board
- consideration of the material subjective assessments within financial reporting to ensure that the Company's treatment of these matters was properly addressed within the Company's financial statements
- the review and agreement of the annual internal audit programme, the monitoring of internal audit progress and the consideration of 13 internal audit reports.

In reviewing the financial statements the Audit Committee considered the content, accuracy and tone of the financial statements, the principal risks to the business on pages 28 and 29, the Risk and Compliance Statement on pages 34 to 37, and other financial disclosures prior to their release.

KPMG reported to the Audit Committee on their audit of the year-end financial statements.

Internal Controls

The Audit Committee monitors the effectiveness of the system of internal control assisted by internal audit. It also reviews management reports received from the external auditor.

The Audit Committee receives reports on any whistleblowing allegations made to the Company from either internal or external sources, concerning fraud, bribery or other matters. Reports include the outcomes of resulting investigations and the management action taken. Where appropriate the Audit Committee is asked to approve the proposed management actions. One material whistleblowing issue arose in the year which led to the departure of a member of staff from the business.

Further details of internal controls and risk management systems in relation to the financial reporting process can be found in the Risk and Compliance Statement on pages 34 to 37.

Financial Reporting

Material issues considered by the Audit Committee in relation to the financial statements (as also reported by the external auditor) were as follows:

Bad Debt Provision

The Committee considered the key financial risk that arose due to the subjective nature of the provision. It reviewed the methodology of the provision in relation to the different components of the debt and the reasonableness of the differing provision made against each component.

Pension Deficit

The Committee considered the key financial risk that the assumptions made by the Company in association with the independent actuary, in arriving at the pension deficit under IAS 19, could lead to an overly prudent or aggressive position. In particular the assumptions in relation to inflation, discount rate, pension and salary increases, return on equity and life expectancy were tested against the range of assumptions used by other companies.

Classification of Capital Expenditure

The Committee considered the key financial risk of the degree of judgement involved in the classification of expenditure between operating expenses and capital expenditure. In doing so they considered the level of capital expenditure, the Regulatory Accounting Guidelines and International Financial Reporting Standards, the recharges from overhead to capital projects and the controls of the Company.

Taxation

The Committee also considered the amounts recorded for corporation tax and deferred taxation in the income statement and balance sheet. They reviewed the split between current and prior year taxation, the overall tax reconciliation and current taxation issues as highlighted by the external auditor.

The Committee was satisfied that each of the above issues had been adequately explained and correctly recorded in the non-statutory accounts of the Company.

Misstatements

Management confirmed to the Audit Committee that they were no material misstatements or immaterial misstatements in the financial statements to achieve a particular presentation. The external auditor reported to the Committee that in the course of their work no misstatements had been found. The Committee was satisfied that the external auditor had fulfilled the responsibilities to the Audit Committee and the Company.

Oversight of Internal Audit and External Audit

The Audit Committee oversees the work of the Company's internal audit function, monitoring and reviewing the effectiveness of the internal audit activities, and manages the relationship with its external auditor. The Audit Committee reviews the performance of the internal and external auditor to ensure that they are effective.

The Audit Committee regularly holds discussions at the end of its meetings with both the internal and external auditor in the absence of executive management.

Internal Audit

The annual programme of planned internal audits is agreed by the Audit Committee at the start of each financial year based on a balance of topics which represent major business risks, and internal business processes which affect either financial or regulatory compliance. A total of 13 individual audit reports were submitted to the Committee in the year.

At the request of Executive Directors and senior managers or the Audit Committee, additional audits are undertaken throughout the financial year to address any issues that arise in the financial year.
The Head of Internal Audit reports back on reviews of performance and the effectiveness of the Company's internal controls and their adequacy in managing business risk and performance. This work is summarised and reported to the Audit Committee on a regular basis.

The audit plans and the level of resources of the internal audit function are reviewed at least annually by the Audit Committee. The Head of Internal Audit is free to raise any issues with the Audit Committee or its Chairman at any time during the financial year.

External Auditor

KPMG were appointed as the Company's auditor in 2002 and the audit contract has not been put out to tender since. Although KPMG's appointment exceeds the normal 10 year period suggested in the Code, it is consistent with the transitional arrangements as published by the FRC, that re-tender can take place at the end of the current audit partner's term of office in 2017. The Committee intends to re-tender the Company's external audit services at that time.

The audit partner attends by invitation meetings of the Committee, and the Committee monitors the effectiveness of the external auditor throughout the year taking into account their own experience of the auditor's effectiveness in the year.

KPMG was paid £156k for audit fees and a total of £226k for three separate commissions for non-audit services during the financial year under review. The fees for non-audit services were significant in the year because of specialist advice received from KPMG in the preparation of taxation advice, AMP6 price review services and other services. The individual commissions for non-audit work were agreed by the Chairman of the Audit Committee and were considered to have no impact on the auditor's objectivity and independence. As a matter of policy, fees paid to the external auditor for non-audit services will not exceed 50% of the annual audit fee unless approved in advance by the Chairman of the Audit Committee. The additional services undertaken by KPMG were so approved.

KPMG reports to Ofwat in respect of the Company's regulatory accounts. The Audit Committee also receives reports from its engineering consultants, CH2MHILL, on non-financial regulatory outputs as part of the Company's Ofwat compliance process.

Audit Committee Attendance	
David Barclay	5/5
Peter Costain	4/4
Gillian Camm	5/5
Fiona Reynolds	5/5
Huw Davies	4/4

Nominations Committee Report

The following were members of the Nominations Committee throughout the financial year under review:

Francis Yeoh (Chairman)
David Barclay
Gillian Camm
Peter Costain (Replaced by Huw Davies)
Fiona Reynolds
Colin Skellett
Hong Yeoh

On 1 September 2014, Huw Davies joined the Committee replacing Peter Costain who retired from the Board on 21 November 2014.

The Nominations Committee is chaired by a Non-Executive Director appointed by the shareholder, by way of exception to the relevant Code Provision. The relevant Code Provision envisages a majority of the members being Independent Non-Executive Directors and the Chairman or an Independent Non-Executive Director chairing the Committee. This is intended to ensure a formal, rigorous and transparent procedure for the appointment of new Directors to the Board in the case of a listed company with disparate shareholders. However, during the year the Company's Nominations Committee complied with the Principles and spirit of the Code and its composition reflects the requirements of a private company with a sole shareholder.

Role and Report on Activities

The Nominations Committee's full terms of reference are available on the Company's website.

This report provides details of the role of the Nominations Committee and its work over the financial year under review.

The purpose of the Nominations Committee is to ensure that appropriate procedures are in place for the nomination, selection, training and evaluation of Directors. It reviews Board structure, size and composition.

The role of the Nominations Committee is to evaluate the balance of skills, experience, independence and knowledge on the Board.

The Nominations Committee met once during the financial year under review under the chair of Hong Yeoh, in the absence of Francis Yeoh. Its role has been expanded this year to include monitoring the independence of Independent Non-Executive Directors, advising the Board on any conflicts of interest, promoting diversity and opportunity across the Company.

Further to the publication of the Davies Report Women on Boards in February 2011, boards of FTSE 350 companies have been encouraged to promote greater female representation on corporate boards. Gillian Camm and Fiona Reynolds' appointments achieves gender balance among the Company's four Independent Non-Executive Directors.

The Company has received advice from Women on Boards UK about promoting female opportunities and advancement in the Company and is encouraging female personal development alongside promoting the development of all employees.

As part of the process to replace Independent Non-Executive Directors at the end of their term, the Committee has and will use external recruitment agencies to provide a shortlist of candidates, to which is added further names after consultation with the Executive and Non-Executive Directors and other stakeholders. The Committee supervised the recruitment and appointment of a new Non-Executive

Director, Huw Davies to replace Peter Costain who retired from the Board on 21 November 2014 and succession planning to replace the Company Secretary and Group Head of Legal.

Nominations Committee Attendance	
Francis Yeoh	0/1
Hong Yeoh	1/1
David Barclay	1/1
Gillian Camm	1/1
Huw Davies	1/1
Fiona Reynolds	0/1
Colin Skellett	1/1

Corporate Responsibility Committee

The following were members of the Corporate Responsibility Committee throughout the financial year under review:

Gillian Camm (Chair)
Fiona Reynolds

Chaired by an Independent Non-Executive Director, the principal purpose of this Committee established in 2013 is to make recommendations to the Board about the Company's corporate and social obligations to its employees and other stakeholders. The Committee invited two former executive directors of the Company Andy Pymer and David Elliott (who stepped down from the Board in April 2014 as part of the Ofwat governance initiative that resulted in the number of executive directors being reduced to two) to attend by invitation.

Role and Report on Activities

The Committee's full terms of reference are available on the Company's website.

Corporate responsibility is central to the values against which our business operates. The Company's long term success depends on meeting the values of our customers, employees and other stakeholders.

During the year the Committee made recommendations to the Board across a range of matters within its remit including the Company's statement of aims and values, diversity and female advancement, employee engagement, health and safety and charitable giving and support.

The Board adopted the Committees recommendation about the Company's statement of aims and values which will be rolled out across the Company in September 2015 and will figure in the annual appraisal of executive and staff performance.

During the year the Board adopted, published and commenced implementation of the Committee's recommended diversity strategy and two year action plan aimed at achieving a workforce that reflects the make-up of the society within which the Company operates. The policy was presented at a leadership forum attended by the Company's 70 most senior managers. The Committee monitored the progress of the Company's initiatives to promote female advancement. Scorecards have been developed for monitoring the progress of these initiatives which will be reported to the Committee, the Board and reported upon in the following year's annual review and accounts.

The Committee reviewed the results of the Company's staff survey and seminars and made recommendations about key issues for the Board to address. The Committee reviewed the Company's Health, Safety and Welfare Policy and made recommended changes about employee well-being and other revisions that were adopted. The Committee approved the Company's Charitable Giving Policy that was applied through the reporting year.

Corporate Responsibility Committee Attendance	
Gillian Camm	2/2
Fiona Reynolds	2/2

Remuneration Committee Report

Members:

The following were members of the Remuneration Committee throughout the financial year under review:

Hong Yeoh (Chair)
David Barclay
Gillian Camm
Huw Davies
Mark Yeoh

The Remuneration Committee is chaired by a Non-Executive Director appointed by the shareholder, by way of exception to the relevant Code Provision. The relevant Code Provision envisages at least three Independent Non-Executive Directors on the Remuneration Committee. This is intended to ensure a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual Directors in the case of a listed company with disparate shareholders. However, the Company's Remuneration Committee complies with the Principles and spirit of the Code and reflects the requirements of a private company with a sole shareholder, resulting in a formal and transparent procedure for developing policy on executive remuneration.

Role and Report on Activities

The Remuneration Committee's full terms of reference are available on the Company's website.

The Remuneration Committee determines, on behalf of the Board, the Company's policy on the remuneration (including pension rights and any compensation payments) of Executive Directors, the Chairman and senior executive managers. The Committee seeks to link rewards to performance to promote the long-term success of the Company and does not reward poor performance.

This report sets out the remuneration policy for the Directors of Wessex Water and discloses the amounts paid to them in the financial year ended 31 March 2015. The policy also applies to the remuneration of the Company's senior managers.

The Remuneration Committee met once during the financial year under review, which was considered sufficient to enable it to discharge its duties effectively.

The Remuneration Committee continued to monitor the Company's remuneration policy to take account of evolving best and market practice. The annual bonus plan is designed to promote the success of the Company over the five-year regulatory period, and is based on a portfolio of KPIs linked to the Company's performance scorecard and Ofwat's measures of success.

Salary and bonus levels were benchmarked against the Hay Group Industrial and Service, National Utilities and South West Utilities market sectors with jobs sized in relation to scope, role responsibilities and impact to determine salary. The Remuneration Committee continued to take a proactive approach to responding to developments in legislation, best practice and the wider market, as well as the corporate strategy, in order to ensure that the Company's senior executive reward policy remained market competitive and fit for purpose.

The Remuneration Committee addressed the need to ensure that changes in senior executive remuneration are proportionate in the context of workforce pay. While it has not set a specific policy on the relationship between Executive Directors' pay and that of the rest of the workforce, it aims to ensure that executive salary movement is appropriately aligned to the rest of the workforce and it specifically considers this aspect as part of its decision making process.

To ensure that the Company's remuneration practices are competitive but not excessive, the Remuneration Committee has access to detailed external research on market data and trends from experienced specialist consultants.

Recruitment of Executive Directors

The base salary for any new Executive Director takes into account market data for the relevant role, relativity with the salaries of existing Executive Directors, the individual's experience and current base salary. In the event that an individual is recruited at below market level, their base salary may be aligned over a period of time to the upper quartile position of the relevant market position subject to their performance in the role.

Individual Executive Directors participate in a senior manager bonus scheme, governed by the Remuneration Committee. Executive Directors have their target bonus set at 40% of base salary and their maximum bonus at 80%.

During the year, the Remuneration Committee took advice from their independent advisers, Hay Group. Hay Group provided detailed market analysis and advice to the Committee for the senior management group, including Executive Directors and Non-Executive Directors. Hay Group's fee for providing such advice was £13,500 for the year ended 31 March 2015. In line with best practice, the Committee assesses from time to time whether the appointment of its current independent remuneration advisers remains appropriate and whether the role should be put out to tender.

The Remuneration Committee also considers what compensation commitments (including pension contributions and all other elements) Directors' terms of appointment would entail in the event of early termination. The aim is to avoid rewarding poor performance, and the Remuneration Committee would take a robust line on reducing compensation to reflect departing Directors' obligations to mitigate loss.

The Chief Executive (Colin Skellett) and the Group Head of Human Resources (Mark Nicholson) attended the Remuneration Committee meetings to provide advice and respond to specific questions. They did not participate in any discussion concerning their own remuneration.

Remuneration Committee Attendance	
David Barclay	1/1
Gillian Camm	1/1
Huw Davies	1/1
Hong Yeoh	1/1
Mark Yeoh	1/1

The remuneration policy for senior executives is aligned to the Company's four key focus areas, as shown below.

Key Focus	Remuneration Policy
Customer service delivery and business costs	Target annual bonus potential just below the median when compared to industrial and service and national utilities market, supported by competitive base salary at or below market upper quartile. Financial based KPIs within the annual bonus are set with close regard to Ofwat's determination, ensuring that we closely manage our performance within the regulatory limits. Customer focused KPIs form a substantial part of the annual bonus scorecard.
Employee alignment	The Remuneration Committee aims to ensure that the executive salary movement is aligned to the rest of the workforce. The performance scorecard is used for the annual bonus throughout the Company. KPIs within the annual bonus for all employees include health and safety, engagement and training compliance factors.
Environment performance	KPIs within the annual bonus for all employees include environmental factors.
Financial performance	A variety of financial KPIs are used within the annual bonus plan with the aim of delivering a fair return to our shareholder.

The Remuneration Committee continues to monitor variable pay arrangements for the Executive Directors and senior managers. The Remuneration Committee believes that the arrangements are appropriately managed and that the choice of performance measures and targets does not encourage undue risk taking by the executives so that the long-term performance of the business is not put at risk by considerations of short-term value. The arrangements incorporate a range of internal and external performance metrics, measuring both operational and financial performance providing a rounded assessment of overall company performance to ensure that a significant portion of executive remuneration is performance-related. More details of the remuneration policy for Executive Directors is shown later in this report.

Policy for loss of office

There are no specific provisions for compensation on early termination (except for payment in lieu of accrued but untaken holidays) or loss of office due to a change of ownership of the Company. The Committee will review all contractual obligations and will seek legal advice as and when necessary on the Company's liability to pay compensation in such circumstances. The Committee will seek to reduce the level of compensation payable taking into account, amongst other factors, the Company's and the individual's performance, the Executive Director's obligation to mitigate loss, and length of service.

Early termination payments made in the year

The auditor is required to report on this information. No Executive Director left the Company during the year.

Relative importance of spend on pay

Note 4 to the accounts shows the total employment costs of the company. An increase in the average number of employees in the year, contributed to the increase in employment costs.

	2014-15 £m	**2013-14 £m**	**Movement £m**	**Movement %**
Wages and salaries	71.8	64.5	+7.3	11.3
Social security costs	6.4	5.9	+0.5	8.5
Other pension costs	10.4	11.0	-0.6	-5.5
Total employment costs	**88.6**	**81.4**	**+7.2**	**8.8**
Charged to:				
Capital schemes	28.4	26.7	+1.7	6.4
Manpower costs	60.2	54.7	+5.5	10.1

The relative importance of total employment costs can be shown as:

Percentage of	**2014-15 %**	**2013-14 %**	**Source**
Turnover	16.4%	15.5%	Profit and loss account
Profit before tax	51.6%	50.7%	Profit and loss account
Profit after tax	63.0%	50.6%	Profit and loss account
Dividends	78.0%	68.2%	Note 8
Capital expenditure	48.5%	38.7%	Cash flow statement

Remuneration Arrangements for Executive Directors 2014-15

The following table sets out a summary of the Company's Executive Directors' remuneration package, which comprises the following elements:

- Basic salary
- Bonus (non-pensionable) subject to individual and company performance
- Pension plan
- Company car
- Private fuel allowance
- Private health insurance and executive medical screening
- Share option scheme of a parent company YTL Power International Berhad.

The table below highlights the key elements of executive remuneration and the link to company strategy, how executive remuneration is operated in practice and the link to relevant performance metrics.

Element of Pay	**Purpose and link to Company strategy**
Base Salary	To attract and retain the high calibre Executive Directors and Senior Managers needed to implement the Company's strategy and maintain its leading position in the industry. To provide a competitive salary relative to comparable companies in terms of size and complexity.
Taxable Benefits	To attract and retain high calibre Executive Directors and Senior Managers and to remain competitive in the market.
Pension	To attract and retain high calibre Executive Directors and Senior Managers and to remain competitive in the market.
Annual Bonus	To motivate and reward Executive Directors and Senior Managers for the achievement of demanding financial objectives and key strategic measures (including measures of customer satisfaction, service quality and environmental performance) over the financial year and five year regulatory period. The performance measures set are stretching in the context of the nature, risk and profile of the Company.
How operated in practice	
Base Salary	Reviewed annually and takes effect from 1 April. Review takes into consideration; • Individual responsibilities, experience and performance • Salary levels for similar sized roles in utilities and south west industrial and service markets • The level of pay increases awarded across the Company • Economic and market conditions • The performance of the Company Salaries are paid monthly.
Taxable Benefits	Benefits include: • Company car • Private medical insurance • Executive health screening • Private fuel allowance

Pension	All Executive Directors participate in the Company's defined benefit pension scheme. Executive Directors are also insured for a lump sum of up to four times their pensionable salary on death in service.
Annual Bonus	The Board of Directors sets annual performance targets for the Company prior to the commencement of each new financial year. Company and individual performance against those targets is measured at the end of the financial year and the level of bonus payable is calculated at that point. Bonuses are paid in April. The Committee has the discretion to, and does consider the effect of corporate performance on environmental and governance risks when reviewing Executive Director and senior management bonuses to ensure variable remuneration incentivises and rewards appropriate behaviour. Part of the bonus may be forfeited for under performance in respect of customer service, environmental, regulation and employee related performance targets. Annual bonus is not pensionable.
Maximum opportunity	
Base Salary	There is no prescribed maximum increase. However, Executive Director salary increases are aligned to the increases provided to all Company employees. Such increases are negotiated by the joint staff council involving management and trade union representatives.
Taxable Benefits	N/A
Pension	18.2% of base salary
Annual Bonus	Maximum bonus opportunity is 80% of base salary.
Description of performance metrics	
Base Salary	N/A
Taxable Benefits	N/A
Pension	N/A
Annual Bonus	A combination of 27 key performance indicators relating to financial, customer, assets, environmental and employee related measures and targets. An equal 20% weighting is applied to financial, customer, assets, environmental and employee related measures (health and safety, training and engagement). The committee has absolute discretion in making bonus payments.
Change to policy	
Base Salary	No change
Taxable Benefits	No change
Pension	No change
Annual Bonus	No change except that one new performance indicator relating to staff turnover was added.

A detailed explanation of each of these follows and the table below highlights some of the elements.

Component 2014/15	**Colin Skellett Chief Executive**	**Mark Watts Director**
Target bonus (% of salary)	40	40
Maximum bonus (% of salary)	80	80
Actual bonus paid (% of salary)	41	49
Share options (maximum)	Approved 87,000 Unapproved 1,913,000	Approved 87,000 Unapproved 913,000
Pension arrangement	Defined benefit [Pension in payment]	Defined benefit
Benefits	See below	See below

Benefits were company car based on list price and CO2 emissions, fuel £4,310, private medical insurance £1,870 (family).

Base Salaries and Benefits

Executive Directors' remuneration is reviewed annually by the Remuneration Committee and takes effect from 1 April. Salaries are set with reference to individual performance, experience and contribution, together with development in the relevant employment market (having regard to the upper quartile position for high performers in similar roles in the relevant employment market) and internal relativities.

Differences between Executive Directors' and Employees' Remuneration

The following differences exist between the Company's policy for the remuneration of Executive Directors and its policy for the remuneration of employees:

- Executive Directors pay is benchmarked against the upper quartile position of the South West Utilities market whilst we benchmark median pay and benefits against the South West Industrial and Service market for all fully qualified and experienced employees
- A lower level of target and maximum annual bonus opportunity applies to various employees when compared to Executive Directors. However, all employees, including Executive Directors and Senior Managers were subject to the same negotiated pay award increase
- Executive Directors (and senior managers) participate in a bonus scheme that is not available to other employees to motivate and reward them for achievement of demanding financial objectives and key strategic measures.

In general, these differences arise from the development of remuneration arrangements that are market competitive for the various categories of staff ranging from employees to Executive Directors.

The Remuneration Committee gives due consideration to the current economic climate and current market practice regarding executive salary reviews and the broader employee salary review policy at the Company.

We do not normally link pay levels to company performance measures, as this is done where appropriate through the bonus arrangements.

The Remuneration Committee has reviewed 2014-15 salaries and has determined that salaries for Executive Directors will be increased from 1 April 2015 by 1.25% for Colin Skellett and 3.4% for Mark Watts. For Colin Skellett this increase is in line with the agreed increase across the rest of the Company and for Mark Watts the Remuneration Committee considered that a higher increase in salary was warranted as the salary was low compared to the South West Utilities upper quartile.

Executive Directors' Bonuses

2014-15 Scheme

The annual bonus of Executive Directors is performance-related and designed to promote the long-term success of the Company. It is dependent on the achievement of Company and individual targets. In the case of Executive Directors these targets are weighted as 60% Company, 20% team and 20% individual.

Bonus disclosed is in relation to the performance in the year, and is paid in April following the year end.

The Company targets are 27 key performance indicators covering financial measures, customer service and efficiency measures, asset performance, environmental measures and employee matters, as shown below.

Financial – profit after corporation tax / operational costs / net capital expenditure / cash flow before dividends / dividends declared.

Customer Service and Efficiency – customer service SIM score / properties suffering unplanned supply interruptions >6 hours / restrictions on water use / internal flooding from public sewers / compliance with drinking water standards / customer contacts about water quality / customers rating service good or very good.

Assets – regulatory outputs met / volume of water leaked / properties on internal flooding register / water mains bursts / collapses, bursts on sewerage network.

Environmental – discharge permit consent / pollutions category 1, 2 and 3 / compliance with abstraction licences / greenhouse gas emissions / electricity self-generation / beaches passing EU bathing standards.

Employees – staff turnover / RIDDOR incidents / employee rating of company as good employer / compliance with training plan.

The target bonus for the Executive Directors was calculated as follows:

Target Bonus 2014/15	**Colin Skellett Chief Executive**	**Mark Watts Director**
Financial		
% of salary	4.8%	4.8%
Amount £	16,589	9,331
Customer		
% of salary	4.8%	4.8%
Amount £	16,589	9,331
Assets		
% of salary	4.8%	4.8%
Amount £	16,589	9,331
Environmental		
% of salary	4.8%	4.8%
Amount £	16,589	9,331
Employees		
% of salary	4.8%	4.8%
Amount £	16,588	9,332
Team		
% of salary	8%	8%
Amount £	27,648	15,552
Individual		
% of salary	8%	8%
Amount £	27,648	15,552
Total		
% of salary	**40%**	**40%**
Amount £	**138,240**	**77,760**

In the financial year under review, 21 of the 27 Company targets were achieved or bettered. The six company targets not achieved were properties suffering unplanned supply interruptions for more than six hours / water mains bursts / collapses, bursts on sewerage network / pollutions category 2 / electricity self-generation and RIDDOR incidents. The properties suffering unplanned supply interruptions was due to a small number of large incidents. Whilst water main bursts and sewer collapses were above target we maintained a stable serviceability assessment from Ofwat.

The electricity self-generation target is mainly due to an outage at one of our sites and delays with an advanced digestion scheme at another site. The overall number of pollution incidents was below target but there were three category 2 pollutions against the target of two. The number of RIDDOR incidents was marginally over target.

The actual bonus payments are shown in the Directors' Emoluments table. The detail of how these bonus payments were calculated is shown below.

Actual Bonus 2014/15	**Colin Skellett Chief Executive**	**Mark Watts Director**
Financial		
% of salary	4.92%	5.88%
Amount £	16,800	11,520
Customer		
% of salary	4.92%	5.88%
Amount £	16,800	11,520
Assets		
% of salary	4.92%	5.88%
Amount £	16,800	11,520
Environmental		
% of salary	4.92%	5.88%
Amount £	16,800	11,520
Employees		
% of salary	4.92%	5.88%
Amount £	16,800	11,520
Team		
% of salary	8.2%	9.8%
Amount £	28,000	19,200
Individual		
% of salary	8.2%	9.8%
Amount £	28,000	19,200
Total		
% of salary	**41%**	**49%**
Amount £	**140,000**	**96,000**

Annual bonus payments to Executive Directors are not pensionable.

Pensions

Executive Directors are members of the Wessex Water defined benefit pension scheme. The scheme is a HMRC registered defined benefit occupational pension scheme. The Executive Directors are members of the WPS section which provides:

- A normal retirement age of 65 years
- A pension at normal retirement age based on 1/60th of completed pensionable service and final pensionable salary
- Life cover of four times basic salary including bonus
- A pension payable in the event of retirement on grounds of ill health
- A dependant's pension on death of two thirds of the member's pension
- Guaranteed increases in line with price inflation (subject to a maximum of 5% each year).

Members' contributions are payable at the rate of 8% of basic salary, with the Company making a further 18.2% contribution. Early payment of pension is available from age 55 with the consent of the Company. Any pension would be subject to a reduction, based on rates the trustees consider appropriate, acting on actuarial advice, to reflect the expected longer payment of the pension. No additional pension will become receivable by a Director if that Director retires early.

In the event of incapacity, an unreduced pension is payable immediately. Incapacity pensions can be paid on either a "partial" or "full ill health" basis depending on the conditions met. A full ill health pension is topped up to give additional service to age 65, subject to a maximum of 20 years.

Under the Trust Deed and Rules, pensions in payment in excess of any guaranteed minimum pension are guaranteed to increase in line with price inflation subject to a maximum of 5% each year. In the calculation of individual cash equivalent transfer values, allowance is made for such increases.

As a result of the changes in pension legislation for high earners, Wessex Water has introduced the following options for individuals under age 55 who are affected by the tax changes:

- continue in the scheme, with individuals meeting any tax liabilities as they fall due; or
- continue in the scheme with a capped pensionable salary which restricts pension growth to the annual allowance limit (£50,000 pa) and receive a cash supplement in lieu of pension entitlement on the excess salary. The cash supplement is based on the employer contribution rate to the scheme, currently 18.2%.

Mark Watts received a cash supplement of 18.2% of excess salary above the capped salary for pension purposes.

Executive Directors' Service Contracts

All Executive Directors' service contracts are terminable by either the Company or the Executive Director providing 12 months' notice. There is a theoretical maximum payment in case of redundancy of 100% of salary inclusive of allowances and benefits plus their redundancy entitlement. There are no specific contractual payments or benefits which would be triggered in the event of a change in control of the Company.

Executive Directors	**Date of current agreement**	**Date of appointment as Executive Director**	**Notice Period**
Colin Skellett	01/04/2014	01/09/1989	12 months
Mark Watts	01/04/2014	16/03/2010	12 months

Executive Directors' service contracts are available for inspection during normal office hours at the registered office, Wessex Water, Claverton Down Road, Bath BA2 7WW.

The Remuneration Committee will continue to review the contractual terms for Executive Directors to ensure they reflect best practice and are compliant with employment law. No new Executive Directors were appointed during the financial year under review.

None of the Executive Directors served as a Non-Executive Director for another company.

Non-Executive Directors

The remuneration policy for Independent Non-Executive Directors is determined by the Board. The remuneration reflects the time commitment and responsibilities of the role.

The breakdown of the Independent Non-Executive Directors' fees from 1 April 2014 is shown in the Directors' Emoluments table below. Independent Non-Executive Directors do not participate in share or bonus schemes or any other performance-related scheme, nor is any pension provision made.

Independent Non-Executive Directors are normally appointed for three-year terms (subject to statutory provisions relating to the removal of a Director) that may be renewed. They do not have service contracts but their terms of engagement are regulated by letters of appointment (copies of which are available on the Company's website).

Any term beyond six years for an Independent Non-Executive Director is subject to particularly rigorous review and takes into account the need for progressive refreshing of the Board balanced against the requirement for skills, experience, independence and knowledge.

Non-Executive Directors appointed by the shareholder do not receive any fees or other payments from the Company.

Directors' Emoluments

The table below shows the emoluments for the current year.

The auditor is required to report on the information in the following tables for 2014-15.

2014-15	**Salary £000**	**Bonus £000**	**Benefits £000**	**Pension contributions £000**	**Total £000**
David Barclay	80	-	-	-	80
Gillian Camm	60	-	-	-	60
Peter Costain	60	-	-	-	60
Huw Davies	35	-	-	-	35
Fiona Reynolds	60	-	-	-	60
Colin Skellett	346	140	23	-	509
Mark Watts	201	96	17	29	343
Total £000	**842**	**236**	**40**	**29**	**1,147**

1. No emoluments earned by Francis Yeoh, Hann Yeoh, Hong Yeoh, Mark Yeoh or Kathleen Chew.
2. Huw Davies and Peter Costain part year in 2014-15.
3. Benefits comprise private medical insurance, company car and fuel benefits.
4. Two Directors received emoluments for services to other Group Companies, Colin Skellett £267k and Mark Watts £205k. The Audit Committee was satisfied that services provided to other Group Companies do not reduce the effectiveness of the Directors' provision of services to the Company.

The table below shows the emoluments for the prior year.

2013-14	**Salary £000**	**Bonus £000**	**Benefits £000**	**Pension contributions £000**	**Total £000**
David Barclay	80	-	-	-	80
Gillian Camm	55	-	-	-	55
Sean Cater	189	88	13	33	323
Peter Costain	80	-	-	-	80
David Elliott	174	90	15	32	311
Andy Pymer	154	90	19	28	291
Fiona Reynolds	55	-	-	-	55
Colin Skellett	335	138	22	-	495
Mark Watts	194	88	15	28	325
Total £000	**1,316**	**494**	**84**	**121**	**2,015**

Chief Executive

No remuneration was paid to the Chairman. The total remuneration for the director performing the role of Chief Executive (Colin Skellett) was:

	Remuneration 2014-15 £000	**Remuneration 2013-14 £000**	**% change**
WWSL			
Salary	346	335	3.3%
Bonus	140	138	1.4%
Benefits	23	22	4.5%
Other group companies			
Salary	86	84	2.4%
Bonus	175	134	30.6%
Benefits	6	6	-
Total	**776**	**719**	**7.9%**
All employees WWSL			
Wages and salaries	71,800	64,500	11.3%
Social security costs	6,400	5,900	8.5%
Other pension costs	10,400	11,000	-5.5%
Total	**88,600**	**81,400**	**8.8%**

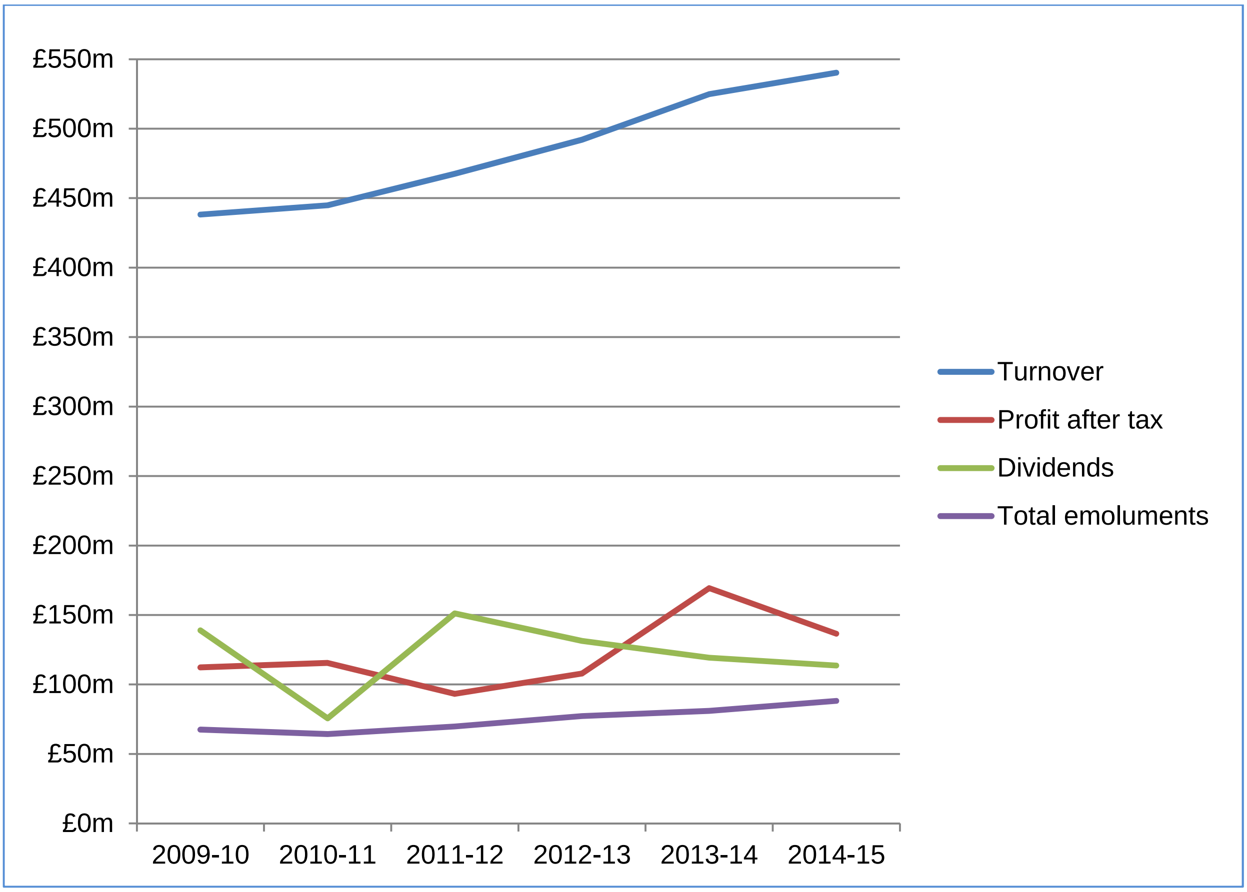
Included in the 2014-15 remuneration for the Chief Executive was a bonus of £140k representing 41% of salary, the target bonus being 40% of salary and the maximum 80% of salary.

Comparison with remuneration increase for all employees:

The pay increase awarded to the employees of the Company on 1 April 2014, for the year 2014-15, was a 3.35% increase over the preceding year.

Remuneration Link to Performance

The table below compares the movement over six years in total emoluments of the Company with the movement in the key financial performance measures of turnover, profit after tax and dividends.



Dividends are as declared in the year.

Total emoluments include Directors' emoluments.

Executive Directors' Defined Benefit Pension Provision

	Pension service completed in years (1)	Normal retirement date at 65	Accrued pension at 31/3/2014 £pa	Increase in accrued pension during the year £pa	Accrued pension at 31/3/2015 £pa
Colin Skellett (2)	41	n/a (2)	162,279	6,975	169,254
Mark Watts	26	19/9/2026	79,790	4,653	84,443

(1) Including transfers in and bonus years
(2) Pension in payment

Executive Directors' Share Interests

Share Options

YTL Power International Berhad (a parent company and itself a subsidiary of YTL Corporation Berhad) operates a share option scheme under which options are granted to employees of the Company. The terms of the scheme are specified under the YTL Power ESOS (2011 UK part) known as the "2011 UK Plan".

The majority of options are issued under terms approved by HMRC (the "Approved" scheme) but some are issued to senior employees under an "Unapproved" scheme. The options are for ordinary shares in YTL Power International Berhad of Malaysian Ringgit RM0.50 each.
The Executive Directors have been granted ordinary share options of Malaysian Ringgit RM0.50 each in YTL Power International Berhad under the 2011 UK Plan. The exercise of share options granted is not subject to any performance criteria, other than continued employment within the group.

Share options held by Executive Directors at the start and end of the financial year, and the exercise price of those share options are shown in the table below:

	Opening number 31/3/2014	Exercise price RM	Date of grant	Exercise date	Expiry date	Closing number 31/3/2015
Colin Skellett	87,000	1.65	1/6/2012	1/6/2015	31/3/2021	87,000
Colin Skellett	1,913,000	1.41	1/6/2012	1/6/2015	31/3/2021	1,913,000
Mark Watts	87,000	1.65	1/6/2012	1/6/2015	31/3/2021	87,000
Mark Watts	913,000	1.41	1/6/2012	1/6/2015	31/3/2021	913,000

Approved options were granted at an exercise price of RM1.65. Unapproved options were granted at an exercise price of RM1.49, which was adjusted to RM1.41 following the distribution to all shareholders of one share for every 20 ordinary shares held as at 13 March 2014.

The share price at 31 March 2015 was RM1.50 or £0.27.

Share Warrants

YTL Power International Berhad (a parent company) issued share warrants in 2008 at a price of RM0.10 that entitled the owner of the warrant to convert the warrant into ordinary shares of Malaysian Ringgit RM0.50 each in YTL Power International Berhad, at an exercise price of RM1.21 over a period of 10 years. The Executive Directors held the following share warrants during the year.

	Exercise price RM	Date of grant	Expiry date	Opening number 31/3/2014	Exercised 8/8/2014	Closing number 31/3/2015
Mark Watts	1.21	12/6/2008	11/6/2018	37,800	(37,800)	0

The exercise of share warrants is not subject to any performance criteria.

Shares Held

There are no shares held by the Directors in the Company or the UK parent company.
The Executive Directors held the following ordinary shares of Malaysian Ringgit RM0.50 each in YTL Power International Berhad (a parent company), at the start and end of the accounting period.

	Opening number 31/3/2014	Closing number 31/3/2015
Mark Watts	350,230	388,030

The share price at 31 March 2015 was RM1.50 or £0.27.

Remuneration Arrangements for Executive Directors 2015-16

Component	Colin Skellett Chief Executive	Mark Watts Director
Target bonus (% of salary)	50	50
Maximum bonus (% of salary) of which a proportion is withheld until 2020 under LTIP arrangements	100	100
Share options (maximum)	Approved 87,000 Unapproved 1,913,000	Approved 87,000 Unapproved 913,000
Pension arrangement	Defined Benefit [Pension in payment]	Defined benefit
Taxable Benefits	Company car, fuel and private medical insurance	

Bonus scheme 2015-16

For 2015-16 the performance indicators were reset to reflect the corporate targets in the new five year regulatory period. There are now 32 measures as shown below:

Financial – profit after corporation tax / operational costs / gross capital expenditure / cash flow before dividends / dividends declared.

Customers – Service Incentive Mechanism combined score / customers rating service good or very good / customers rating ease of resolution / compliance with drinking water standards / customer contacts about drinking water quality / volume of water saved through water efficiency / properties supplied by a single source of water / properties suffering supply interruptions > 3 hours / volume of water leaked / restrictions on water use / internal flooding incidents per 10,000 properties / overall risk of flooding grid score.

Environment and Assets – EA's Environmental Performance Assessment / bathing water failures due to WWSL activities / Biodiversity Action Plan landholding assessed and managed / greenhouse gas emissions / proportion of electricity self-generated / all regulatory outputs met / compliance with abstraction licences / water main bursts / monitoring of CSO's presenting a risk to the environment / collapses and bursts on sewerage network.

Employees – RIDDOR incidents per 1,000 employees / employee rating company as a good employer / compliance with training plan / staff turnover / diversity plan progress as assessed by Corporate Responsibility Committee.

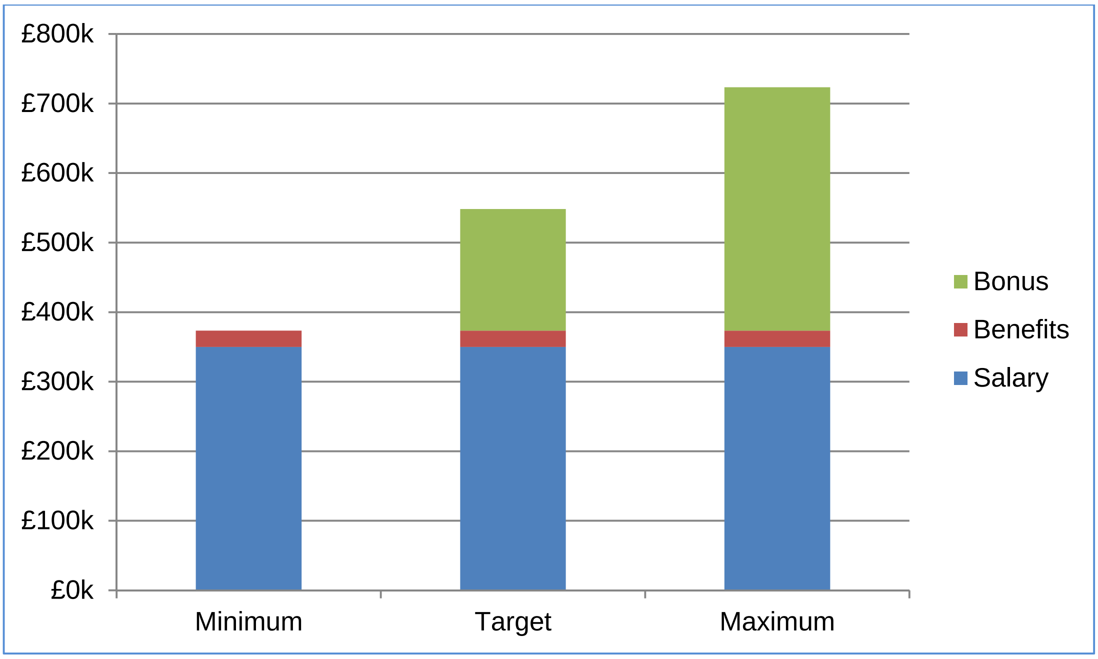
Target Bonus 2015-16	**Colin Skellett Chief Executive**	**Mark Watts Director**
Financial		
% of salary	10.0%	10.0%
Amount £	34,992	20,800
Customer		
% of salary	10.0%	10.0%
Amount £	34,992	20,800
Environment and Assets		
% of salary	10.0%	10.0%
Amount £	34,992	20,800
Employees		
% of salary	10.0%	10.0%
Amount £	34,992	20,800
Individual		
% of salary	10.0%	10.0%
Amount £	34,992	20,800
Total		
% of salary	**50%**	**50%**
Amount £	**174,960**	**104,000**

Long term incentive scheme from 1 April 2015

In September 2014, the Financial Reporting Council published a revised code of practice of the UK corporate governance code which introduced new provisions relating to executive remuneration, including a change that, remuneration policies must be designed to promote the long term success of the Company. The Remuneration Committee approved the establishment of a long term incentive plan for Directors whereby 20% of any above target bonus element earned will be held back for payment at the end of AMP6 in 2020. The Company will match the value of the retained bonus payment, up to 100%. The long term incentive payment will be paid to Directors in April 2020.

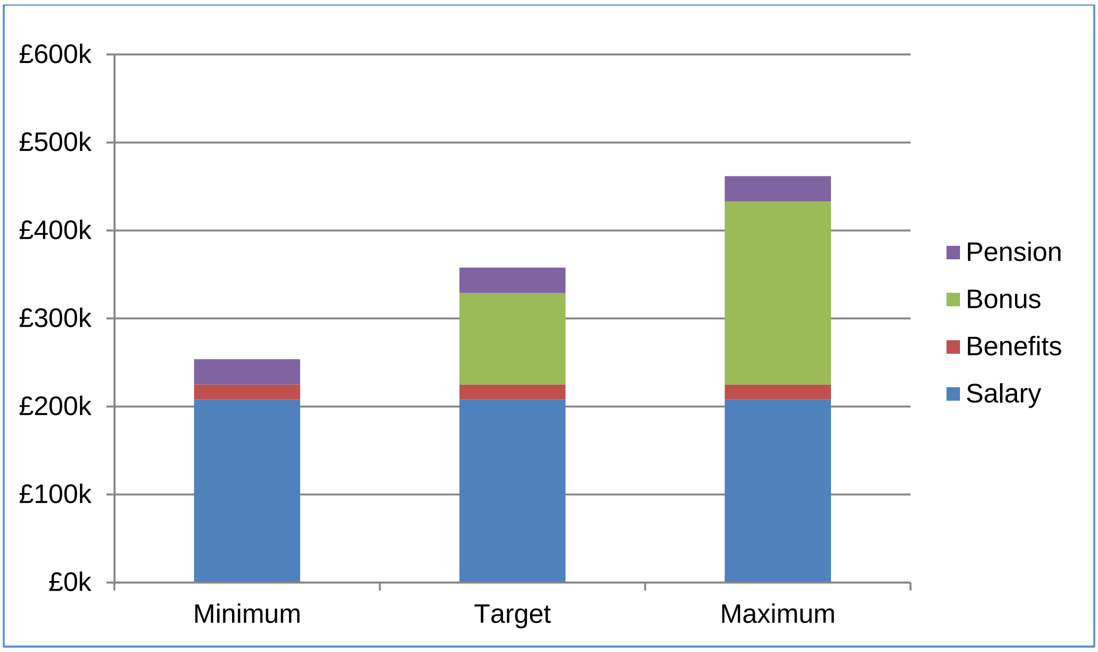
Illustrations of Remuneration Policy

A) Chief Executive Officer – Colin Skellett (using estimated 2015-16 data)



Minimum assumes no bonus earned, target assumes 50% bonus earned and maximum assumes 100% bonus earned. No employer pension contributions.

B) Director of Finance – Mark Watts (using estimated 2015-16 data)



Minimum assumes no bonus earned, target assumes 50% bonus earned and maximum assumes 100% bonus earned.

Directors' Report

The Directors have pleasure in presenting their report and the audited non-statutory accounts (subsequently referred to as accounts) for the year to 31 March 2015. The financial year end of all Group Companies is 30 June, but under the conditions of appointment of the Company (under the Water Industry Act 1991) the Company is required to prepare regulatory accounts for the 12 months ended 31 March each year.

Non-statutory accounts have been prepared for the same period to allow users of the regulatory accounts to reconcile those results to the Company accounts. Under the terms of its Licence as a water and sewerage undertaker the Company is required to prepare a statement of corporate governance as if it were a listed company.

The Directors consider the annual report taken as a whole, to be fair, balanced, and understandable and that it provides the information necessary for the shareholders to assess the Company's performance, business model and strategy.

Principal activities

The main activities of the Company are the supply of water and the treatment and disposal of waste water.

In November 2009 the industry regulator Ofwat announced a limit of a 1.5% price increase for Wessex Water Services Ltd from 1 April 2014, before adjustment for inflation. The Company decided not to implement the 1.5% price increase at 1 April 2014, with the result that prices rose only by inflation.

In December 2014 the industry regulator Ofwat announced the final price control determination for the five year period to March 2020. The price control for this period has been extended from one price control to four price controls covering:

- wholesale water
- wholesale waste water
- household retail
- non-household retail.

The Directors have accepted the price review for the next five years.

Sustainability

Wessex Water Services Ltd has a sustainability vision that guides our progress towards being a sustainable water company. The sustainability vision is reviewed bi-annually.

The Company's Sustainability Panel monitors progress and discusses major issues of current and future concern.

Employment

Wessex Water Services Ltd 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 ongoing professional development to enable them to compete or qualify for positions, or to progress, within the Company.

Environmental policy

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

Ethical policy

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

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

Research and development

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

Market value of land and buildings

In the opinion of the Directors, the market value of land and buildings of the Company exceeds the book value of these assets at 31 March 2015.

Supplier payment policy

The policy in respect of suppliers is to agree the payment terms for transactions in advance and to make payments in accordance with those terms. At 31 March 2015 trade creditors represented approximately 31 days trade purchases (2014 - 33 days).

The Company does not follow any specific external code or standard on payment policy.

Charitable donations

During the year £450,000 was donated to UK charities (2014 - £494,000) of which £325,000 (2014 - £336,000) was donated to local debt advice agencies to help provide debt and financial advice to customers in our area who are struggling to pay their water bills.

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 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 Company's auditor is aware of that information.

Auditor

A resolution to re-appointment KPMG LLP as auditor of the Company will be put to the forthcoming Board meeting.

By order of the Board
Andrew Phillips - Company Secretary
Claverton Down
Bath BA2 7WW
25 June 2015

Statement of Directors' Responsibilities

The Directors of Wessex Water Services Limited ('the Directors') have accepted responsibility for the preparation of these non-statutory accounts for the year ended 31 March 2015 which are intended by them to give a true and fair view of the state of affairs of the Company and of the profit for that period. They have decided to prepare the non-statutory accounts in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU).

In preparing these non-statutory accounts, the Directors have:

- selected suitable accounting policies and applied them consistently;
- made judgements and estimates that are reasonable and prudent;
- stated whether applicable UK Accounting Standards have been followed; subject to any material departures being disclosed and explained in the non-statutory accounts; and
- prepared the non-statutory accounts on the going concern basis as they believe that the Company will continue in business.

The Directors 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.

The Directors have decided to prepare voluntarily a Directors' Remuneration Report in accordance with Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 made under the Companies Act 2006, as if those requirements were to apply to the Company. The Directors have also decided to prepare voluntarily a Corporate Governance Statement in line with the guidance issued by Ofwat.

Independent Auditor's report to the Directors of Wessex Water Services Limited

Opinions and conclusions arising from our audit

1 Our opinion on the non-statutory accounts is unmodified

We have audited the non-statutory accounts of Wessex Water Services Limited for the year ended 31 March 2015 set out on pages 79 to 118. In our opinion the non-statutory accounts:

- give a true and fair view of the state of the Company's affairs as at 31 March 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU); and
- have been prepared in accordance with the requirements of the Companies Act 2006, as if those requirements were to apply.

2 Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements the risks of material misstatement that had the greatest effect on our audit were as follows:

- **Classification of costs between operating expenditure and capital expenditure (£207.9million):**

  Refer to page 47 (Report from the Audit Committee), page 85 (accounting policy), page 95 (financial disclosures).

  The risk – The Company incurs a high level of expenditure on fixed assets, including repair and maintenance, and enhancement costs. There is a high degree of judgement involved in determining whether costs, both initial and subsequent expenditure, including employee and other internal expenditure, on both infrastructure and non-infrastructure assets, meet the relevant criteria for capitalisation (directly attributable to the asset, provide probable economic benefit and can be measured reliably). Due to the significant impact of the decision to classify expenses as operating or capital on both the Company's profit and the balance sheet this is one of the key judgemental areas in our audit.

  Our response – In this area our audit procedures included the assessment of both the Company's capitalisation policy against the requirements of the accounting standards, and the application of this policy to costs incurred in the year over both infrastructure and non-infrastructure assets. Our controls testing included selecting a sample of projects throughout the financial year to check that the classification of expenditure is subject to review and authorisation from the appropriate level within the business hierarchy. Our substantive testing assessed the judgements made over this sample of projects. We held discussions with project managers and challenged the level of capitalisation based on the Company's accounting policy for classification of expenditure. We compared the level of employee and other internal expenditure incurred against prior year balances and current year budget information to identify material changes in the nature or quantum of costs capitalised, with any significant movements corroborated and investigated where necessary.

- **Provision for doubtful debtors (£41.3million)**

  Refer to page 47 (Report from the Audit Committee), page 88 (accounting policy), page 109 (financial disclosures).

  The risk – The provision for doubtful debts is a significant risk area due to the statutory requirement to provide water to customers who will be unable to pay. The calculation is considered a key audit risk as a result of the complexity of the calculation, its subjective nature, and because of its size and the fact that any change in the balance sheet provision would directly affect profit. The provision methodology is based upon two key components, the ageing of the debtors and the differing payment types. The differing payment types include, among others, direct debit, standing order and pay books. The method of payment affects the provision as historical experience indicates that the risk profile differs based upon the payment type. The Directors are required to make assumptions such as the percentage of debtors in each ageing category that require provision. Judgement is required in determining what percentages should apply under the methodology, as they are based upon historical cash collection trends, economic trends and pricing levels. An inappropriate choice of percentage or error in the mathematical application of the methodology could result in a material variance in the level of provision required.

Our response - In this area our audit procedures included, among others, an assessment of whether the calculation incorporated appropriate relevant information, risks and data. This included a consideration of whether the provision methodology incorporated all of the different payment types to accurately calculate the level of irrecoverable debt; a recalculation of the bad debt provision calculation to test the mathematical accuracy; testing the completeness and accuracy of the data extracted from the Company's billing system used to calculate the provision and considering the data in respect of historical cash collection rates. We challenged the Directors' assumptions over the percentages applied to each ageing category and payment profile, based on our analysis of historical trends, operational performance, historical write offs, economic trends, pricing levels and the level of provisioning across the industry obtained through a KPMG bad debt benchmarking exercise that is performed across the sector. We have also considered the adequacy of the Company's disclosures about the degree of estimation uncertainty involved in calculating the provision.

- **Accuracy of the pensions assumptions in relation to the defined benefit scheme and their impact on the pension liability (£140.2million)**

Refer to page 47 (Report from the Audit Committee), page 87 (accounting policy), page 99 (financial disclosures).

The risk – The pensions assumptions are considered a key audit risk based upon their subjective nature, and the material impact which these can have on the profit and loss account and the balance sheet. The risk is that the assumptions used around key areas such as discount rates, retail price index, mortality rates and the expected return on equities are outside of an acceptable range, which could lead to over-or-understatement of the liability with a corresponding effect on total comprehensive income.

Our response - In this area our audit procedures included, among others, an assessment, with the help of our own actuarial specialists, of whether the assumptions used, being the discount rate, retail price index, mortality rates and expected return on equities, were within an acceptable range by comparison against external market data and assumptions made across a range of similar schemes. We have also considered whether the actuarial calculations based on the assumptions of the Directors, were based on the appropriate scheme assets and liabilities. We have also considered the adequacy of the Company's disclosures in respect of the sensitivity of the deficit to changes in the assumptions.

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

The materiality for the financial statements as a whole was set at £12.2 million. This has been determined with reference to a benchmark of the Company's profit before tax (of which it represents 7%), which we consider to be one of the principal considerations for members of the Company in assessing its financial performance.

Our audit of the Company was undertaken to the materiality level specified above and was all performed at the Company's head office in Bath.

We report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £610,000, in addition to other identified misstatements that warranted reporting on qualitative grounds.

4 Our opinion on the Directors' Remuneration Report is unmodified

In addition to our audit of the non-statutory accounts, the Directors have engaged us to audit the information in the Directors' Remuneration Report that is described as having been audited, which the Directors have decided to prepare as if the Company were required to comply with the requirements of Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008 No. 410) made under the Companies Act 2006.

In our opinion the part of the Directors' Remuneration Report which we were engaged to audit has been properly prepared in accordance with Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, as if those requirements were to apply to the Company.

5 We have nothing to report in respect of matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual review and accounts that contains a material inconsistency with either that knowledge or the non-statutory accounts, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the Directors' statement that they consider that the annual review and accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy; or
- the Audit Committee Report does not appropriately address matters communicated by us to the audit committee.

In addition to our audit of the non-statutory accounts, the Directors have engaged us to review their Corporate Governance Statement in line with the guidance issued by Ofwat.

We have nothing to report in respect of the above responsibilities.

Scope and responsibilities

As explained more fully in the Statement of Directors' Responsibilities set out on page 75, the Directors are responsible for the preparation of the non-statutory accounts, which are intended by them to give a true and fair view. A description of the scope of an audit of accounts is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeother2014b, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Andrew Campbell-Orde
for and on behalf of KPMG LLP
Chartered Accountants
100 Temple Street
Bristol BS1 6AG

25 June 2015

Income Statement
For the year ended 31 March 2015

	Note	**2015**	2014
		£m	£m
Revenue	*1,2*	**540.3**	524.9
Raw materials and consumables used		**(32.4)**	(33.9)
Staff costs		**(60.2)**	(54.7)
Depreciation and amortisation		**(99.7)**	(96.5)
Other expenses		**(99.6)**	(98.3)
Total expenses	*3*	**(291.9)**	(283.4)
Operating profit	*2*	**248.4**	241.5
Financial income	*6*	**0.4**	0.9
Financial expenses	*6*	**(77.0)**	(82.0)
Net financing expense		**(76.6)**	(81.1)
Profit before tax		**171.8**	160.4
Taxation	*7*	**(31.1)**	0.6
Profit for the year		**140.7**	161.0

Statement of Other Comprehensive Income

For the year ended 31 March 2015

	2015 £m	2014 £m
Profit for the year	**140.7**	161.0
Other comprehensive income		
Items that will not be reclassified to profit or loss:		
Remeasurements of defined benefit liability	**(52.7)**	27.1
Income tax on items that will not be reclassified to profit or loss	**10.5**	(9.0)
Other comprehensive income for the year, net of income tax	**(42.2)**	**18.1**
Total comprehensive income for the year	**98.5**	**179.1**

Balance Sheet

At 31 March 2015

	Note	**2015 £m**	2014 £m	2013 £m
Non-current assets				
Property, plant and equipment	*9*	**3,237.9**	3,132.5	3,003.9
Investments in subsidiaries	*10*	**-**	-	-
		3,237.9	3,132.5	3,003.9
Current assets				
Inventories	*11*	**6.6**	6.4	7.0
Trade and other receivables	*12*	**171.0**	173.6	162.6
Cash and cash equivalents	*13*	**47.0**	88.0	181.0
		224.6	268.0	350.6
Total assets		**3,462.5**	3,400.5	3,354.5
Current liabilities				
Bank overdraft	*14*	**-**	(19.4)	(21.8)
Other interest-bearing loans and borrowings	*14*	**(4.1)**	(9.2)	(7.0)
Trade and other payables	*15*	**(171.4)**	(150.0)	(171.0)
		(175.5)	(178.6)	(199.8)
Non-current liabilities				
Other interest-bearing loans and borrowings	*14*	**(1,890.8)**	(1,899.7)	(1,889.3)
Other payables	*15*	**(0.4)**	(0.5)	(1.0)
Employee benefits	*16*	**(141.4)**	(91.8)	(120.5)
Deferred income	*17*	**(209.1)**	(179.3)	(148.9)
Provisions	*18*	**(2.0)**	(0.1)	(0.1)
Deferred tax liabilities	*19*	**(375.8)**	(367.9)	(372.1)
		(2,619.5)	(2,539.3)	(2,531.9)
Total liabilities		**(2,795.0)**	(2,717.9)	(2,731.7)
Net assets	*2*	**667.5**	682.6	622.8
Equity				
Share capital	*20*	**-**	81.3	81.3
Retained earnings		**667.5**	601.3	541.5
Total equity		**667.5**	682.6	622.8

These financial statements were approved by the Board of Directors on 25 June 2015 and were signed on its behalf by:

Colin Skellett – Chief Executive

Mark Watts - Director

Company registered number: 2366648

Statement of Changes in Equity
For the year ended 31 March 2015

	Note	Share capital £m	Retained earnings £m	Total equity £m
Balance at 1 April 2013		81.3	541.5	622.8
Effect of change in accounting policy		-	-	-
Balance at 1 April 2013 restated		81.3	541.5	622.8
Total comprehensive income for the year				
Profit for the year		-	161.0	161.0
Other comprehensive income		-	18.1	18.1
Total comprehensive income for the year		-	179.1	179.1
Transactions with owners, recorded directly in equity				
Dividends	*8*	-	(119.3)	(119.3)
Total contributions by and distributions to owners		-	(119.3)	(119.3)
Balance at 31 March 2014		81.3	601.3	682.6
Balance at 1 April 2014		81.3	601.3	682.6
Total comprehensive income for the year				
Profit for the year		-	140.7	140.7
Other comprehensive income		-	(42.2)	(42.2)
Total comprehensive income for the year		-	98.5	98.5
Transactions with owners, recorded directly in equity				
Share capital reduction	*20*	(81.3)	81.3	-
Dividends	*8*	-	(113.6)	(113.6)
Total contributions by and distributions to owners		(81.3)	(32.3)	(113.6)
Balance at 31 March 2015		-	667.5	667.5

Included in retained earnings are £553.8m of un-distributable reserves (2014 - £559.0m and 2013 - £564.1m) created on first time adoption of IFRS when restating infrastructure assets to fair value (see note 20).

Cash Flow Statement
For the year ended 31 March 2015

	Note	**2015**	2014
		£m	£m
Cash flows from operating activities			
Profit for the year		**140.7**	161.0
Adjustments for:			
Depreciation, amortisation and impairment		**99.7**	96.5
Financial income		**(0.4)**	(0.9)
Financial expense		**77.0**	82.0
Taxation		**31.1**	(0.6)
		348.1	338.0
Decrease/(increase) in trade and other receivables		**2.7**	(9.9)
(Increase)/decrease in inventories		**(0.2)**	0.6
Increase in trade and other payables		**21.4**	4.5
(Decrease) in provisions and employee benefits		**(5.4)**	(7.7)
		18.5	(12.5)
Tax paid		**(9.7)**	(29.5)
Net cash from operating activities		**356.9**	296.0
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**0.8**	0.7
Interest received		**0.3**	0.8
Acquisition of property, plant and equipment		**(182.8)**	(210.5)
Proceeds from infrastructure charges and capital contributions		**6.1**	7.3
Net cash from investing activities		**(175.6)**	(201.7)
Cash flows from financing activities			
Proceeds from new loan		**100.0**	-
Interest paid		**(57.0)**	(58.2)
Repayment of borrowings		**(100.0)**	-
Payment of finance lease liabilities		**(30.7)**	(7.4)
Dividends paid		**(115.2)**	(119.3)
Net cash from financing activities		**(202.9)**	(184.9)
(Decrease) in cash and cash equivalents		**(21.6)**	(90.6)
Cash and cash equivalents at 1 April		**68.6**	159.2
Cash and cash equivalents at 31 March	*13,14*	**47.0**	68.6

Notes to the financial statements

1. Accounting policies

1.1 Basis of preparation

Wessex Water Services Limited is a Company incorporated and domiciled in the UK.

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 and in preparing an opening IFRS balance sheet at 31 March 2013 for the purposes of the transition to Adopted IFRSs.

Judgements made by the Directors, in the application of these accounting policies, that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 28.

Group accounts have not been prepared as under section 400 of the Companies Act 2006 the Company and its subsidiary are included in the consolidated financial statements of Wessex Water Ltd (see note 26).

The non-statutory accounts do not constitute the Company's statutory accounts for the years ended 31 March 2015 or 2014. 31 March 2015 is not the accounting reference date for the Company. The latest statutory accounts of the Company were for the years ended 30 June 2014 and 30 June 2013. Both these statutory accounts have been delivered to the Registrar of Companies. The auditor has reported on both these statutory accounts; the reports were unqualified and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006. The next statutory accounts of the Company will be prepared for the year ending 30 June 2015.

As explained on page 72, these non-statutory accounts have been prepared by the Directors for the same period as the regulatory accounts which have to be prepared for the 12 month period ending 31 March each year in order to allow a user of the regulatory accounts to reconcile them to historical cost accounts of the Company.

1.2 Transition to adopted IFRSs

The Company is preparing its financial statements in accordance with Adopted IFRSs for the first time and consequently has applied IFRS 1. An explanation of how the transition to Adopted IFRSs has affected the reported financial position and financial performance of the Company is provided in note 29.

IFRS 1 grants certain exemptions from the full requirements of Adopted IFRSs in the transition period. In the preparation of these financial statements the Company used the exemption in respect of deemed cost to arrive at the fair value on adoption of IFRS, and the exemption on transfers of assets to customers in respect of the treatment of sewer adoptions.

1.3 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.

1.4 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.

1.5 Foreign currency

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

1 Accounting policies *(continued)*

1.5 Foreign currency (continued)

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

1.6 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.

1.7 Property, plant and equipment

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

Infrastructure assets have been revalued to fair value on 1 April 2013, the date of transition to Adopted IFRSs, and are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

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

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

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

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

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

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

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

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

1 Accounting policies *(continued)*

1.8 Intangible assets and goodwill

Goodwill

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

Research and development

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

1.9 Investment property

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

1.10 Inventories

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

1.11 Impairment excluding inventories and deferred tax assets

Financial assets (including receivables)

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

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

Non-financial assets

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

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

1 Accounting policies *(continued)*

1.12 Employee benefits

Defined benefit plans

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

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

Defined contribution plans

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

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

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

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

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

Short-term benefits

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

Share-based payment transactions

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

1 Accounting policies *(continued)*

1.13 Provisions

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

1.14 Revenue

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

1.15 Deferred income

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

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

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

1.16 Bad debt policy

Debt is written off for one of four reasons;

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

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

1.17 Expenses

Operating lease payments

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

Finance lease payments

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

1 Accounting policies *(continued)*

1.17 Expenses (continued)

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.

1.18 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.

1.19 Non-current assets held for sale and discontinued operations

A non-current asset or a group of assets containing a non-current asset (a disposal group) is classified as held for sale if its carrying amount will be recovered principally through sale rather than through continuing use, it is available for immediate sale and sale is highly probable within one year.

A discontinued operation is a component of the Company's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative income statement is restated as if the operation has been discontinued from the start of the comparative period.

1.20 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 Accounting policies *(continued)*

1.21 Adopted IFRS not yet applied

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

- IFRS 9 Financial Instruments (Mandatory for years commencing on or after 1 January 2018)
- IFRS 14 Regulatory Deferral Accounts (Mandatory for years commencing on or after 1 January 2016)
- IFRS 15 Revenue from Contracts with Customers (Mandatory for years commencing on or after 1 January 2017)
- Amendments to IAS 16 and IAS 28 Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendment to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations.

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

2 Segmental analysis

	2015	2014
	£m	£m
Turnover		
Regulated	**532.9**	516.9
Unregulated	**7.4**	8.0
	540.3	524.9
Operating profit		
Regulated	**248.4**	241.5
Unregulated	**-**	-
	248.4	241.5
Net assets		
Regulated	**667.5**	682.6
Unregulated	**-**	-
	667.5	682.6

3 Expenses and auditor's remuneration

Included in profit are the following:

Impairment loss on other trade receivables and prepayments	**12.1**	11.5
Research and development expenses as incurred	**0.1**	0.1
	£'000	£'000
Auditor's remuneration:		
Audit of these financial statements	**156**	149
Taxation compliance services	**10**	14
AMP6 price review services	**49**	114
Other costs	**167**	58
	382	335

4 Staff numbers and costs

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

	Number of employees	
	2015	2014
Average number of employees	**1,915**	1,860

The aggregate payroll costs of these employees was:

	2015	2014
	£m	£m
Wages and salaries	**71.8**	64.5
Share based payments	**-**	-
Social security costs	**6.4**	5.9
Pension costs	**10.4**	11.0
	88.6	81.4
These costs were allocated as follows:		
Capital schemes	**28.4**	26.7
Operating expenses	**60.2**	54.7
	88.6	81.4

5 Directors' remuneration

	2015	2014
	£'000	£'000
Total Directors' remuneration including benefits in kind	**1,147**	2,015
Remuneration of highest paid Director	**509**	495

Details of Directors' remuneration can be found in the Remuneration Committee Report. Directors' remuneration is in respect of two Executive Directors, five Non-Executive Directors and five YTL appointed Directors (2014 - five Executive Directors, four Non-Executive Directors and four YTL appointed Directors).

6 Finance income and expense

Recognised in the income statement

	2015 £m	2014 £m
Finance income		
Interest receivable on short-term bank deposits	**0.4**	0.9
Total finance income	**0.4**	0.9
Finance expense		
To fellow subsidiary undertakings	**(69.9)**	(74.5)
Net interest on net defined benefit pension plan liability	**(4.2)**	(5.3)
On bank loans and leases	**(2.9)**	(2.2)
	(77.0)	(82.0)
Net interest payable	**(76.6)**	(81.1)

In accordance with IAS 23 borrowing costs of £2.4m (2014 - £0.8m) associated with the funding of eligible capital projects have been capitalised at an interest rate of 4.0% (2014 – 4.5%).

7 Taxation

Recognised in the income statement

	2015 £m	2014 £m
Current tax expense		
Current year	**16.7**	29.2
Adjustments for prior years	**(3.9)**	(16.7)
Current tax expense	**12.8**	12.5
Deferred tax expense		
Origination and reversal of temporary differences	**17.7**	3.9
Reduction in tax rate	**-**	(35.9)
Adjustments for prior years	**0.6**	18.9
Deferred tax expense / (credit)	**18.3**	(13.1)
Total tax expense / (credit)	**31.1**	(0.6)

7 Taxation *(continued)*

Income tax recognised in other comprehensive income

	2015	2014
	£m	£m
Remeasurements of defined benefit liability	**10.5**	(6.3)
Change in tax rate	**-**	(2.7)
Tax credit / (debit)	**10.5**	**(9.0)**

Reconciliation of effective tax rate

	2015	2014
	£m	£m
Profit for the year	**140.7**	161.0
Total tax expense / (credit)	**31.1**	(0.6)
Profit excluding taxation:	**171.8**	160.4
Tax using the UK corporation tax rate of 21% (2014 - 23%)	**36.1**	36.9
Reduction of tax rate on deferred tax balances	**-**	(35.9)
Non-deductible expenses	**0.2**	-
(Over) / under provided in prior years	**(3.3)**	2.2
Group relief for nil consideration	**(1.4)**	(1.6)
Other	**(0.5)**	(2.2)
Total tax expense (including tax on discontinued operations)	**31.1**	(0.6)

8 Dividends

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

	2015	2014
	£m	£m
Final dividend for the previous year	**8.0**	26.0
Dividends for the current year	**105.6**	93.3
	113.6	119.3

9 Property, plant and equipment

	Land & buildings	Infra-structure assets	Plant, equipment & vehicles	Office & IT equipment	Company total
	£m	£m	£m	£m	£m
Cost					
Balance at 1 April 2013	816.0	1,718.2	1,314.3	25.9	3,874.4
Additions	8.0	100.3	115.7	3.6	227.6
Disposals	(1.0)	(1.5)	(13.5)	-	(16.0)
Balance at 31 March 2014	823.0	1,817.0	1,416.5	29.5	4,086.0
Balance at 1 April 2014	823.0	1,817.0	1,416.5	29.5	4,086.0
Additions	25.6	95.9	79.4	7.0	207.9
Disposals	(0.4)	(1.5)	(24.5)	(8.0)	(34.4)
Balance at 31 March 2015	**848.2**	**1,911.4**	**1,471.4**	**28.5**	**4,259.5**
Depreciation and impairment					
Balance at 1 April 2013	(226.0)	-	(628.7)	(15.8)	(870.5)
Depreciation charge for the year	(14.2)	(15.5)	(62.7)	(2.9)	(95.3)
Impairment losses	-	-	-	-	-
Disposals	0.5	-	11.8	-	12.3
Balance at 31 March 2014	(239.7)	(15.5)	(679.6)	(18.7)	(953.5)
Balance at 1 April 2014	(239.7)	(15.5)	(679.6)	(18.7)	(953.5)
Depreciation charge for the year	(14.2)	(16.5)	(66.2)	(2.7)	(99.6)
Impairment losses	-	-	-	-	-
Disposals	0.3	-	23.2	8.0	31.5
Balance at 31 March 2015	**(253.6)**	**(32.0)**	**(722.6)**	**(13.4)**	**(1,021.6)**
Net Book Value					
At 1 April 2013	590.0	1,718.2	685.6	10.1	3,003.9
At 31 March 2014	583.3	1,801.5	736.9	10.8	3,132.5
At 31 March 2015	**594.6**	**1,879.4**	**748.8**	**15.1**	**3,237.9**

9 Property, plant and equipment *(continued)*

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.

Included in infrastructure assets at 1 April 2013 is £705.1m fair value adjustment on first time adoption of IFRS.

There is no impairment loss recognised in these financial statements.

At 31 March 2015 the net carrying amount of leased plant and machinery was £20.0m (2014 - £36.3m). The leased equipment secures lease obligations (see note 14).

Assets under construction included in the values above were £153.9m (2014 - £140.3m).

Cumulative borrowing costs capitalised and included above were £3.2m (2014 - £0.8m).

Included in freehold land and buildings above is an amount of £12.1m (2014 - £11.4m) in respect of land which is not depreciated.

10 Investments in subsidiaries

The Company has an investment of £13,000 (2014 – £13,000) in 100% of the ordinary share capital of a subsidiary company Wessex Water Services Finance Plc.

11 Inventories

	2015	2014
	£m	£m
Raw materials and consumables	**3.1**	2.6
Work in progress	**3.5**	3.8
	6.6	6.4

Raw materials, consumables and work in progress recognised as cost of sales in the year amounted to £4.3m (2014 - £2.8m). There was no write-down of inventories to net realisable value in either year.

12 Trade and other receivables

	2015	2014
	£m	£m
Trade receivables	**58.5**	54.7
Owed by fellow subsidiary company	**33.7**	33.0
Owed by associate company	**-**	0.1
Corporation tax	**-**	0.2
Prepayments and accrued income	**73.2**	73.9
Other debtors	**5.6**	11.7
	171.0	173.6

Trade receivables are expected to be recovered in no more than 12 months.

13 Cash and cash equivalents

	2015 £m	2014 £m
Short-term bank deposits	**35.0**	88.0
Cash at bank	**12.0**	-
	47.0	88.0

14 Other interest-bearing loans and borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Company's exposure to interest rate and foreign currency risk, see note 21.

	2015 £m	2014 £m
Non-current liabilities		
Bank loans	**315.0**	315.0
Finance lease liabilities	**16.4**	42.0
Inter-company loans	**1,559.4**	1,542.7
	1,890.8	1,899.7
Current liabilities		
Bank overdraft	**-**	19.4
Current portion of finance lease liabilities	**4.1**	9.2
	4.1	28.6

Terms and debt repayment schedule

	Currency	Nominal interest rate	Year of maturity	Face value 2015 £m	Carrying amount 2015 £m	Face value 2014 £m	Carrying amount 2014 £m
Bank loans	Sterling		2018-2024	**315.0**	**315.0**	315.0	315.0
Inter-company loans							
Bond	Sterling	5.375%	2028	**198.6**	**198.3**	198.5	198.2
Bond	Sterling	5.75%	2033	**346.7**	**345.7**	346.5	345.5
Bond	Sterling	4.00%	2021	**198.3**	**198.3**	198.0	198.0
Bond	Sterling	4.00%	2021	**106.0**	**106.0**	106.9	106.9
Index Linked Bond	Sterling	3.52%	2023	**72.8**	**72.8**	71.0	71.0
Index Linked Bond	Sterling	2.186%	2039	**60.1**	**60.1**	59.2	59.2
Index Linked Bond	Sterling	1.75%	2046	**98.0**	**98.0**	95.6	95.6
Index Linked Bond	Sterling	1.75%	2051	**98.0**	**98.0**	95.6	95.6
Index Linked Bond	Sterling	1.369%	2057	**98.0**	**98.0**	95.6	95.6
Index Linked Bond	Sterling	1.374%	2057	**98.0**	**98.0**	95.6	95.6
Index Linked Bond	Sterling	1.489%	2058	**62.0**	**62.0**	60.5	60.5
Index Linked Bond	Sterling	1.495%	2058	**62.1**	**62.1**	60.5	60.5
Index Linked Bond	Sterling	1.499%	2058	**62.1**	**62.1**	60.5	60.5
				1,875.7	**1,874.4**	1,859.0	1,857.7

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

Finance lease liabilities

Finance lease liabilities are payable as follows:

	Minimum lease payments 2015 £m	**Interest 2015 £m**	**Principal 2015 £m**	**Minimum lease payments** 2014 £m	**Interest** 2014 £m	**Principal** 2014 £m
Less than one year	**5.0**	**(0.9)**	**4.1**	9.8	(0.6)	9.2
Between one and five years	**18.1**	**(1.7)**	**16.4**	44.5	(5.3)	39.2
More than five years	**-**	**-**	**-**	2.9	(0.1)	2.8
	23.1	**(2.6)**	**20.5**	57.2	(6.0)	51.2

15 Trade and other payables

	2015 £m	2014 £m
Current		
Amounts payable to subsidiary company	**19.0**	19.0
Amounts payable to other group companies	**0.6**	0.6
Amounts owed to associate companies	**1.3**	-
Trade payables	**24.0**	5.9
Dividend	**21.7**	23.3
Other creditors	**2.4**	1.5
Corporation tax	**2.8**	-
Taxation and social security	**2.1**	1.8
Accruals and deferred income	**97.5**	97.9
	171.4	150.0
Non-current		
Other payables	**0.4**	0.5
	171.8	150.5

16 Employee benefits

Pension plans

	2015 £m	2014 £m
Fair value of scheme assets	**528.3**	459.1
Present value of defined benefit obligations	**(668.5)**	(549.7)
Net (liability) for defined benefit obligations	**(140.2)**	(90.6)
Unfunded and compensatory added years pension	**(1.2)**	(1.2)
Total employee benefits	**(141.4)**	(91.8)

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

Under the plan, employees are entitled to annual pensions on retirement using an accrual rate, final pensionable salary and service. Benefits are also payable on death and following other events such as withdrawing from active service.

No other post-retirement benefits are provided to these employees.

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

b. Profile of the Scheme

The defined benefit obligation includes benefits for current employees, former employees and current pensioners. Broadly, about 36% of the liabilities are attributable to current employees, 16% to former employees and 48% to current pensioners.
The Scheme duration is an indicator of the weighted-average time until benefit payments are made. For the Scheme as a whole, the duration is around 18 years reflecting the approximate split of the defined benefit obligation between current employees (duration of 25 years), deferred members (duration of 25 years) and current pensioners (duration of 12 years).

c. Funding requirements

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

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

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

The next funding valuation is due no later than 30 September 2016 at which progress towards full-funding will be reviewed.

The Company also pays contributions of 18.2% of pensionable salaries in respect of current accrual and non-investment related expenses, with active members paying a further 7.3% of pensionable salaries on average. A contribution of £7.6m is expected to be paid by the Company during the year ending on 31 March 2016.

16 Employee benefits *(continued)*

d. Risks associated with the Scheme

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

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

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

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

The Trustees insure certain benefits payable on death before retirement.

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

e. Reporting at 31 March 2015

The results of the latest funding valuation at 30 September 2013 have been adjusted to the balance sheet date taking account of experience over the period since 30 September 2013, changes in market conditions, and differences in the financial and demographic assumptions. The present value of the defined benefit obligation, and the related current service cost, were measured using the Projected Unit Cost Method.

The principal assumptions used to calculate the liabilities under IAS 19 are set out below:

The actuarial valuation described above has been updated at 31 March 2015 by a qualified actuary using revised assumptions that are consistent with the requirements of IAS 19. Investments have been valued, for this purpose, at fair value. The major assumptions used by the actuary were:

	31.03.15	31.03.14
Rate of increase in salaries – year 1	**1.25%**	3.35%
Rate of increase in salaries – year 2	**0.75%**	2.25%
Rate of increase in salaries – years 2 to 5	**2.50%**	2.25% and 2.5%
Rate of increase in salaries – long term	**3.50%**	3.90%
Rate of increase in pensions in payment	**2.0% or 2.9%**	2.4% or 3.1%
Rate of increase in pensions in payment - reduced level members	**2.20%**	2.20%
Discount rate	**3.30%**	4.60%
Inflation assumption – RPI	**3.00%**	3.40%
Inflation assumption – CPI	**2.00%**	2.40%

16 Employee benefits *(continued)*

The mortality assumptions are based upon the 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 27.2 years (2014 – 27.1 years) if they are male, and for a further 29.5 years (2014 – 29.4 years) if they are female. For a member who retires in 2035 at age 60 the assumptions are that they will live, on average, for a further 28.8 years (2014 – 28.7 years) after retirement if they are male, and a further 31.1 years (2014 – 31.1 years) after retirement if they are female.

The mortality table adopted is based upon 95% of standard tables S1P(M/F)A adjusted to allow for individual years of birth. Future improvements are assumed to be in line with the CMI 2013 core projection, with a long term improvement rate of 1.0% p.a. for all members.

Sensitivity analysis:
The calculation of the defined benefit obligation is sensitive to the assumptions set out above.

A reduction in the discount rate of 0.1% from 3.3% to 3.2% would increase the scheme liabilities by £12.4m from £668.5m to £680.9m, increasing the scheme deficit to £152.6m.
An increase in the inflation assumption of 0.1% (from 2.0% to 2.1% for CPI and 3.0% to 3.1% for RPI) would increase the scheme liabilities by £10.3m from £668.5m to £678.8m, increasing the scheme deficit to £150.5m.
An increase in life expectancy of 1 year would increase the scheme liabilities by £23.6m from £668.5m to £692.1m, increasing the scheme deficit to £163.8m.

f. The value of the assets as follows:

	2015	2014
	£m	£m
Equities	**262.9**	226.1
Property	**23.1**	27.7
Government Bonds	**134.7**	113.5
Corporate Bonds	**98.1**	82.9
Other	**9.5**	8.9
	528.3	459.1

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

	2015	2014
	£m	£m
Operating cost – service cost		
Current service cost	**9.8**	10.8
Administration expenses	**0.4**	0.5
Past service cost	**0.6**	0.2
Financing cost		
Interest on net benefit liability	**4.2**	5.3
Pension cost recognised in profit and loss	**15.0**	16.8
Re-measurements in OCI		
Return on plan assets (in excess of) that recognised in net interest	**(48.7)**	(5.7)
Actuarial losses / (gains) due to changes in financial assumptions	**106.3**	(32.9)
Actuarial losses due to changes in demographic assumptions	**-**	0.4
Actuarial (gains) / losses due to liability experience	**(4.9)**	11.1
Pension cost / (gain) recognised in profit and loss	**52.7**	(27.1)
Total amount recognised in profit and loss and OCI	**67.7**	(10.3)

16 Employee benefits *(continued)*

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

	2015 **£m**	2014 £m
Opening defined benefit obligation	**549.7**	552.3
Current service cost	**9.8**	10.8
Interest expense on defined benefit obligation	**25.1**	24.2
Contributions by scheme participants	**0.2**	0.2
Actuarial losses due to changes in demographic assumptions	**-**	0.4
Actuarial losses / (gains) due to changes in financial assumptions	**106.3**	(32.9)
Actuarial (gains) / losses due to liability experience	**(4.9)**	11.1
Net benefits paid out	**(18.3)**	(16.6)
Past service cost	**0.6**	0.2
Closing defined benefit obligation	**668.5**	549.7

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

	2015 **£m**	2014 £m
Opening fair value of scheme assets	**459.1**	433.0
Interest income on scheme assets	**20.9**	18.9
Re-measurement gains on scheme assets	**48.7**	5.7
Contributions by employer	**18.1**	18.4
Contributions by scheme participants	**0.2**	0.2
Net benefits paid out	**(18.3)**	(16.6)
Administration costs incurred	**(0.4)**	(0.5)
Closing fair value of scheme assets	**528.3**	459.1

j. Additional analysis:

Actual return on scheme assets		
Interest income on scheme assets	**20.9**	18.9
Re-measurement gains on scheme assets	**48.7**	5.7
Actual return on scheme assets	**69.6**	24.6
Analysis of amounts recognised in Other Comprehensive Income		
Total re-measurement (losses) / gains	**(52.7)**	27.1
Total (loss) / gain	**(52.7)**	27.1

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

	31.03.15 **£m**	31.03.14 £m	31.03.13 £m	31.03.12 £m	31.03.11 £m
Fair value of scheme assets	**528.3**	459.1	433.0	390.9	355.2
Defined benefit obligation	**(668.5)**	(549.7)	(552.3)	(498.4)	(424.8)
(Deficit) in the scheme	**(140.2)**	(90.6)	(119.3)	(107.5)	(69.6)
Experience gains on scheme assets	**48.7**	5.7			
Experience gains / (losses) on scheme liabilities	**4.9**	(11.1)			

16 Employee benefits *(continued)*

Defined contribution plans

The Group also operates a defined contribution pension plan.

The total expense relating to this plan in the current year was £1.4m (2014 - £0.9m).

Share-based payments

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

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

2011 UK Plan

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

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

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 £0.5m was recognised in the profit and loss account for FRS 20. The key assumptions were as follows:

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

The following options were outstanding at 31 March 2014 and 31 March 2015:

Granted – Ordinary shares of RM0.50 each	Outstanding at 31 March 2014	Granted	Forfeited	Outstanding at 31 March 2015
01/06/2012 Unapproved	9,454,000	-	(1,204,000)	8,250,000
01/06/2012 Approved	40,567,000	-	(1,284,000)	39,283,000
TOTAL	50,021,000	-	(2,488,000)	47,533,000

The share price at 31 March 2015 was RM1.50 or £0.27.

17 Deferred income

	Above ground grants £m	Below ground grants £m	Sewer adoptions £m	Total £m
Balance at 1 April 2013	8.3	140.6	-	148.9
Received during the year	0.2	7.0	25.0	32.2
Amortisation	(0.3)	(1.4)	(0.1)	(1.8)
Balance at 31 March 2014	8.2	146.2	24.9	179.3
Balance at 1 April 2014	8.2	146.2	24.9	179.3
Received during the year	-	6.4	25.5	31.9
Amortisation	(0.3)	(1.4)	(0.4)	(2.1)
Balance at 31 March 2015	**7.9**	**151.2**	**50.0**	**209.1**

18 Provisions

	Restructuring costs £m	Total £m
Balance at 1 April 2014	0.1	0.1
Provisions made during the year	2.3	2.3
Provisions used during the year	(0.4)	(0.4)
Balance at 31 March 2015	**2.0**	**2.0**
Non-current	-	-
Current	2.0	2.0
	2.0	**2.0**

The restructuring provision is in respect of a reorganisation announced before the year-end, delivering efficiencies in the first year of the AMP 6 price review period. Full consultation has taken place and termination dates are in the first quarter of the new financial year.

19 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Liabilities		Assets		Net	
	2015	2014	**2015**	2014	**2015**	2014
	£m	£m	**£m**	£m	**£m**	£m
Property, plant and equipment	**566.4**	543.9	**(159.1)**	(154.4)	**407.3**	389.5
Employee benefits	**-**	-	**(31.0)**	(21.2)	**(31.0)**	(21.2)
Provisions	**(0.5)**	(0.4)	**-**	-	**(0.5)**	(0.4)
Other	**-**	(0.2)	**-**	0.2	**-**	-
Tax (assets) / liabilities	**565.9**	543.3	**(190.1)**	(175.4)	**375.8**	367.9
Net of tax liabilities/(assets)	**-**	-	**-**	-	**-**	-
Net tax (assets) / liabilities	**565.9**	543.3	**(190.1)**	(175.4)	**375.8**	367.9

Movement in deferred tax during the year

	1 April 2014	Recognised in income	Recognised in equity	31 March 2015
	£m	£m	£m	£m
Property, plant and equipment	389.5	17.8	-	**407.3**
Employee benefits	(21.2)	0.7	(10.5)	**(31.0)**
Provisions	(0.4)	(0.1)	-	**(0.5)**
	367.9	18.4	(10.5)	**375.8**

19 Deferred tax assets and liabilities *(continued)*

Movement in deferred tax during the prior year

	1 April 2013	Recognised in income	Recognised in equity	31 March 2014
	£m	£m	£m	£m
Property, plant and equipment	403.1	(13.6)	-	389.5
Employee benefits	(30.6)	0.4	9.0	(21.2)
Provisions	(0.4)	-	-	(0.4)
	372.1	(13.2)	9.0	367.9

20 Capital and reserves

Share capital

	2015	2014
	£	£
Issued at 1 April	**81,350,000**	81,350,000
Share capital reduction	**(81,349,999)**	-
Issued at 31 March	**1**	81,350,000
Allotted, called up and fully paid		
Ordinary shares of £1each	**1**	81,350,000
	1	81,350,000
Shares classified as liabilities	**-**	-
Shares classified in shareholders' funds	**1**	81,350,000
	1	81,350,000

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

On 30 March 2015 the Directors of the Company approved a capital reduction of 81,349,999 £1 ordinary shares which increased retained earnings. To enable the capital reduction to be undertaken the Directors prepared a Solvency Statement declaring that following the capital reduction the company would be able to meet its debts / liabilities as they fell due over the next 12 months.

20 Capital and reserves *(continued)*

Retained earnings

Included in retained earnings on first time adoption of IFRS a reserve arose on restating infrastructure assets to fair value. The gross reserve was £705.1m and net of deferred tax at 20% was £564.1m. The calculation of the £705.1m on first time adoption of IFRS is shown below:

	£m	£m
March 2013 Regulatory Capital Value		**2,733.0**
Adjust for:		
Stock	**(7.0)**	
Debtors	**(162.6)**	
Creditors less than one year	**170.0**	
	0.4	**0.4**
Creditors more than one year	**1.0**	
Deferred income	**17.2**	
Provisions	**0.1**	
Pension liability	**119.3**	
Unfunded pension liability	**1.2**	
	138.8	**138.8**
Value attributed to fixed assets		**2,872.2**
Tangible fixed assets		**2,167.1**
Fair value uplift		**705.1**

21 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 borrowings are classified as level 1 in the IFRS 13 fair value hierarchy and have a carrying value of £1,559.4m and a fair value of £2,176.6m. Short term and floating rate borrowings have a carrying value and fair value of £335.5m.

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.

21 Financial instruments *(continued)*

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

	Carrying amount 2015 £m	**Fair Value 2015 £m**	**Level 1 2015 £m**	Carrying amount 2014 £m	Fair Value 2014 £m	Level 1 2014 £m
Loans and receivables						
Cash and cash equivalents (note 13)	(47.0)	(47.0)	(47.0)	(88.0)	(88.0)	(88.0)
Total financial assets	(47.0)	(47.0)	(47.0)	(88.0)	(88.0)	(88.0)
Bank overdraft (note 14)	-	-	-	19.4	19.4	19.4
Other interest-bearing loans and borrowings (note 14)	1,894.9	2,512.1	2,512.1	1,908.9	2,181.2	2,181.2
Trade and other payables (note 15)	-	-	-	-	-	-
Other financial liabilities measured at amortised cost (note 15)	**-**	**-**	-	-	-	-
Total financial liabilities	1,894.9	2,512.1	2,512.1	1,928.3	2,200.6	2,200.6
Total financial instruments	1,847.9	2,465.1	2,465.1	1,840.3	2,112.6	2,112.6

21 (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.

	2015 £m	2014 £m
Cash and cash equivalents	**47.0**	88.0
	47.0	88.0

The concentration of credit risk for trade receivables at the balance sheet date by geographic region was:

South West England	**58.5**	54.7
	58.5	54.7

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

21 Financial instruments *(continued)*

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

	Gross	**Impairment**	Gross	Impairment
	2015	**2015**	2014	2014
	£m	**£m**	£m	£m
Less than 1 year	**34.3**	**(7.0)**	31.3	(6.6)
1 to 2 years	**21.7**	**(7.9)**	20.9	(6.9)
2 to 3 years	**15.6**	**(7.8)**	15.1	(7.4)
3 to 4 years	**12.4**	**(8.1)**	11.7	(7.8)
More than 4 years	**15.8**	**(10.5)**	15.3	(10.9)
	99.8	**(41.3)**	94.3	(39.6)

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

	2015	2014
	£m	£m
Balance at 1 April	**(39.6)**	(37.0)
Written off	**10.4**	9.0
Charge to profit and loss	**(12.1)**	(11.6)
Balance at 31 March	**(41.3)**	(39.6)

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

21 (c) Cash flow hedges

The company does not have any cash flow hedges.

21 (d) Liquidity risk

Financial risk management

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

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

21 Financial instruments *(continued)*

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

	Carrying amount 2015 £m	Contractual cash flows 2015 £m	Year 1 2015 £m	Years 2 to 5 2015 £m	Over 5 years 2015 £m
Non derivative financial instruments					
Finance lease liabilities	20.5	23.1	5.0	18.1	-
Secured bank loans	315.0	341.8	3.8	155.5	182.5
Inter-company loans	1,559.4	3,672.4	56.1	227.2	3,389.1
Total financial instruments	1,894.9	4,037.3	64.9	400.8	3,571.6

	Carrying amount 2014 £m	Contractual cash flows 2014 £m	Year 1 2014 £m	Years 2 to 5 2014 £m	Over 5 years 2014 £m
Non derivative financial instruments					
Bank overdraft	19.4	19.4	19.4	-	-
Finance lease liabilities	51.2	57.2	9.8	44.5	2.9
Secured bank loans	315.0	327.6	2.7	248.0	76.9
Inter-company loans	1,542.7	4,374.8	55.9	227.6	4,091.3
Total financial instruments	1,928.3	4,779.0	87.8	520.1	4,171.1

21 (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:

	2015 **£m**	2014 £m
Fixed rate instruments	**848.3**	848.6
Floating rate instruments	**335.5**	385.6
Index linked instruments	**711.1**	694.1
	1,894.9	1,928.3

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

Sensitivity

The floating rate instruments are sensitive to interest rate movements. If there was a 1% increase in interest rates on those floating rate instruments at the balance sheet date, there would be an additional interest charge to the income statement of £2.9m.

22 Operating Leases

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

During the year £1.8m was recognised as an expense in the income statement in respect of operating leases (2014 - £1.9m).

During the year £0.9m (2014 - £0.9m) was recognised as rental income by the Company.

23 Commitments

Capital expenditure contracted but not provided at 31 March 2015 was £160.9m (2014 - £172.8m).

The Company has guaranteed Bonds of £1,559.4m (2014 - £1,542.7m) issued by its wholly owned subsidiary company Wessex Water Services Finance Plc.

24 Contingencies

There are no material contingent liabilities at 31 March 2015 for which provision has not been made in these accounts.

25 Related parties

There were no transactions with key management personnel.

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

There have been no transactions with pre-penultimate, penultimate and ultimate holding companies described in note 26, with the exception of the share based payment charge disclosed in note 16.

Transactions with fellow UK subsidiary companies are disclosed in the Regulatory Accounts attached to the Non-Statutory Accounts.

26 Ultimate parent company and parent company of larger group

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.

27 Subsequent events

There are no subsequent events requiring disclosure in these financial statements. The final dividend for the year was declared in March 2015 and paid in April 2015.

28 Accounting estimates and judgements

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

a) Defined benefit pension scheme deficit

In recognising the deficit on the balance sheet there are a number of assumptions concerning inflation, rate of increase of salaries and pensions, mortality rates and interest rates that can have a significant effect on the deficit recorded. These assumptions are discussed with independent qualified actuaries and disclosed in note 16 to the financial statements.

b) Bad debt provision

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

c) Fair value of assets

On first time adoption of IFRS the company recognised a fair value uplift to fixed assets (see note 20).

d) Classification of capital expenditure

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

29 Explanation of transition to Adopted IFRSs

As stated in note 1, these are the Company's first financial statements prepared in accordance with Adopted IFRSs.

The accounting policies set out in note 1 have been applied in preparing the financial statements for the year ended 31 March 2015, the comparative information presented in these financial statements for the year ended 31 March 2014 and in the preparation of an opening IFRS balance sheet at 1 April 2013 (the Company's date of transition).

In preparing its opening IFRS balance sheet, the Company has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (UK GAAP). An explanation of how the transition from UK GAAP to Adopted IFRSs has affected the Company's financial position and financial performance is set out in the following tables and the notes that accompany the tables.

Reconciliation of equity

		01 April 2013			31 March 2014			31 March 2015		
		UK GAAP	Effect of transition	Adopted IFRSs	UK GAAP	Effect of transition	Adopted IFRSs	UK GAAP	Effect of transition	Adopted IFRSs
	Note	£m	£m	£m	£m	£m	£m	£m	£m	£m
Non-current assets										
Property, plant and equipment	*a*	2,167.1	836.8	3,003.9	2,256.8	875.7	3,132.5	2,318.7	919.2	3,237.9
Intangible assets		-	-	-	-	-	-	-	-	-
Investments in associates		-	-	-	-	-	-	-	-	-
		2,167.1	836.8	3,003.9	2,256.8	875.7	3,132.5	2,318.7	919.2	3,237.9
Current assets										
Inventories		7.0	-	7.0	6.4	-	6.4	6.6	-	6.6
Trade and other receivables		162.6	-	162.6	173.6	-	173.6	171.0	-	171.0
Cash and cash equivalents		181.0	-	181.0	88.0	-	88.0	47.0	-	47.0
		350.6	-	350.6	268.0	-	268.0	224.6	-	224.6
Total assets		2,517.7	836.8	3,354.5	2,524.8	875.7	3,400.5	2,543.3	919.2	3,462.5
Current liabilities										
Bank overdraft		(21.8)	-	(21.8)	(19.4)	-	(19.4)	-	-	-
Other interest-bearing loans and borrowings		(7.0)	-	(7.0)	(9.2)	-	(9.2)	(4.1)	-	(4.1)
Trade and other payables	*b*	(170.0)	(1.0)	(171.0)	(149.0)	(1.0)	(150.0)	(170.4)	(1.0)	(171.4)
		(198.8)	(1.0)	(199.8)	(177.6)	(1.0)	(178.6)	(174.5)	(1.0)	(175.5)

Reconciliation of equity (continued)

		01 April 2013			31 March 2014			31 March 2015		
		UK GAAP	Effect of transition	Adopted IFRSs	UK GAAP	Effect of transition	Adopted IFRSs	UK GAAP	Effect of transition	Adopted IFRSs
	Note	£m	£m	£m	£m	£m	£m	£m	£m	£m
Non-current liabilities										
Other interest-bearing loans and borrowings	*c*	(1,890.5)	1.2	(1,889.3)	(1,901.0)	1.3	(1,899.7)	(1,892.1)	1.3	(1,890.8)
Trade and other payables		(1.0)	-	(1.0)	(0.5)	-	(0.5)	(0.4)	-	(0.4)
Employee benefits	*d*	(93.1)	(27.4)	(120.5)	(73.7)	(18.1)	(91.8)	(113.4)	(28.0)	(141.4)
Deferred income	*e*	(17.2)	(131.7)	(148.9)	(16.8)	(162.5)	(179.3)	(16.2)	(192.9)	(209.1)
Provisions		(0.1)	-	(0.1)	(0.1)	-	(0.1)	(2.0)	-	(2.0)
Deferred tax liabilities	*f*	(114.8)	(257.3)	(372.1)	(88.5)	(279.4)	(367.9)	(110.7)	(265.1)	(375.8)
		(2,116.7)	(415.2)	(2,531.9)	(2,080.6)	(458.7)	(2,539.3)	(2,134.8)	(484.7)	(2,619.5)
Total liabilities		(2,315.5)	(416.2)	(2,731.7)	(2,258.2)	(459.7)	(2,717.9)	(2,309.3)	(485.7)	(2,795.0)
Net assets		202.2	420.6	622.8	266.6	416.0	682.6	234.0	433.5	667.5
Equity										
Share capital		81.3	-	81.3	81.3	-	81.3	-	-	-
Retained earnings - fair value	*g*	-	564.1	564.1	-	559.0	559.0	-	553.8	553.8
Retained earnings	*h*	120.9	(143.5)	(22.6)	185.3	(143.0)	42.3	234.0	(120.3)	113.7
Total equity		202.2	420.6	622.8	266.6	416.0	682.6	234.0	433.5	667.5

Notes to the reconciliation of equity – 1 April 2013

a) Property, plant and equipment

Property, plant and equipment are increased by the £705.1m fair value adjustment as described in note 20. The fair value adjustment is allocated to the infrastructure assets which have previously been accounted under infrastructure renewals accounting as prescribed by the industry regulator.

Property, plant and equipment are also increased by £131.7m as grants and contributions are no longer allowed to be deducted from fixed assets but are shown on the balance sheet as deferred income.

b) Trade and other payables

Trade and other payables are increased by £1.0m for the recognition of a liability under IAS 37 for holiday pay due to but not taken by employees at the balance sheet date. Employees have a holiday pay year determined by their date of birth rather than by the financial year end.

c) Other interest-bearing loans and borrowings

Bonds issued by the subsidiary company include fees which are deducted from the proceeds of the bond on issue. These bond fees are expensed over the life of the bond and added back to the carrying value. Under IFRS the add back is on an accretive method and in early years is lower than under UK GAAP which is a straight line basis, and hence £1.2m is a deduction to the carrying value of the bonds.

d) Employee benefits

In UK GAAP the pension liability is disclosed net of the associated deferred tax asset. This presentation is not allowed under IFRS and the deferred tax asset of £27.4m was moved to the deferred tax line on the balance sheet.

e) Deferred income

Grants and contributions are increased by £131.7m as they are no longer allowed to be deducted from fixed assets but are shown on the balance sheet as deferred income.

f) Deferred tax liabilities

The company had previously elected to apply discounting to its deferred tax liability but under IAS 12 Income Taxes deferred tax discounting is not allowed, increasing the liability by £136.1m.
A deferred tax liability of £141.0m has been set up as 20% of the fair value adjustment of £705.1m as under IFRS all temporary timing difference between assets or liabilities in the balance sheet and the associated tax base must be provided for.
The deferred tax liability is reduced by £27.4m the deferred tax asset on the IAS 19 pension liability.
A deferred tax liability of £9.7m has been set up for the difference between the tax base and book value of assets qualifying for Industrial Buildings Allowances.
On adoption of IFRS the Company eliminated a £2.8m difference between the regulatory and statutory accounts that arose on adoption of FRS 17 Retirement Benefits, which reduces the liability.
A deferred tax liability of £0.2m and deferred tax asset of £0.2m are set on recognition of the holiday pay and bond fees adjustments under IFRS shown above.
A deferred tax liability of £0.7m is recognised on the capital gains tax liability rolled forward as under IFRS all temporary timing difference between assets or liabilities in the balance sheet and the associated tax base must be provided for.

g) Fair value

Included within retained earnings is an un-distributable reserve for the fair value uplift on adoption of IFRS of £705.1m less the deferred tax liability of £141.0m.

h) Retained earnings

Included within distributable retained earnings are the remaining fair value adjustments on adoption of IFRS, net of deferred tax where appropriate.

- £136.1m charge for the ending of deferred tax discounting
- £9.7m charge for deferred tax recognised on Industrial Buildings Allowances
- £0.8m charge on holiday pay accrual
- £0.7m charge on deferred tax recognised on capital gains tax rollover
- £1.0m credit on accounting for bond fees
- £2.8m credit on elimination of FRS 17 pension difference brought forward.

29 Explanation of transition to Adopted IFRSs *(continued)*

Reconciliation of profit for comparative year 2014

	Note	UK GAAP	2014 Effect of transition to Adopted IFRSs	Adopted IFRSs
		£m	£m	£m
Revenue		524.9	-	524.9
Raw materials and consumables used		(33.9)	-	(33.9)
Staff costs		(54.2)	(0.5)	(54.7)
Depreciation and amortisation		(127.8)	31.3	(96.5)
Other expenses		(74.2)	(24.1)	(98.3)
Total expenses	*i*	(290.1)	6.7	(283.4)
Operating profit		234.8	6.7	241.5
Financial income		0.9	-	0.9
Financial expenses		(78.7)	(3.3)	(82.0)
Net financing expense	*j*	(77.8)	(3.3)	(81.1)
Profit before tax		157.0	3.4	160.4
Taxation	*k*	12.3	(11.7)	0.6
Profit for the year		169.3	(8.3)	161.0

Notes to the reconciliation of profit

i) Expenses

£24.1m charge for repairs following the end of infrastructure renewals accounting.

£31.3m net credit to depreciation being £47.2m credit for the removal of the infrastructure renewals charge and £15.9m depreciation charge on infrastructure assets under IAS 16.

£0.5m charge for pension accounting under IAS 19.

j) Financing expense

£4.2m charge for interest under IAS 19 pension accounting disclosed in income statement rather than direct to retained earnings.

£0.8m credit for the capitalisation of interest, which is allowed under IAS 23.

£0.1m interest credit for a different treatment of bond fees under IAS 39.

k) Taxation

£14.9m deferred tax charge for IAS 12 not permitting the discounting of deferred tax liabilities.

£4.0m deferred tax credit for the impact in the year of the difference between the tax base and book value of assets qualifying for Industrial Buildings Allowances.

£0.8m charge for the impact on deferred tax of all other IFRS adjustments including the ending of infrastructure renewals accounting.

Regulatory Information

Introduction

The Company was appointed by the Secretary of State for the Environment as a water and sewerage undertaker under the Water Act 1989 and is required to comply with the Conditions set out in the Instrument of Appointment (the Licence) issued thereunder.

Regulation

Under the conditions of its Licence, granted to the Company by the Secretary of State for the Environment the Company is obliged to provide the Water Services Regulation Authority (WSRA) with additional information to that contained in the non-statutory accounts, in order to comply with Licence Condition F. This information is presented on pages 119 to 152.

Ring Fencing

Under the conditions of its Licence, the Company is at all times required to ensure, so far as reasonably practicable, that if a special administration order were made the Company would have available to it sufficient rights and assets (other than financial resources) to enable the special administrator to manage the affairs, business and property of the Company.

The Company was in compliance with that requirement as at 31 March 2015. In the opinion of the Directors:

a. The Company will have available to it sufficient financial resources and facilities to enable it to carry out, for at least the next 12 months, the Regulated Activities (including the investment programme necessary to fulfil the Company's obligations under the Appointment);

b. the Company will for at least the next 12 months have available management resources which are sufficient to enable it to carry out those functions; and

c. all contracts entered into with any associated company include all necessary provisions and requirements concerning the standard of service to be supplied to the appointee, to ensure that it is able to meet all its obligations as a water and sewerage undertaker.

In making this statement the Directors made reference to the detailed budget produced for the year to March 2016 and the business plan model through to March 2020. The Directors also made reference to the legal ownership of assets, employment contracts, borrowing facilities, the joint venture billing arrangement and the in-house engineering and construction department set up to deliver the capital programme.

Transactions with Associates

In the opinion of the Directors the Company has complied with the objectives and principles of RAG 5.06, in that transactions with associated companies are at arms-length and that cross subsidy is not occurring.

Directorships

Colin Skellett and Mark Watts are also Directors of Wessex Water Ltd, Wessex Water Enterprises Ltd, Wessex Water Services Finance Plc, Wessex Engineering & Construction Services Ltd, YTL Utilities (UK) Ltd and YTL Utilities Holdings Ltd. Colin Skellett is also a Director of Bristol Wessex Billing Services Ltd.

Francis Yeoh, Hong Yeoh and Mark Yeoh are Directors of Wessex Water Ltd, YTL Utilities (UK) Ltd, YTL Power International Berhad and YTL Corporation Berhad. Hong Yeoh and Hann Yeoh are Directors of YTL Utilities Holdings Ltd.

Directors' Responsibilities and Accounting Policies

Directors' Responsibilities

The Directors are responsible under Condition F of the Instrument of Appointment by the Secretary of State for the Environment of the Company as a water and sewerage undertaker under the Water Industry Act 1991, to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company as at the end of the financial year, and of the profit or loss of the Company for that year.

The Directors confirm that suitable accounting policies have been used and applied consistently, and reasonable, prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 March 2015.

The Directors also confirm that, except for the departure in respect of infrastructure renewals accounting as explained below, applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

The Directors are responsible for keeping proper accounting records as required by United Kingdom company law, for taking reasonable steps to safeguard the assets of the Company, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Accounting Policies

These regulatory accounts on pages 135 to 152 do not constitute the Company's statutory accounts for the years ended 31 March 2015 or 2014. 31 March 2015 is not the accounting reference date for the Company. The latest statutory accounts of the Company were for the years ended 30 June 2014 and 2013. Both these statutory accounts have been delivered to the registrar of companies. The external auditor has reported on both these statutory accounts; the reports were unqualified and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

The next statutory accounts of the Company will be prepared for the year ending 30 June 2015.

Historical cost statements

In accordance with Condition F of the Instrument of Appointment financial statements have been prepared for the appointed and non-appointed business to show the profit and loss account, balance sheet and cash flow statements.

The financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom. The principal accounting policies are described on pages 120 to 122.

Under FRS15, Tangible Fixed Assets, it is not permitted to recognise provisions or prepayments in respect of infrastructure renewals accounting. In accordance with instructions from the WSRA, set out in a letter RD 11/00 dated 6 April 2000 "Regulatory Accounts for 1999-2000 – Reporting Requirements RAG 3.04", the sections of FRS15 relevant to infrastructure renewals accounting are to be dis-applied. The effect of this on the balance sheet has been shown on page 122.

Turnover recognition

Turnover represents income receivable in the ordinary course of business, excluding VAT, for services provided. Turnover is recognised to the extent that the economic benefits will flow to the Company.

There are no differences in turnover recognition between the statutory and regulatory accounts. There are no adjustments between amounts billed (as adjusted by opening and closing accruals) and amounts recorded as turnover.

Income related to water and sewerage services is receivable from occupiers of the premises to which services are supplied except where a third party has agreed liability for the charges. Where premises are unoccupied or where no services are supplied charges are not raised, income is not receivable and no turnover is recognised.

Premises that are furnished are considered to be occupied except in exceptional circumstances such as death or long-term hospitalisation of the customer. We consider premises undergoing refurbishment or being used for storage to be occupied by the owners of the premises.

If details of the occupier of the premises are unknown, the premises are considered to be unoccupied, no charges are raised and no turnover is recognised except where a third party has agreed liability for the charges. We do not bill properties speculatively in the name of the occupier. We have processes that seek to determine whether properties are occupied that include, but are not limited to, written correspondence, data matching and visits.

Charges that do not represent income receivable in the ordinary course of business are not recognised as turnover. This includes charges for the recovery of costs related to court action to recover charges overdue.

The principles laid out above apply to both new and existing premises.

Turnover versus Ofwat determination

The variance against the revenues Ofwat assumed in its 2009 Determination is £8.0m (2014 - £8.0m). This is due to the increased demand during the extended dry spell from February to September 2013, with high temperatures recorded throughout the summer months.

Retrospective review of the measured income accrual

At £64.1m the measured income accrual at March 2014 was £0.7m lower (2013 - £2.3m lower) than a retrospective calculation of billing suggests was actually due. The difference represents less than 0.1% of accounting revenue in the year.

Bad debt policy

Bad debt write-off policy

There have been no changes in bad debt write-off policy compared with the previous year. The value of debt written off in the year was £10.4m compared with £9.0m in the previous year.

Debt is written off for one of four reasons;

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

Bad and doubtful debt provision policy

There has been no change to the bad and doubtful debt provision policy compared with the previous year. The bad debt provision for tariff basket income at 31 March 2015 was £41.3m compared with £39.6m the previous year end. The provision is expected to increase due to the impact of inflation on bills raised each year. During the year £10.4m of debt was written off and the provision was increased by £12.1m.

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

Trade debtor balance

There has not been a significant increase in the trade debtor balance from the prior year, compared with the expected increase due to inflation on the bills raised in the last year.

The trade debtor at 31 March 2015 was £96.7m compared with £93.2m the previous year. The increase of £3.5m related mainly to metered customers which increased by £3.6m.

Capitalisation policy

Our capitalisation policy is unchanged from previous years. The capitalisation policy document is owned and published internally by the Financial Controller and forms part of our governance process and procedures. It includes a significant level of detail and includes the following principles:

Assets are taken to be fixed assets if they are intended for use on a continuing basis over at least 3 years (or 2 years in the case of internal software developments). Any assets not intended for such use are to be charged to revenue budgets.

Capital expenditure shall be determined as follows:

- The price paid for the asset together with any costs incidental to the acquisition e.g. identification of options and appraisal costs. This may include site preparation, which could encompass demolition work
- The cost of raw materials, consumables, salaries and wages (together with other costs) directly attributable to the creation of that asset
- In addition, the cost of an asset may include a reasonable proportion of costs indirectly attributable to the creation of the asset
- Interest paid, for example on contractors' claims or delayed payment of certificates, may be capitalised. Notional interest on capital expenditure during the course of construction is not charged to capital.

Current cost statements

The principal accounting policies are described on pages 140 and 141.

The effect of not applying FRS15 in respect of infrastructure renewals accounting, has been to reduce fixed assets by £5.0m (2014 – £12.3m) and increase working capital by the same amount. Within fixed assets the impact has been to reduce cost by £579.0m (2014 - £538.2m) and reduce accumulated depreciation by £574.0m (2014 - £525.9m).

Reconciliation to the non-statutory accounts

There are a number of differences between the regulatory accounts and the non-statutory accounts in terms of accounting treatment. The reconciliation of the key elements, operating profit and fixed assets, is shown on page 137.

Accounting Separation Methodology Statement – 2014-15

The purpose of this methodology statement is to assist the reader of the regulatory tables of wholesale and retail operating cost analysis. It includes any changes to the methodology and significant cost movements from prior year.

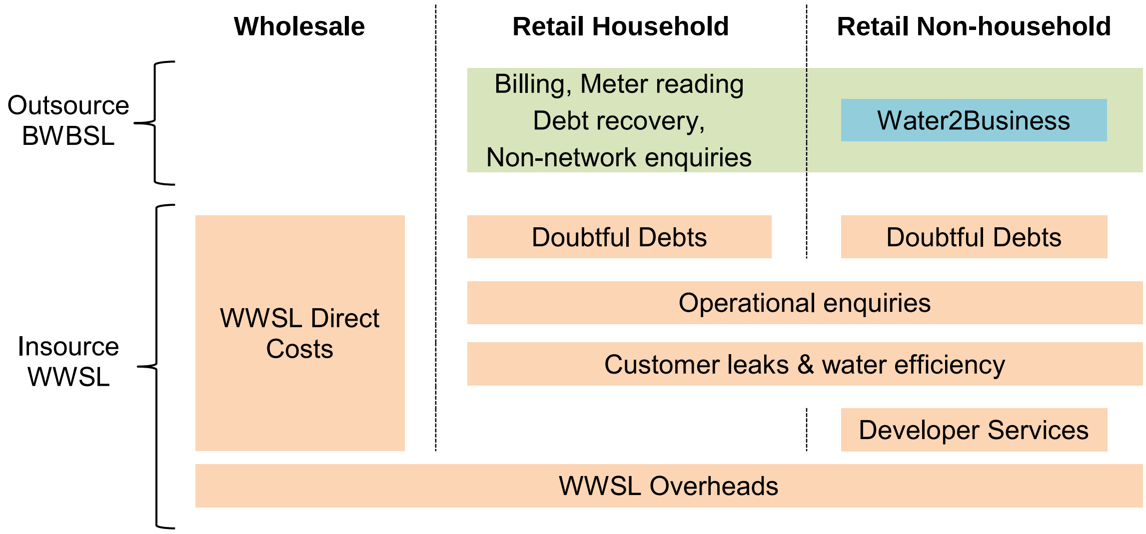
Business structure – Background to the business

Wessex Water's appointed operational activities are largely carried out on an insourced basis.

The major exception to this is the use of Bristol Wessex Billing Services (BWBSL) for billing, debt recovery and customer services. Just over one third of total retail costs are invoiced to Wessex Water Services Ltd. (WWSL) by BWBSL.

During the year BWBSL has been functionally separating its non-household retail services into a division operating under the trading name "Water2Business".

All operational enquiries and developer services activities continue to be dealt with on an insourced basis within WWSL. Customer-side leak repairs and water efficiency promotional activities are undertaken by WWSL, predominantly using in-house resources.



Overview

Our methodology is aligned with the RAG 4.04-Guideline for the definitions for the regulatory accounts tables.

We have followed the general principles and order of priority as set out in RAG 4.04 as follows:

- Transparency: the attribution methods applied within the accounting separation system need to be transparent. This requires that the costs and revenues apportioned to each service and business unit should be clearly identifiable. The cost and revenue drivers used within the system should also be clearly explained to enable a review of their appropriateness.

- Causality: cost causality requires that costs (and revenues) are allocated to those activities and services that cause the cost (or revenue) to be incurred. This requires that the attribution of costs and revenues to activities and services should be performed at as granular level as possible.

- Non-discrimination: the attribution of costs and revenues should not favour any business unit within the regulated company and it should be possible to demonstrate that internal transfer charges are consistent with the prices charged to external third parties.

- Objectivity: the cost and revenue attribution criteria need to be objective and should not intend to benefit any business unit or service.

- Consistency: the cost and revenue attribution criteria should be consistent from year to year to enable meaningful comparison of information over time. Changes to the attribution methodology from year to year should be clearly justified and documented.

Over time our corporate financial system has been enhanced to construct the accounting separation dataset directly. This process has continued this year and has led to improvements related to each of the principles as set out above.

We have been members of Ofwat's accounting separation working group that has supported the refinement and evolution of the accounting separation requirements since its inception.

Changes and improvements in methodology for 2014-15

Our methodology is broadly unchanged compared to 2013-14 although we continue to enhance the data held on corporate systems so that the need to make further manual adjustments to data for compliance with the requirements of RAG4.04 lessens over time.

This year we have developed a system that monitors the energy use of individual drive level assets on site (e.g. pumps, blowers, tank mixers) through the data collected via onsite telemetry systems. Sites which carry out both sewage and sludge processes are complex locations which have necessitated asset by asset site audits to be carried out. Data from the meters within the energy system related to sludge processes enables a kWh to be calculated. We have used the analysis that this provides to allocate power costs between sewage and sludge treatment processes. The impact of the change has been small (Allocating £0.05m more to sludge treatment) but we consider it an improved process.

Approach to completing wholesale and retail operating cost analysis – Cost allocations

All costs are booked against a cost centre with an owner that manages the costs.

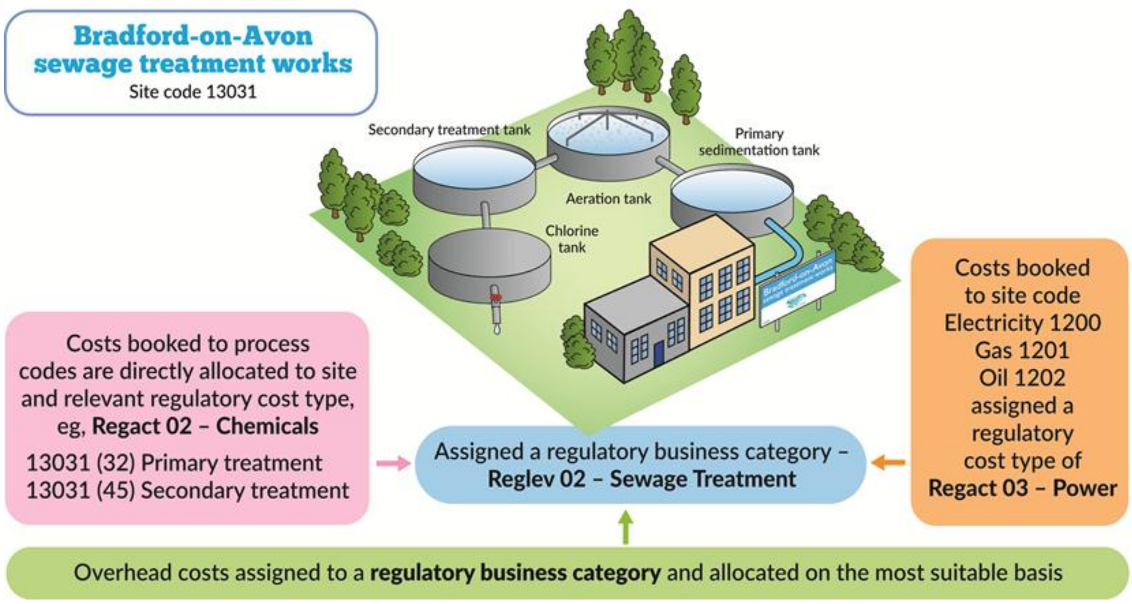
All costs are given an account code that describes the type of cost that has been incurred.

All cost centres within the Company General Ledger system are aligned to regulatory business units for accounting separation reporting purposes.

All account codes are linked to a regulatory account code that conforms to the cost types that companies are required to show separately in the accounting separation tables, e.g. local authority rates.

Each time a new account code or cost centre is created within the corporate finance system it is linked to the appropriate business unit or cost type with reference to the latest regulatory guidelines. In addition, where Ofwat guidelines change we review the linkages of existing cost centres. As a secondary review the management accounting function check all cost centre and account codes to ensure alignment.

The diagram below shows how costs booked against the corporate General Ledger system are attributed to the correct regulatory business category (Reglev) (In this instance – Sewage Treatment) and correct regulatory cost type (Regact).



We continue to develop our new work and asset management systems so that we make greater use of site process and asset codes within the General Ledger system to help automate the split of costs where certain sites undertake activities for more than one regulatory business category.

These codes each sit below the cost centre in the system hierarchy. For instance, within a sewage treatment works cost code the process codes would be primary treatment, secondary treatment, sludge treatment, sludge disposal and each asset code is allocated to one of these treatment processes depending on its function. In this way the costs of maintaining and operating assets can be collected at an asset level and charged automatically to the appropriate business category without (or with less) manual intervention.

Support functions require allocation to the published business units. In many cases we use the internal charges used in the management accounts as the basis for the allocations – in this way the accounting separation data most closely reflects how the business charges itself for use of support services. We carry out this analysis for Information Services, Scientific Services, Facilities Management and the Mechanical & Electrical departments.

In line with guidance we allocate the costs of the following activities based on full time equivalent employees: Human Resources including training and payroll, Finance & Treasury, Chief Executives Office, Insurance, Legal & Estates and Public Relations.

WHOLESALE SUPPORT COST	SUMMARY TABLE
Cost type	**Allocation basis**
Information technology	Some costs are directly attributed such as phones & calls. Central IT costs allocated on the internal charge which is based on computers/laptops
Facilities Management	Allocated based on desks
Scientific services	Allocation based on number and types of samples undertaken consistent with internal charging methodology
Vehicles and plant	Internal hire charges are directly attributed to business unit
Insurance	FTE's
Human Resources & payroll	FTE's
Finance including Treasury & Tax	FTE's
Chairman, Legal, Estates & PR	FTE's
Local Authority rates	Directly allocated where related to an individual site. Where bills cover greater than one activity charges are allocated based on an appropriate MEA value
Energy Team	Apportioned based on each of the regulatory categories annual power expenditure
GSS Payments	Attributed to Water distribution or Sewerage business unit by a detailed analysis derived direct from the finance system
Other business activities	Allocated equally over eight wholesale business units and one retail business unit

Additional adjustments

Some costs are not allocated to the Ofwat requirements in our corporate finance system and it has been necessary to make a small number of adjustments. We make such adjustments where we consider the initial analysis is materially inconsistent with Ofwat guidance e.g. all fisheries costs charged to third party services rather than direct costs of resources.

Power costs are booked within the GL system at a site level. Where sites conduct more than one activity then we make manual adjustments to allocated power costs appropriately. For the wastewater services this is allocated based on drive level data as outlined in the "Changes for 2014-15" section above. The allocation of power between the different water service activities is based on an average of the last three years pumping head data at a site level.

Raw water distribution

We have a small amount of raw water aqueduct and no customers supplied raw water. As such we do not believe there is a viable separated raw water distribution business unit within our boundary. As such, we allocate 'Other business activities' costs equally across eight business units – seven Wholesale and one Retail.

Historically we have aimed to identify specific operating costs that are identifiable as raw water distribution; however the only material operating cost would potentially be power as we do have pumping costs for pumping raw water from sources to treatment works. Applying the rule that water is transferred to one business unit to another via a pump means that these power costs are actually included in the water resources business unit as the pumps are located at the water resources site.

Significant variations of costs in the year

The table below identifies the significant variances from the previous year. These are items that represent a real change of greater than 10%.

BUSINESS UNIT	COST TYPE	MOVEMENT IN COST (£m)	EXPLANATORY NOTES
Water Distribution	Third party operating expenditure	+1.6	This variance was caused by a growth in the volume of new development in the region, plus the accounting impact of an exercise to review jobs held within work in progress during the year
Water Distribution	Other operating expenditure	+1.5	The increase within the Distribution business unit is due to a focus on leakage. We have employed additional leakage inspectors on a full time and temporary basis to ensure our leakage strategy is able to be implemented. This includes fixing visible leaks within 24 hours. An increase in FTE has led to a higher general and support cost apportionment
Sewerage	Third party operating expenditure	+0.3	Wastewater third party costs have increased in particular diversions £0.2m and new services £0.1m
Sewerage	Power	-0.4	Although we continue to seek efficiency in our power use, the majority of this reduction is due to the reduced winter rainfall. Rainfall in 2013-14 December to February was 536mm compared to just 236mm for the same period in 2014-15. Generally drier weather in the summer led to small increases in power costs across water production and distribution
Retail	Services to Developers	-0.2	This follows a review of the appropriate allocation of costs for the new connections administration team between wholesale and retail
Water Resources	Third party operating expenditure	-0.1	A reduction in the costs of the Fisheries department by £0.1m was enough to trigger a reportable variance. The reductions were predominantly within materials & consumables cost types

Billing and collection policy

Risk of collection

Although BWBSL carries out our billing and collection processes, the risk of collection is not transferred to a third party and we continue to bear the risk of collectability.

Treatment of doubtful debt

Our debt write-off policy was reviewed and set at the formation of Bristol Wessex Billing Services Limited (BWBSL) in July 2001. BWBSL bills, collects and writes-off debt on behalf of both Bristol Water and Wessex Water.

Debt is written off for one of four reasons as shown in the accounting policies.

The company approach to provisioning

The company does not create general provisions for future events. Where an event has arisen and been communicated prior to the balance sheet date, such as a reorganisation involving redundancies, the Company will set up a provision for those costs.

The only exception to this is bad debt provisioning where best practice dictates that using historical data the Company should create a provision for debts that are unlikely to be collected.

BWBSL retail costs

An analysis of costs is undertaken by BWBSL based on the company's management accounts. This information is shared in full with WWSL to allow completion of the table analysing costs between household and non-household.

During the year BWBSL has been functionally separating its non-household retail services (Under the brand name "Water 2 Business") from its household retail services. This has lessened the need to make allocation of costs between households and non-households. Of the £1.0m BWBSL non-household customer service cost, £0.7m is now directly attributed to functionally separated departments. Where the allocations continue to be needed we have done so in line with the Ofwat guidance document '2014 price review cost allocation for retail and wholesale price control' published in March 2014. This is consistent with the approach taken in 2013-14.

The following table shows the BWBSL retail cost drivers used to allocate the remaining costs, highlighting in bold the chosen method where there was a choice.

COST TYPE	HH/NHH or SPLIT	COST DRIVER
Billing	Split	Number of bills raised
Payment handling, remittance and cash handling	Split	Number of payments received
Vulnerable customer schemes	Household only	All household
Non-network customer enquiries and complaints	Split	**Volume of non-network customer enquiries and complaints**
Debt Management	Split	Debt outstanding >30 days
Customer doubtful debts	Split	Directly attributable on a customer specific collectability analysis
Meter reading	Split	**Number of meter reads factored by scheduling an allowance for average time taken**
BWBSL General & Support Finance, IT & FM	Split	Customer numbers

Where BWBSL itself outsources activities, for instance printing and mailing, or where departmental costs remain multi-functional, management uses the best available data to allocate costs between the activities. Mailing volumes can be split between those for billing and those for debt recovery before making further allocation to household and non-household based on the Ofwat guidance.

The apportionment by activity is sometimes different for the metered costs and the unmetered costs of the same department, for instance 80% of the unmetered costs of the Social Policy team are attributed to the debt management activity but only 60% of the metered costs. This is because a greater proportion of metered costs in this team are attributed to billing the WaterSure scheme for which only metered customers are eligible.

Non-BWBSL retail costs

The costs attributable to doubtful debts, £12.1m is split between household and non-household based on the collectability of debt in each sector.

Operational customer services costs are included within the “Customer Services” cost type.

Operational customer services costs include:

- The scheduling of jobs triggered by a customer contact by our control room schedulers.
- The inspectors that visit a customer’s address to investigate a problem where it is found not to be a network issue.
- Internally generated calls to the retail call centre to enable the customer contacts to be resolved.

The costs of our customer magazine are included as retail costs and are allocated to customer type on the basis of customer numbers.

Centrally incurred debt management charges are allocated in full to Household and represent the payment made to independent debt advice agencies such as the Citizens advice bureau. These payments support the
Agencies work in providing holistic debt advice. It enables our customers to have access to the Wessex Water‘s “tap” programme of affordability assistance.

The retail element of developer services costs are charge in full to Non household and include the cost of customer contact and raising quotes for new connections.

Local authority rates are allocated between customer types based on customer numbers as reported in the 2013-14 Regulatory return. The overall cost of local authority rates within Retail is small as it relates solely to our offices occupied by BWBSL and an allocation for retail staff based at our head office.

Other operating expenditure includes the full cost of repairing and/or replacing customers’ service pipes where there are leaks and the costs associated with the provision of water efficiency initiatives. The costs of customer side leaks between household and non-household are based on the categorisation of jobs and is reported directly from the work flow system.

We have included the Non - BWBSL retail cost drivers used highlighting in bold the chosen method where there was a choice.

COST TYPE	HH/NHH or SPLIT	COST DRIVER
Customer Services		
Network customer enquiries and complaints	Split	**Volume of network customer enquiries and complaints**
Other customer services	Split	Customer contacts
Other Operating Costs		
Demand-side water efficiency initiatives	Split	Direct allocation
Customer-side leaks	Split	Directly attributable on job specific basis
Payments to debt advice agencies	Household	
Disconnections and reconnections	Non-household only	All non-household
Other operating costs	Split	**Customer numbers**
Other direct costs	Split	**Customer numbers**
General and Support expenditure		
IT costs	Split	Customer numbers
Motor vehicle costs	Split	Customer numbers
Finance, HR, payroll, executive team, general management	Split	Customer numbers
Facilities, building/grounds maintenance	Split	Customer numbers
Insurance costs	Split	Customer numbers
Other general and support costs	Split	**Customer numbers**
Other business activities	Split	**Customer numbers**
Developer services	Non-Household	
Local authority rates		
Local authority rates	Split	Customer numbers
Cumulo rates	Split	Customer numbers

Centrally incurred general and support costs are allocated to retail and wholesale in a consistent manner with the exception of the items highlighted in bold.

COST TYPE	ALLOCATION BASIS
Information technology	Direct where possible (e.g. costs of phones and phone calls) and remaining shared costs are charged based on the number of computers/laptops.
Facilities Management	Direct where possible but remaining shared costs are charged based on desks/staff location
Scientific services	**Wholesale only**
Vehicles and plant	Directly attributed
Insurance	FTE's
Human Resources and Finance including treasury and tax	**HR/Finance costs associated with non BWBSL retail staff are allocated on an FTE basis consistent with wholesale charging**
Chairman, Legal, Estates & PR	FTE's
Local Authority rates	Directly allocated and cross referenced with MEAV Values
Other business activities	Allocated equally over eight business units **Seven Wholesale One Retail. This retail element is allocated between HH & NHH by customer numbers**
Note that for the avoidance of doubt BWBSL overhead costs in each of the above categories are charged direct to the appointed business as part of its management fee.	

Gross replacement cost and Current Cost Depreciation

Within the financial accounting system, each depreciable asset has a number of attributes.

Each asset is allocated to a business unit based on the asset type, the management responsibility centre and the site at which the assets are located. Current Cost Depreciation (CCD) is calculated by our corporate financial system on a per-asset basis after annual indexation for RPI and (if applicable) Modern Equivalent Asset Value adjustments and charged direct to the relevant business unit. The only exception to this is for wholesale Management and General (M&G) assets which are apportioned. We use a method whereby capital costs and depreciation are apportioned between the business units in proportion to the usage of the asset by each wholesale business unit.

This is achieved in a two stage process applied to each M&G asset according to its responsibility centre. Firstly a water/waste split based on long-term average operational usage and secondly, into business units based on accumulated total CCD of non-M&G assets.

Analysis of assets allocated to Retail

CATEGORY	CLOSING NBV £m	CCD FOR THE YEAR £m
Billing system	3.6	0.7
Other assets specifically allocated to the retail table	3.4	0.6
Shared assets allocated to the retail table	nil	nil
Total	7.0	1.3

During the year the following recharges of depreciation were made to retail and received from wholesale business units for the use of fixed assets:

BUSINESS UNIT	RECHARGE TO (£m)	RECHARGE FROM (£m)
Retail	0.1	nil
Wholesale	nil	0.1

The small amount of recharge required is a consequence of the level of separation of our retail and wholesale operations.

We have split the assets and associated CCD into household and non-household within the retail table according to the number of customers served.

Infrastructure renewals charge

We have allocated the IRC to business units based on the average percentage of expenditure on each asset type since 1989 for water supply and since 2001 for waste. We have used a later date for waste than supply because of the significant expansion of the sludge treatment activities from a low base in the 1990's.

As expected the vast majority of IRC is allocated to the sewerage and distribution networks.

Assurance Processes

The assurance process involves an internal review procedure that includes segregated roles and sign off of individual table certificates by data originators, data compilers and owners. This process is carried out to ensure compliance with Ofwat letter MD209 and a true and fair view of the performance of the Company.

In this area the data owners are the company Senior management accountant and the BWBSL Director of finance.

The analysis and methodology statement are compiled by the Regulatory finance manager (operating expenditure) and Financial accountant (CCD, IRC and MEAV).

Both the analysis and methodology statement are scrutinised and challenged by the Head of economic regulation and Financial controller.

A version and change control process is used throughout the process and a “major” version is recorded when the table owner, in this case, the Financial controller is satisfied.

As operating cost analysis tables are included within the Regulatory Accounts an external audit is carried out by our external auditor, KPMG, with reference to current regulatory accounting guidelines and any annual specific guidance. The Ofwat information notice IN15/02 – Expectations for company reporting 2014-15 – regulatory accounts, accounting separation and performance information can be found on the Ofwat website www.ofwat.go.uk.

Following internal and external challenge the Regulatory accounts are presented in full to the company Audit Committee. The Audit Committee use the meeting as an opportunity to challenge specific areas and presentations made by senior managers. Feedback from the Audit Committee is acted upon before being approved by Board members prior to publication.

Through this challenge and signoff process the Company's management is satisfied that the attribution and allocation of costs is reasonable.

Independent Auditor's report to the Water Services Regulation Authority (WSRA) and the Directors of Wessex Water Services Ltd

We have audited the Regulatory Accounts of Wessex Water Services Limited ('the Company') for the year ended 31 March 2015 on pages 135 to 150 which comprise:

- the regulatory historical cost accounting statements comprising the regulatory historical cost profit and loss account, the regulatory historical cost balance sheet, the regulatory historical cost statement of total recognised gains and losses and the historical cost reconciliation between statutory and regulatory accounts; and
- the regulatory current cost accounting statements for the appointed business comprising the current cost profit and loss account, the current cost cash flow statement and the related notes to the current cost financial statements, including the statement of accounting policies.

These Regulatory Accounts have been prepared in accordance with the basis of preparation and accounting policies set out in the Statement of Accounting Policies.

This report is made, on terms that have been agreed, solely to the Company and the WSRA in order to meet the requirements of Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the Company as a water and sewerage undertaker under the Water Industry Act 1991. Our audit work has been undertaken so that we might state to the Company and the WSRA those matters that we have agreed to state to them in our report, in order (a) to 2014-15 Regulatory accounts audit opinion to assist the Company to meet its obligation under Condition F to procure such a report and (b) to facilitate the carrying out by the WSRA of its regulatory functions, 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 WSRA for our audit work, for this report or for the opinions we have formed.

Respective responsibilities of the Directors and Auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 120, the Directors are responsible for the preparation of the Regulatory Accounts and for their fair presentation in accordance with the basis of preparation and accounting policies. Our responsibility is to audit and express an opinion on the Regulatory Accounts in accordance with International Standards on Auditing (UK and Ireland), except as stated in the 'Scope of the audit of the Regulatory Accounts' below, and having regard to the guidance contained in Audit 05/03 'Reporting to Regulators of Regulated Entities' issued by the Institute of Chartered Accountants in England and Wales. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the Regulatory Accounts

An audit involves obtaining evidence about the amounts and disclosures in the Regulatory Accounts sufficient to give reasonable assurance that the Regulatory Accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the Regulatory Accounts. In addition, we read all the financial and non-financial information in the Regulatory Accounts to identify material inconsistencies with the audited Regulatory Accounts. If we become aware of any apparent misstatements or inconsistencies, we consider the implications for our report.

We have not assessed whether the accounting policies are appropriate to the circumstances of the Company where these are laid down by Condition F. Where Condition F does not give specific guidance on the accounting policies to be followed, our audit includes an assessment of whether the accounting policies adopted in respect of the transactions and balances required to be included in the Regulatory Accounts are consistent with those used in the preparation of the statutory financial statements of the Company. Furthermore, as the nature, form and content of Regulatory Accounts are determined by the WSRA, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit opinion under International Standards on Auditing (UK and Ireland).

Opinion on Regulatory Accounts

In our opinion, the Regulatory Accounts:

- fairly present in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA and the accounting policies set out on pages 120 to 122 and 140 to 141 (including the accounting separation methodology), the state of the Company's affairs at 31 March 2015 on an historical cost and current cost basis, and its historical cost and current cost profit and its current cost cash flow for the year then ended; and
- have been properly prepared in accordance with Condition F, the Regulatory Accounting Guidelines and the accounting policies (including the accounting separation methodology).

Basis of preparation

Without modifying our opinion, we draw attention to the fact that the Regulatory Accounts have been prepared in accordance with Condition F of the Appointment and the Regulatory Accounting Guidelines, the accounting policies set out in the statement of accounting policies and, in the case of the regulatory historical cost accounting statements, under the historical cost convention.

The Regulatory Accounts are separate from the statutory financial statements of the Company and have not been prepared under the basis of United Kingdom Generally Accepted Accounting Practice ('UK GAAP') or International Financial Reporting Standards as adopted by the European Union ("IFRSs"). Financial information other than that prepared on the basis of UK GAAP or IFRSs does not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in statutory financial statements prepared in accordance with the Companies Act 2006. Furthermore, the regulatory historical cost accounting statements on pages 135 to 137 have been drawn up in accordance with Regulatory Accounting Guideline 3.07, in that infrastructure renewals accounting as applied in previous years should continue to be applied and accordingly, that the relevant sections of UK Financial Reporting Standards 12 and 15 be disapplied. The effect of this departure from UK Generally Accepted Accounting Practice and a reconciliation of the balance sheet drawn up on this basis to the balance sheet drawn up under the Companies Act 2006 is given on page 122.

Opinion on other matters prescribed by Condition F

Under the terms of our contract, we have assumed responsibility to provide those additional opinions required by Condition F in relation to the accounting records. In our opinion:

- proper accounting records have been kept by the appointee as required by paragraph 3 of Condition F; and
- the Regulatory Accounts are in agreement with the accounting records and returns retained for the purpose of preparing the Regulatory Accounts.

Other matters

The nature, form and content of Regulatory Accounts are determined by the WSRA. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the WSRA's purposes. Accordingly, we make no such assessment. Our opinion on the Regulatory Accounts is separate from our opinion on the statutory financial statements of the Company for the year ended 31 March 2015 on which we report, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the Company (our 'statutory audit') was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

AC Campbell-Orde (Senior Statutory Auditor)
for and on behalf of KPMG LLP
Chartered Accountants
100 Temple Street
Bristol BS1 6AG

25 June 2015

Historical Cost Profit and Loss Account

For the year to 31 March 2015

	2015			2014		
	Appointed	**Non-appointed**	**Total**	Appointed	Non-appointed	Total
	£m	**£m**	**£m**	£m	£m	£m
Turnover	532.9	7.4	**540.3**	516.9	8.0	524.9
Operating costs	(215.4)	(7.4)	**(222.8)**	(204.5)	(8.0)	(212.5)
Depreciation	(82.6)	-	**(82.6)**	(79.1)	-	(79.1)
Operating income	(0.6)	-	**(0.6)**	(1.5)	-	(1.5)
Operating profit	234.3	-	**234.3**	231.8	-	231.8
Other income	0.4	-	**0.4**	0.4	-	0.4
Net interest	(79.0)	-	**(79.0)**	(77.8)	-	(77.8)
Profit on ordinary activities before taxation	155.7	-	**155.7**	154.4	-	154.4
Current taxation	(12.8)	-	**(12.8)**	(12.5)	-	(12.5)
Deferred taxation	(19.6)	-	**(19.6)**	24.8	-	24.8
Profit for the year	123.3	-	**123.3**	166.7	-	166.7
Ordinary dividend	(113.6)	-	**(113.6)**	(119.3)	-	(119.3)
Retained profit for year	9.7	-	**9.7**	47.4	-	47.4

The non-appointed business comprises those activities for which the Appointee is not a monopoly supplier or involve the optional use of assets owned by the Appointee.

Statement of Total Recognised Gains and Losses (Historical Cost Accounting)

For the year to 31 March 2015

	2015	2014
	Appointed	Appointed
	£m	£m
Profit for the year	123.3	166.7
Actuarial (losses) / gains net of tax	(42.2)	14.4
Total recognised gains	81.1	181.1

Historical Cost Balance Sheet
At 31 March 2015

	2015 Appointed £m	2014 Appointed £m
Fixed assets		
Tangible fixed assets	**2,282.2**	2,215.9
Current assets		
Infrastructure renewals prepayment	**5.0**	12.3
Other	**224.6**	268.5
	229.6	280.8
Creditors - amounts falling due within one year		
Borrowings	**(4.1)**	(28.6)
Other creditors	**(170.0)**	(149.0)
	(174.1)	(177.6)
Net current assets	**55.5**	103.2
Total assets less current liabilities	**2,337.7**	2,319.1
Creditors - amounts falling due after more than one year		
Borrowings	**(1,892.1)**	(1,901.0)
Other creditors	**(0.4)**	(0.5)
	(1,892.5)	(1,901.5)
Provisions for liabilities and charges	**(396.9)**	(179.1)
Net assets employed	**48.3**	238.5
Capital and reserves	**48.3**	238.5
Capital and reserves	**48.3**	238.5

There are no assets, liabilities or shareholders' funds attributed to the non-appointed business at either year end.

The regulatory information on pages 135 to 152 was approved by the Board of Directors on 25 June 2015.

Colin Skellett
Chief Executive

Mark Watts
Director

Reconciliation from Regulatory Accounts to Non-statutory Accounts
At 31 March 2015

	2015 £m
Operating profit	
Regulatory accounts	**234.3**
Infrastructure renewals charge	**48.1**
Repairs charge under IFRS	**(20.8)**
Depreciation of infrastructure assets	**(16.4)**
Capitalisation of customer pipe leak repairs	**2.9**
Rental income	**0.4**
Other	**(0.1)**
Non-statutory accounts under IFRS	**248.4**

	2015 £m
Fixed assets	
Regulatory accounts	**2,282.2**
Fair value uplift on adoption of IFRS	**705.1**
Grants and contributions shown as deferred income	**195.5**
Infrastructure renewals expenditure capitalised	**42.5**
Depreciation of infrastructure assets	**(35.0)**
Capitalisation of customer pipe repairs	**31.5**
Infrastructure renewals accounting removed	**12.9**
Capitalisation of interest	**3.2**
Non-statutory accounts under IFRS	**3,237.9**

Current Cost Profit and Loss Account for Appointed Business

For the year to 31 March 2015

	2015			2014		
	Water	**Sewerage**	**Total**	Water	Sewerage	Total
	£m	**£m**	**£m**	£m	£m	£m
Turnover						
Unmeasured – household	**69.5**	**136.6**	**206.1**	70.4	138.5	208.9
Unmeasured – non-household	**2.5**	**3.2**	**5.7**	2.5	3.4	5.9
Measured – household	**68.1**	**122.6**	**190.7**	63.4	113.6	177.0
Measured – non-household	**43.0**	**52.3**	**95.3**	42.1	50.6	92.7
Trade effluent	**-**	**4.3**	**4.3**	-	4.2	4.2
Bulk supplies	**0.4**	**0.1**	**0.5**	0.4	0.1	0.5
Other third party services	**0.1**	**1.3**	**1.4**	0.1	0.8	0.9
Other sources	**15.1**	**13.8**	**28.9**	13.3	13.5	26.8
Total turnover	**198.7**	**334.2**	**532.9**	192.2	324.7	516.9
Operating costs – wholesale	**(124.1)**	**(175.3)**	**(299.4)**	(112.3)	(175.7)	(288.0)
Operating costs – retail	**(15.7)**	**(16.3)**	**(32.0)**	(15.0)	(15.2)	(30.2)
Operating income	**(0.2)**	**(0.7)**	**(0.9)**	(0.2)	(1.9)	(2.1)
Working capital adjustment	**(0.1)**	**(0.4)**	**(0.5)**	(0.2)	(0.4)	(0.6)
Current cost operating profit	**58.6**	**141.5**	**200.1**	64.5	131.5	196.0
Other income			**0.4**			0.4
Net interest			**(79.0)**			(77.8)
Financing adjustment			**10.4**			26.1
Current cost profit before taxation			**131.9**			144.7
Net revenue movement out of tariff basket	**0.1**	**-**	**0.1**	-	(0.3)	(0.3)
Back-billing amount identified	**-**	**-**	**-**	-	-	-

The accompanying notes on pages 140 to 150 form part of the current cost regulatory accounts.

Current Cost Cash Flow Statement
For the year to 31 March 2015

	2015 Appointed £m	2014 Appointed £m
Current cost operating profit	**200.1**	196.0
Working capital adjustment	**0.5**	0.6
Movement in working capital	**21.0**	(13.7)
Other income	**0.4**	0.4
Current cost depreciation	**116.0**	113.7
Current cost loss on disposal of fixed assets	**0.9**	2.1
Infrastructure renewals charge	**48.1**	47.2
Movement in provisions	**(2.5)**	0.7
Net cash inflow from operating activities	**384.5**	347.0
Returns on investments and servicing of finance	**(73.5)**	(77.5)
Taxation paid	**(9.7)**	(29.5)
Capital expenditure and financial investment		
Gross cost of purchase of fixed assets	**(159.9)**	(185.4)
Receipt of grants and contributions	**6.1**	7.3
Infrastructure renewals expenditure	**(40.8)**	(46.6)
Disposal of fixed assets	**0.8**	0.7
Movement on long term group loans to group companies	**16.8**	20.1
Net cash outflow from investing activities	**(177.0)**	(203.9)
Acquisitions and disposals	**-**	-
Equity dividends paid	**(115.2)**	(119.3)
Net cash flow from management of liquid resources	**-**	-
Net cash inflow / (outflow) before financing	**9.1**	(83.2)
Net cash outflow from financing	**(30.7)**	(7.4)
Decrease in cash	**(21.6)**	(90.6)

Notes to the Current Cost Statements

For the year to 31 March 2015

These accounts have been prepared for the Appointed Business of Wessex Water Services Ltd in accordance with guidance issued by the WSRA for modified real terms financial statements suitable for regulation in the water industry. They measure profitability on the basis of real financial capital maintenance in the context of assets which are valued at their current cost value to the business.

The accounting policies used are the same as those adopted in the regulatory historical cost accounts except as set out below:

1 Tangible Fixed Assets

Modern equivalent asset values (MEA) arising from the 2009 periodic review have been incorporated into the regulatory statements.

Assets acquired and in operational use are valued at the replacement cost of their operating capability. To the extent that the regulatory regime does not allow such assets to earn a return high enough to justify that value, no adjustment is made in arriving at the replacement cost. Also, no provision is made for the possible funding of future replacements of assets by contributions from third parties and to the extent that some of those assets would on replacement be so funded, replacement cost again differs from value to the business. Redundant assets are valued at their recoverable amounts.

Non-specialised operational properties

Non-specialised operational properties are valued on the basis of open market value for existing use and have been expressed in real terms by indexing using the Retail Price Index (RPI).

Specialised operational assets

Specialised operational assets are valued at the lower of depreciated replacement cost and recoverable amount, restated annually between Asset Management Plan (AMP) reviews by adjusting for inflation as measured by changes in the RPI. The unamortised portion of third party contributions received is deducted in arriving at net operating assets (as described below).

Infrastructure assets

Mains, sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines, sea outfalls and infrastructure investigations and studies are valued at replacement cost determined by the MEA value at the latest periodic review.

A process of continuing refinement of assets records is expected to produce adjustments to existing values when periodic reviews of the AMP take place. In the intervening years, values are restated to take account of changes in the general level of inflation as measured by changes in the RPI over the year.

Private sewers adopted on 1 October 2011 have been valued in the current cost balance sheet at an MEA comprising the estimated length of sewer, multiplied by the cost per meter of various diameters of sewer taken from the 2009 periodic review data. Values are restated for inflation as measured by changes in the RPI.

Other tangible assets

All other fixed assets are valued periodically at depreciated replacement cost. Between periodic AMP reviews, values are restated for inflation as measured by changes in the RPI.

Surplus land

Surplus land is valued at recoverable amount taking into account that part of any proceeds to be passed on to customers under Condition B of the Licence.

2 Grants and other Third Party Contributions

Grants, infrastructure charges and other third party contributions received since 31 March 1990 are carried forward to the extent that any balance has not been credited to revenue. The balance carried forward is restated for the change in the RPI for the year and treated as for deferred income.

3 Real Financial Capital Maintenance Adjustments

These adjustments are made to historical cost profit in order to arrive at profit after the maintenance of financial capital in real terms.

Working capital adjustment

This is calculated by applying the change in the RPI over the year to the working capital of the Company at the beginning of the year.

Financing adjustment

This is calculated by applying the change in the RPI over the year to the opening balance of net finance which comprises all monetary assets and liabilities in the balance sheet apart from those included in working capital.

4a Operating Cost Analysis – Wholesale Business
For the year to 31 March 2015

	Water					Sewerage					
Operating expenditure	Resources £m	Raw water distribution £m	Treatment £m	Treated distribution £m	Water sub-total £m	Sewage collection £m	Sewage treatment £m	Sludge treatment £m	Sludge disposal £m	Sewerage sub-total £m	**Total £m**
Power	1.9	-	4.3	1.1	7.3	3.2	11.1	1.3	-	15.6	**22.9**
Income treated as negative expenditure	-	-	-	-	-	-	-	-	-	-	**-**
Service charges	2.3	-	0.1	-	2.4	0.8	2.0	-	-	2.8	**5.2**
Bulk supply imports	-	-	1.3	-	1.3	-	-	-	-	-	**1.3**
Other operating expenditure	2.6	-	8.7	15.0	26.3	14.9	18.9	9.7	5.4	48.9	**75.2**
Local authority rates	0.8	-	1.6	15.2	17.6	-	7.8	2.1	-	9.9	**27.5**
Exceptional items	-	-	-	-	-	-	-	-	-	-	**-**
Total operating expenditure	7.6	-	16.0	31.3	54.9	18.9	39.8	13.1	5.4	77.2	**132.1**
Capital maintenance											
Infrastructure renewals charge	1.2	-	-	28.4	29.6	17.8	0.6	0.1	-	18.5	**48.1**
Current cost depreciation	4.3	-	14.1	17.3	35.7	11.7	55.3	10.8	2.6	80.4	**116.1**
Recharges to other business units	-	-	-	-	-	-	(0.1)	-	-	(0.1)	**(0.1)**
Recharges from other business units	-	-	-	-	-	-	-	-	-	-	**-**
Amortisation of deferred credits	-	-	-	(0.3)	(0.3)	(0.8)	(0.3)	-	-	(1.1)	**(1.4)**
Amortisation of intangible assets	-	-	-	-	-	-	-	-	-	-	**-**
Total capital maintenance	5.5	-	14.1	45.4	65.0	28.7	55.5	10.9	2.6	97.7	**162.7**
Third party services											
Operating expenditure	0.7	-	-	3.5	4.2	0.4	-	-	-	0.4	**4.6**
Infrastructure renewals charge	-	-	-	-	-	-	-	-	-	-	**-**
Current cost depreciation	-	-	-	-	-	-	-	-	-	-	**-**
Total operating costs	**13.8**	**-**	**30.1**	**80.2**	**124.1**	**48.0**	**95.3**	**24.0**	**8.0**	**175.3**	**299.4**

4b **Operating Cost Analysis – Wholesale Business**

For the year to 31 March 2014

	Water					Sewerage					
Operating expenditure	Resources £m	Raw water distribution £m	Treatment £m	Treated distribution £m	Water sub-total £m	Sewage collection £m	Sewage treatment £m	Sludge treatment £m	Sludge disposal £m	Sewerage sub-total £m	**Total £m**
Power	1.7	-	4.0	1.1	6.8	3.6	10.5	1.2	-	15.3	**22.1**
Income treated as negative expenditure	-	-	-	-	-	-	-	-	-	-	**-**
Service charges	2.3	-	0.1	-	2.4	0.8	2.1	-	-	2.9	**5.3**
Bulk supply imports	-	-	1.3	-	1.3	-	-	-	-	-	**1.3**
Other operating expenditure	2.3	-	8.0	13.1	23.4	14.8	18.3	8.9	4.9	46.9	**70.3**
Local authority rates	0.8	-	1.6	14.6	17.0	-	7.4	2.1	-	9.5	**26.5**
Exceptional items	-	-	-	-	-	-	-	-	-	-	**-**
Total operating expenditure	7.1	-	15.0	28.8	50.9	19.2	38.3	12.2	4.9	74.6	**125.5**
Capital maintenance											
Infrastructure renewals charge	-	-	-	24.6	24.6	22.6	-	-	-	22.6	**47.2**
Current cost depreciation	4.1	-	13.1	17.1	34.3	11.4	54.6	10.6	2.7	79.3	**113.6**
Recharges to other business units	-	-	-	-	-	-	-	-	-	-	**-**
Recharges from other business units	-	-	-	-	-	-	-	-	-	-	**-**
Amortisation of deferred credits	-	-	-	(0.2)	(0.2)	(0.5)	(0.4)	-	-	(0.9)	**(1.1)**
Amortisation of intangible assets	-	-	-	-	-	-	-	-	-	-	**-**
Total capital maintenance	4.1	-	13.1	41.5	58.7	33.5	54.2	10.6	2.7	101.0	**159.7**
Third party services											
Operating expenditure	0.8	-	-	1.9	2.7	0.1	-	-	-	0.1	**2.8**
Infrastructure renewals charge	-	-	-	-	-	-	-	-	-	-	**-**
Current cost depreciation	-	-	-	-	-	-	-	-	-	-	**-**
Total operating costs	**12.0**	**-**	**28.1**	**72.2**	**112.3**	**52.8**	**92.5**	**22.8**	**7.6**	**175.7**	**288.0**

5 Current Cost Analysis of Fixed Assets – Wholesale Business
At 31 March 2015

	Water					Sewerage					
Non-Infrastructure assets Gross replacement cost	Resources £m	Raw water distribution £m	Treatment £m	Treated distribution £m	Water sub-total £m	Sewage collection £m	Sewage treatment £m	Sludge treatment £m	Sludge disposal £m	Sewerage sub-total £m	**Total £m**
At 1 April 2014	193.5	1.7	533.3	671.6	1,400.1	449.0	2,044.6	339.8	73.1	2,906.5	**4,306.6**
AMP adjustment	-	-	-	-	-	-	-	-	-	-	**-**
Reclassification adjustment	0.2	-	(3.5)	8.3	5.0	5.0	(4.7)	0.6	0.1	1.0	**6.0**
RPI adjustment	1.5	-	3.8	4.7	10.0	3.0	16.2	2.3	0.5	22.0	**32.0**
Disposals	(1.4)	-	(5.8)	(7.2)	(14.4)	(7.2)	(20.0)	(3.8)	(1.3)	(32.3)	**(46.7)**
Additions	2.0	-	11.0	32.6	45.6	8.1	43.2	13.4	0.4	65.1	**110.7**
At 31 March 2015	**195.8**	**1.7**	**538.8**	**710.0**	**1,446.3**	**457.9**	**2,079.3**	**352.3**	**72.8**	**2,962.3**	**4,408.6**
Depreciation											
At 1 April 2014	69.2	0.4	243.6	327.3	640.5	245.2	1,055.6	189.4	46.2	1,536.4	**2,176.9**
AMP adjustment	-	-	-	-	-	-	-	-	-	-	**-**
Reclassification adjustment	0.1	-	-	0.4	0.5	0.4	0.5	0.2	0.1	1.2	**1.7**
RPI adjustment	0.4	-	1.4	1.9	3.7	1.2	7.3	1.0	0.3	9.8	**13.5**
Disposals	(1.4)	-	(5.6)	(7.0)	(14.0)	(7.0)	(19.2)	(3.5)	(1.3)	(31.0)	**(45.0)**
Charge for year	4.3	-	14.1	17.3	35.7	11.7	55.3	10.8	2.6	80.4	**116.1**
At 31 March 2015	**72.6**	**0.4**	**253.5**	**339.9**	**666.4**	**251.5**	**1,099.5**	**197.9**	**47.9**	**1,596.8**	**2,263.2**
Net book amount at 31 March 2015	**123.2**	**1.3**	**285.3**	**370.1**	**779.9**	**206.4**	**979.8**	**154.4**	**24.9**	**1,365.5**	**2,145.4**
Net book amount at 1 April 2014	124.3	1.3	289.7	344.3	759.6	203.8	989.0	150.4	26.9	1,370.1	**2,129.7**
Infrastructure assets Gross replacement cost											
At 1 April 2014	42.6	0.6	-	3,152.3	3,195.5	17,258.7	174.2	-	-	17,432.9	**20,628.4**
AMP adjustment	-	-	-	-	-	-	-	-	-	-	**-**
Reclassification adjustment	-	-	3.8	(7.4)	(3.6)	(0.8)	3.8	-	-	3.0	**(0.6)**
RPI adjustment	0.4	-	-	28.3	28.7	155.6	1.6	-	-	157.2	**185.9**
Disposals	-	-	-	-	-	-	-	-	-	-	**-**
Additions	0.5	-	-	24.5	25.0	21.4	-	-	-	21.4	**46.4**
At 31 March 2015	**43.5**	**0.6**	**3.8**	**3,197.7**	**3,245.6**	**17,434.9**	**179.6**	**-**	**-**	**17,614.5**	**20,860.1**

6a **Operating Cost Analysis – Retail Business**
For the year to 31 March 2015

	Household £m	Non-household £m	**Total £m**
Operating expenditure			
Customer services	6.9	1.1	**8.0**
Debt management	3.0	0.2	**3.2**
Doubtful debts	11.2	0.9	**12.1**
Meter reading	1.5	0.5	**2.0**
Services to developers	-	0.6	**0.6**
Other operating expenditure	4.3	0.3	**4.6**
Local authority rates	0.1	-	**0.1**
Exceptional items	-	-	-
Total excluding third party services	27.0	3.6	**30.6**
Third party services	-	-	-
Total operating expenditure	27.0	3.6	**30.6**
Capital maintenance			
Current cost depreciation	1.2	0.1	**1.3**
Recharges to other business units	-	-	-
Recharges from other business units	0.1	-	**0.1**
Amortisation of deferred credits	-	-	-
Amortisation of intangible assets	-	-	-
Total capital maintenance	1.3	0.1	**1.4**
Total operating costs	28.3	3.7	**32.0**
Debt written off	9.5	0.9	**10.4**

6b **Operating Cost Analysis – Retail Business**

For the year to 31 March 2014

	Household £m	Non-household £m	**Total £m**
Operating expenditure			
Customer services	6.6	0.9	**7.5**
Debt management	2.7	0.3	**3.0**
Doubtful debts	11.8	1.0	**12.8**
Meter reading	1.3	0.5	**1.8**
Services to developers	-	0.8	**0.8**
Other operating expenditure	4.0	0.3	**4.3**
Local authority rates	0.1	-	**0.1**
Exceptional items	(1.2)	(0.1)	**(1.3)**
Total excluding third party services	25.3	3.7	**29.0**
Third party services	-	-	-
Total operating expenditure	25.3	3.7	**29.0**
Capital maintenance			
Current cost depreciation	1.0	0.1	**1.1**
Recharges to other business units	-	-	**-**
Recharges from other business units	0.1	-	**0.1**
Amortisation of deferred credits	-	-	**-**
Amortisation of intangible assets	-	-	-
Total capital maintenance	1.1	0.1	**1.2**
Total operating costs	26.4	3.8	**30.2**
Debt written off	8.4	0.6	**9.0**

7 Current Cost Analysis of Fixed Assets – Retail Business

At 31 March 2015

Non-Infrastructure assets	Household £m	Non-household £m	**Total £m**
Gross replacement cost			
At 1 April 2014	28.1	3.1	**31.2**
AMP adjustment	-	-	**-**
Reclassification adjustment	(5.3)	(1.2)	**(6.5)**
RPI adjustment	0.1	-	**0.1**
Disposals	(0.7)	(0.1)	**(0.8)**
Additions	0.4	-	**0.4**
At 31 March 2015	**22.6**	**1.8**	**24.4**
Depreciation			
At 1 April 2014	17.7	2.0	**19.7**
AMP adjustment	-	-	**-**
Reclassification adjustment	(2.1)	(0.7)	**(2.8)**
RPI adjustment	-	-	**-**
Disposals	(0.7)	(0.1)	**(0.8)**
Charge for year	1.2	0.1	**1.3**
At 31 March 2015	**16.1**	**1.3**	**17.4**
Net book amount at 31 March 2015	**6.5**	**0.5**	**7.0**
Net book amount at 1 April 2014	10.4	1.1	**11.5**

8 Analysis of Capital Expenditure, Grants and Contributions and Land Sales
For the year to 31 March 2015

	2015 Gross £m	**2015 Grants £m**	**2015 Net £m**	2014 Gross £m	2014 Grants £m	2014 Net £m
Capital expenditure – Water						
Base						
Infrastructure Renewals Expenditure	**20.0**	**-**	**20.0**	24.6	-	24.6
Maintenance non-infrastructure	**15.2**	**-**	**15.2**	23.4	-	23.4
Enhancements						
Infrastructure enhancements	**25.0**	**(3.2)**	**21.8**	24.2	(2.3)	21.9
Non-infrastructure enhancements	**30.6**	**(0.3)**	**30.3**	26.3	-	26.3
Total capital expenditure –Water	**90.8**	**(3.5)**	**87.3**	98.5	(2.3)	96.2
Grants and contributions – Water						
Developer contributions		**(0.3)**			(0.3)	
Infra charges receipts - connections		**(1.9)**			(1.6)	
Other contributions		**(1.3)**			(0.4)	
Total grants and contributions – Water		**(3.5)**			(2.3)	
Capital expenditure – Sewerage						
Base						
Infrastructure Renewals Expenditure	**20.8**	**-**	**20.8**	22.0	-	22.0
Maintenance non-infrastructure	**45.3**	**-**	**45.3**	51.1	-	51.1
Enhancements						
Infrastructure enhancements	**21.4**	**(3.3)**	**18.1**	24.6	(4.7)	19.9
Non-infrastructure enhancements	**20.1**	**-**	**20.1**	27.1	(0.2)	26.9
Large projects capex						
Infrastructure enhancements	-	-	**-**	-	**-**	-
Non-infrastructure enhancements	-	-	**-**	-	**-**	-
Total capital expenditure – Sewerage	**107.6**	**(3.3)**	**104.3**	124.8	(4.9)	119.9
Grants and contributions – Sewerage						
Developer contributions		**(0.6)**			(1.8)	
Infra charges receipts - connections		**(2.7)**			(2.9)	
Other contributions		-			(0.2)	
Total grants and contributions – Sewerage		**(3.3)**			(4.9)	
Total capital expenditure – Water and Sewerage	**198.4**	**(6.8)**	**191.6**	223.3	(7.2)	216.1
Land sales – proceeds from disposals of protected land		-			(0.1)	

9 Analysis of Working Capital

	2015 £m	2014 £m
Stocks	**6.6**	6.4
Trade debtors – measured household	**24.3**	22.6
Trade debtors – unmeasured household	**23.0**	23.7
Trade debtors – measured non-household	**7.9**	7.2
Trade debtors – unmeasured non-household	**0.3**	0.3
Other trade debtors	**3.0**	0.9
Measured income accrual	**67.6**	64.0
Prepayments and other debtors	**44.9**	53.8
Trade creditors	**(24.0)**	(5.9)
Deferred income – customer advance receipts	**(37.0)**	(34.9)
Capital creditors	**(33.4)**	(35.7)
Accruals and other creditors	**(31.7)**	(29.9)
	51.5	72.5
Total revenue outstanding – household	**47.3**	46.3
Total revenue outstanding – non-household	**8.2**	7.5

10 Analysis of Net debt, Gearing and Interest Costs

At 31 March 2015

	Fixed Rate £m	Floating Rate £m	Index Linked £m	Total £m
Borrowings	(899.6)	(285.5)	(711.2)	**(1,896.3)**
Preference share capital	-	-	-	**-**
	(899.6)	(285.5)	(711.2)	**(1,896.3)**
Bank overdraft				**12.0**
Short term deposits				**35.0**
Net debt				**(1,849.3)**
Regulatory capital value £m				**2,960.2**
Gearing %				**62.4%**
Full year equivalent nominal interest cost £m	(44.0)	(2.8)	(31.0)	**(77.8)**
Full year equivalent cash interest payment £m	(44.0)	(2.8)	(17.0)	**(63.8)**
Indicative interest rates				
Indicative weighted average nominal interest rate %	4.9%	1.0%	4.4%	**4.1%**
Indicative weighted average cash interest rate %	4.9%	1.0%	2.4%	**3.4%**
Weighted average years to maturity - number	12.3	4.9	34.9	**19.7**

11 **Non-Financial Information**
For the year to 31 March 2015

	2015		2014	
	Water	**Sewerage**	Water	Sewerage
Number of properties (000's)				
Households billed	**535**	**1,101**	530	1,092
Non-households billed	**52**	**82**	52	81
Household voids	**12**	**23**	12	24
Non-households voids	**2**	**4**	2	4
Properties served by new appointee in supply area as at 1 April 2009	**-**	**-**	-	-
Per capita consumption (excluding supply pipe leakage) l/h/d				
Unmeasured household	**146**	**-**	144	-
Measured household	**131**	**-**	132	-
Volume (Ml/d)				
Bulk supply export	**1**	**-**	1	-
Bulk supply import	**9**	**-**	9	-
Distribution input	**330**	**-**	330	-

Additional Regulatory Disclosures
For the year to 31 March 2015

A Regulatory Capital Value

	2015 £m
Closing RCV for 2013-14	2,886
Indexation	26
Opening RCV for 2014-15	2,912
Capital expenditure	195
Infrastructure renewals expenditure	48
Grants and contributions	(9)
Depreciation	(120)
Infrastructure renewals charge	(45)
Outperformance of regulatory assumptions (5 years in arrears)	(21)
Closing RCV for 2014-15	2,960
Average RCV	2,931

B Financial Indicators

Ofwat has produced a number of Key Performance Indicators to be published annually as part of a balanced scorecard approach to regulation. Within the balanced scorecard are four financial indicators shown below.

		2014-15
Post-tax return on capital (target = 5.18%)		6.3%
Credit rating – latest published (target = investment grade)	Moody's	A3
	Standard & Poor's	BBB+
	Fitch Ratings	A-
Gearing (net debt as a percentage of closing Regulatory Capital Value)		62.4%
Interest cover - times	Adjusted interest cover (i)	2.7
	FFO / interest (ii)	4.0

The target has been achieved in respect of the first two financial indicators. No target was set for gearing or interest cover.

(i) Calculation as per Moody's methodology for 2013-14
(ii) Calculation as per Standard & Poor's methodology for 2013-14

C Regulatory Commentary and Trends

Regulatory commentary and trends are included in the narrative to the non-statutory accounts, and principal risks are described on pages 28 and 29.

D Disclosure of Transactions with Associates
For the year to 31 March 2015

Services provided by appointee to associated companies

Associate Company	Service Provided	Turnover of Associate £m	Terms of Supply	2014-15 Value £m
Wessex Water Ltd	Corporate charges	nil	No market	0.6
Bristol Wessex Billing Services Ltd	Information Systems, Transport, Insurance, staff costs and Personnel	14.9	No market	1.7
Wessex Water Enterprises Ltd and GENeco Ltd	Waste Treatment, Transport, Accommodation, Insurance, Laboratory and central services	20.6	No market	7.1
Wessex Water Ltd and Bath Hotel and Spa Ltd	Project management	nil	No market	0.3

Services provided to appointee by associated companies

Associate Company	Service Provided	Turnover of Associate £m	Terms of Supply	2014-15 Value £m
Bristol Wessex Billing Services Ltd	Billing services	14.9	Competitive letting	12.0
Wessex Water Enterprises Ltd	Supply of electricity	17.9	Other market testing	1.9

Financial transactions

Dividends declared by the appointee to Wessex Water Ltd are disclosed in note 8 to the accounts.

The appointee paid £70.0m (2014 - £75.5m) of interest to its subsidiary company Wessex Water Services Finance Plc in relation to the proceeds of the Bonds issued by that company, that were lent to the appointee under the same terms as the Bonds. The Bonds are shown in note 14 to the accounts.

The appointee acquired assets of £7.8m (2014 - £2.4m) on behalf of Wessex Water Enterprises Ltd and transferred those assets to that company.

Environmental accounting

For the year to 31 March 2015

The accounts in the following pages have two main purposes. Firstly, they cover our environmental impacts in monetary terms, considering a) areas where we have made expenditure as part of our environmental programme or through environmental taxation; b) alternative methods for monetising environmental impacts and c) a more detailed explanation of our greenhouse gas emissions. Secondly, they summarise our expenditure on items relevant to sustainability in its broader sense.

Environmental investment

Our agreed investment programme for 2010-15 included a range of schemes to benefit society and the environment. These were largely driven by European regulation as implemented by Defra, the Environment Agency and Natural England. Issues being addressed included:

- low river flows that can occur during dry weather
- nitrates and pesticides found in groundwater
- phosphorus in rivers and streams
- flooding from the sewerage system and bathing water quality.

The single largest scheme, continuing into the 2015-20 investment period, is the integrated supply grid which will involve investment of more than £200m to address simultaneously a number of customer service and environmental concerns.

In December, Ofwat published its final determination on our investment during 2015-20. The programme includes expenditure to reduce the impact of abstraction on rivers at risk of low flows, to reduce nutrient levels in rivers, enhance bathing water quality and improve the condition of our sewerage infrastructure.

Alongside investment in physical assets, we will continue working with others to better manage catchments and surface water, addressing impacts on the water environment at source, and we will carry out extensive environmental investigations that will inform investment during 2020-25.

Licences, charges and environmental taxation

We are subject to numerous licences, taxes and other annual charges that have an environmental basis. These include abstraction licences and discharge consents paid to the Environment Agency, the Carbon Reduction Commitment Energy Efficiency Scheme (which imposed a levy of £16 per tonne of carbon dioxide from electricity and gas use) and the Climate Change Levy. Combined, we paid approximately £8m for these in 2014-15.

Other valuation methods

Environmental costs can be assessed by calculating the hypothetical investment needed to eliminate an environmental impact, for example, the cost of switching from fossil fuel energy to renewable sources. Typically we assess investment costs for renewable energy generation and emerging carbon abatement technologies on a case-by-case basis.

A further approach is the use of shadow prices, such as the carbon values that form part of the Green Book Supplementary Appraisal Guidance for Valuing Greenhouse Gas Emissions and Energy Use, for use in policy and project appraisal.

For our business plan for 2015-20 we also applied transfer values for environmental and social elements (such as traffic disruption, recreational benefits) derived from willingness-to-pay surveys and previous studies such as the national Benefits Assessment Guidance.

In a few cases there are also market-based valuations, such as carbon offsets, which account for the emissions avoided by renewable energy, energy efficiency and carbon storage projects. The price of each tonne of avoided carbon dioxide varies according to the levels of certification offered.

Some environmental impacts remain 'externalised'; that is, they have not yet been fully addressed through investment or some other intervention. The most material example of this in our sector would be impacts on the quality of rivers, estuaries and coastal waters, where improvements are being implemented over several years to comply with the Water Framework Directive and the Priority Substances Directive.

The pace and location of investment in the UK and Europe is influenced by many factors including:

- ongoing discussion of what standards are needed to achieve good ecological status
- the emerging science on the prevalence and origin of pollutants
- surveys of the condition of waterbodies (at local, national and international scales)
- the efficacy of treatment technology.

Greenhouse gas emissions

Our net emissions for 2014-15 as reported to Ofwat were 148 kilotonnes CO_2 equivalent; this is 2% higher than 2013-14. Energy use fell due to rainfall being close to its long-term average and our energy efficiency work, but the carbon intensity of national grid electricity increased by 11%.

Emissions are calculated using the most recent guidance from the government for environmental reporting and Ofwat for their key performance indicators. They are split into three categories:

- Scope 1: emissions produced directly from activities on our sites (eg, on-site fuel use)
- Scope 2: emissions related to grid electricity generation
- Scope 3: third-party emissions associated with Wessex Water's activities, eg, personal vehicles for business travel and outsourced fuel use and transport, plus emissions related to grid electricity transmission and distribution.

Carbon dioxide from energy and transport makes up around three quarters of our total greenhouse gas emissions. The remainder is in the form of methane and nitrous oxide emissions from sewage and sludge treatment.

By generating and using our own electricity from sludge digestion and from our non-regulated activities – principally food waste digestion – we avoided the use of an additional 37GWh of grid electricity, with an associated avoidance of 20 ktCO_2 equivalent. We also exported 7 GWh of self-generated electricity which equates to a reduction of 3 ktCO_2 equivalent and nearly 800,000 cubic metres of biomethane, which equates to a reduction of 2 ktCO_2.

Some of the process chemicals we use to treat water and sewage have an estimated carbon footprint for their manufacture (but not their transportation); together this amounts to 7ktCO_2 equivalent.

We also estimate the whole life carbon footprint of each project in the investment programme when carrying out initial appraisals. This includes the embodied carbon of materials used, the construction process and an estimate of annual carbon dioxide emissions during the operational lifespan of the asset being created.

The monetary cost of our greenhouse gas emissions based on guidance from the Department for Energy and Climate Change would be £0.7m using traded carbon values and £9.7m using non-traded carbon values. Our actual Carbon Reduction Commitment payment for 2014-15 was £1.7m.

Appointed business	Scope 1 (Wessex Water direct fuel use)	Scope 2 (grid electricity)	Scope 3 (use by third parties)	**Total 2014-15**	Total 2013-14
Gas, diesel and other fuels	6	0	5	**11**	10
Grid electricity	0	98	9	**107**	101
Transport	10	0	1	**11**	11
Methane	15	<1	2	**17**	17
Nitrous oxide	10	1	8	**19**	19
Exported renewable (emissions netted off)	0	-5	0	**-5**	-3
TOTAL (net emissions)	41	94	25	**160***	155

*Table includes Scope3 methane and nitrous oxide which are included from the Ofwat KPI calculation.

Investment towards sustainability

unaudited

	2015* Amount £m	2014* Amount £m
CUSTOMERS AND COMMUNITIES		
Mandatory expenditure	80	74
Example – water supply quality enhancement work such as mains relining		
Discretionary expenditure (a)	0	0
Discretionary expenditure (b)	1	1
Example – replacement of customers' supply pipes; education service		
Discretionary expenditure (c)	0.1	<0.5
Example – charitable donations to community projects		
ENVIRONMENT		
Mandatory expenditure	17	28
Example – capital investment to meet the Habitats Directive		
Discretionary expenditure (a)	0	0
Discretionary expenditure (b)	1	1
Examples – trials on options for more sustainable water resources		
Discretionary expenditure (c)	0.1	<0.5
Example – conservation grants to Wildlife Trusts		
EMPLOYEES		
Mandatory expenditure	48	45
Example – basic pay and conditions including pension		
Discretionary expenditure (a)	3	3
Example – basic pay and conditions including pension		
Discretionary expenditure (b)	6	5
Example – staff training		
Discretionary expenditure (c)	0	0
Example – staff training		
INVESTMENT – INFRASTRUCTURE		
Mandatory expenditure	101	121
Example – replacement / refurbishment of sewers		
TOTALS		
Customers and communities	81	76
Environment	18	29
Employees	57	53
Infrastructure	101	121
Total	257	279

Mandatory expenditure – expenditure governed primarily by legislation or regulation
Discretionary expenditure (a) – primary benefit to Wessex Water; secondary benefit to others
Discretionary expenditure (b) – equal benefit to Wessex Water and to others
Discretionary expenditure (c) – primary benefit to others; secondary benefit to Wessex Water

*Numbers rounded to nearest integer.