striking the balance

2013

annual review and accounts

a YTL company

Our aims

We aim to provide high quality, sustainable water and environmental services, while keeping bills affordable for customers.

To give customers the highest standards of service and value for money.

To protect and improve the environment and contribute to wider society.

To provide employees with the opportunity for personal development and a satisfying career.

To give our investors a stable return on their investment commensurate with the risk taken.

Our values

We are honest and ethical in the way we conduct our business.

We aim to be the best and value everybody's contribution in our pursuit of excellence.

We treat one another, our customers and the environment with respect.

Contents

About this report

Wessex Water continues to be a leading UK water and sewerage company for customer service and environmental performance and is recognised as one of the most efficient in the sector.

This annual review combines our reporting on finance, performance, governance and sustainability.

We supply:

1.3 million customers

270 million litres of water a day (on average almost half a ton of water to each household daily)

We have:

200 water sources and water treatment works

200 booster pumping stations

340 service reservoirs and water towers

7,200 miles (11,600 kilometres) of water mains (which would stretch from our region to Indonesia, Asia)

We take away and treat:

460 million litres of sewage from 2.7 million customers every day

Our sewerage system includes more than:

22,000 miles (35,000 kilometres) of sewers (the equivalent of a return trip from our region to the Great Barrier Reef, Australia)

400 sewage treatment works

1,600 pumping stations

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

Chairman’s introduction

The changing climate continues to provide new challenges for Wessex Water. We began 2012-13 with a drought, which was quickly followed by the wettest summer on record.

Despite the early dry weather, we maintained our record of unrestricted water supplies to all our customers – it is now 36 years since we had to impose any form of restriction on water use within the Wessex Water region.

The intense summer rainfall caused a number of flooding problems but our major investment in sewerage infrastructure over recent years helped to minimise the impact on customers. In 2011 the government transferred responsibility for private sewers to water companies, so Wessex Water took on around 11,000 miles of largely sub-standard sewers. This, together with the growing impact of climate change, will require major investment in future.

The very wet summer also affected bathing water compliance, which slipped from the 100% level of previous years to 94% compliance with mandatory standards. One of the bathing waters that failed was Uphill at Weston-super-Mare. While bathing waters are affected by factors outside Wessex Water’s control, we will ensure that our sewerage and sewage treatment systems do not have an adverse impact. At Weston-super-Mare we have completed work on a £26m scheme to provide improved treatment and disinfection.

We maintain 100% compliance with sewage treatment discharge consents and our compliance with drinking water standards continues to exceed 99.9%. We generated one of our highest recorded amounts of renewable energy and continued our progress to becoming a truly sustainable water and sewerage company. Many staff also worked long hours to help ensure the Olympic sailing at Weymouth was a great success.

We have continued to become more efficient and have delivered savings against both our capital investment programme and our operating costs, while at the same time delivering all of the required regulatory outputs.

We are sharing our efficiency savings with customers through additional customer focused schemes, £50m in this price review period and £100m in the last decade.

Wessex Water is halfway through a £1bn, five-year investment programme. This programme includes the largest project we have ever undertaken: the construction of a water supply grid across the Wessex Water region that will enable us to reduce abstraction at environmentally sensitive sites and ensure much greater flexibility and greater resilience in the supply of water to customers. Our total capital investment in 2012-13 was £222m. This investment not only improved services, but helped to create local jobs within the Wessex Water region.

Regulatory league tables continue to identify Wessex Water as the best performing water and sewerage company in England and Wales, with the highest levels of service and efficiency. The Consumer Council for Water announced that we received fewer complaints than any water company, and during the year complaints to us fell by 9%.

Our water and sewerage bills represent only 1.5% of average household expenditure. This is marginally higher than the 1.4% at privatisation in 1989. We recognise that the economic climate means some customers find it difficult to pay their bills, so we have launched **’tap’**, our tailored assistance programme, to help these customers. This programme works closely with debt agencies and special advisers to offer a range of tariffs and assistance.

Operating costs for the year increased from £135.8m to £148.4m due principally to increased business rates, the full year cost of operating private sewers and increases in costs from new obligations.

Despite these cost increases and the difficult economic conditions, profit before tax at £138.5m was at a similar level to last year.

There has been a good deal of public interest in tax paid by companies. Wessex Water does not have complicated tax schemes, pays the appropriate level of tax and is classified by HMRC as a low risk taxpayer.

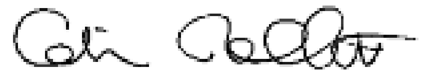
Wessex Water is committed to high standards of corporate governance; it is at the heart of our business and underpins the relationships we have with our customers, shareholder and other stakeholders. This year’s report includes an extended section on corporate governance that reflects the latest guidance and codes of practice.

Prices and investment programmes for water companies follow a five-year cycle and work is well under way for the next price review, which will come into force in 2015. We are consulting directly with more than 10,000 customers, engaging with a wide range of stakeholders and putting our proposals to an independent scrutiny group chaired by Charles Howeson, the regional chair of the Consumer Council for Water.

Our proposals will recognise the range of new obligations we have to meet but must also take account of the ability of customers to pay in today’s difficult economic climate.

We recognise the importance of innovation to our business and have signed a joint venture deal with the University of Bath worth more than £3m to create around 20 new research posts, and trials to test novel ideas that fit with our work.

Wessex Water continues to have very high levels of customer satisfaction, not least because of our prompt personal telephone answering, our knowledgeable and dedicated staff and our commitment to keeping customers informed of what we are doing at all times. These attributes, together with our investment in the infrastructure of the region, will put us in a strong position to meet the next round of challenges.



Colin Skellett, Chairman

Highlights

- The Consumer Council for Water announced that we received the fewest number of complaints per 1,000 customers of any water and sewerage company. Complaints have fallen again this year.
- Launched **’tap’** – our tailored assistance programme now helping 12,000 households who are struggling financially.
- Expanded Assist – our social tariff scheme – in partnership with Citizens Advice Bureaux. We expect this to reduce the bills of a further 10,000 vulnerable households.
- No hosepipe bans imposed for the 36th consecutive year.
- Installed 15,466 household meters and replaced or repaired 3,822 customers’ leaky pipes free of charge
- Beat Ofwat’s leakage target again and committed ourselves to a target of stopping any leak reported by a customer within 24 hours.
- Continued to become more efficient – meaning lower bills for customers in the long run.
- Industry leaders according to the latest Environment Agency assessment on environmental performance.
- Unparalleled performance in the industry with no major or serious pollution incidents or prosecutions in the year. Our second lowest number of minor pollution incidents despite the unprecedented rainfall.
- Became the first water company to retain a Queen’s Award for Enterprise – recognising the way we have embedded sustainability across our business.
- Won a number of other awards for promoting water efficiency, safety in the workplace and for the way we engage with our customers.
- Made excellent progress on our water supply grid construction project.

Our customers and community

Our aim is to provide the highest levels of customer satisfaction, make it as easy as possible for customers to interact with us using communication methods of their choice and to build trust and loyalty. We believe it is fundamental to our long-term success to provide excellent customer service.

We have worked hard this year to provide the best possible service to our customers, and our staff have gone the extra mile wherever they can.

We remain true to the core principles our customers value, such as personal telephone answering, resolving problems quickly and first time, and compensating where we have got it wrong, but we know customers' expectations are growing.

The service we offer is increasingly compared, not to other water companies, but to brands customers admire either locally or nationally. Feedback shows they are generally very satisfied with our service and an increasing number see it as value for money. Our recent tracker survey of 1,000 customers showed 69% rated our services as good value for money compared to only 62% in the previous year.

in brief

- The Consumer Council for Water announced in the year that we received the fewest number of complaints of any water and sewerage company, only two complaints for every 1,000 customers. Complaints fell again this year.
- Maintained high levels of customer satisfaction while taking on responsibility for the performance and operation of 11,000 miles of private sewers – doubling the length of our sewer network.
- Retained our government Customer Service Excellence award.
- Introduced a customer care team, calling customers once we leave their property to check their operational problem has been resolved.
- Shortened our operational response times, fixing visible leaks within 24 hours where possible.
- Offered advice on reducing bills and becoming more water efficient.
- Given customers an improved voice through our liaison panels and scrutiny group.
- Launched Have your say, our new online customer panel giving more than 2,000 domestic customers a greater say in Wessex Water, along with an equivalent online business panel.
- Launched **'tap'**, our tailored assistance programme, helping more than 12,000 vulnerable customers to afford their ongoing water bills and repay their debt.
- Launched our Money Matters awards, helping young people in our communities to develop better financial literacy and money management skills.

in detail

Customer service

Last year we were again a leading company on Ofwat's service incentive mechanism (SIM), supported by the results of our own satisfaction and value for money surveys.

However, through our internal customer experience group we have looked for ways to continue improving customer service and our SIM score and meet customers' growing expectations.

We have improved our processes in many areas and undertaken a review of our speed of response for operational problems, comparing ourselves to companies outside the water industry.

We introduced new ways of keeping customers informed, in particular making wider use of text messaging and outbound calling.

And we have started a wide-ranging IT project to give customers more choice in the way they communicate with us, how they receive and pay their bill and report a problem.

Complaints have fallen again this year, with total complaints falling by 9%. We are also resolving more complaints first time and have seen a reduction of 15% in escalated complaints.

This year we introduced our customer care team whose role is to call customers within an hour or two of completing operational work at their property to check we have resolved their problem, that the site has been left clean and tidy and that they are satisfied.

If customers do not believe their problem has been resolved then we can rectify it quickly and learn from our mistakes. Feedback has helped us to identify additional information for customers, to improve areas of communication and to deal better with those with recurring problems.

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

Customer engagement

Water the way ahead, our 25-year vision has been completed and we are working with our customer scrutiny group (CSG) as we develop our five-year business plan for our regulator, Ofwat.

Now in its second year, the CSG's role is to ensure our customer research is robust and reflects the views of all customer groups across our region and, together with the work of our four liaison panels, ensures more feedback from customers to inform everything we do.

This year we talked to a range of customers across many different research projects. To widen our engagement even further and give them an even greater say in our business, we launched Have your say, our new online domestic customer panel, along with an equivalent online panel for business customers.

The panels will take part in a variety of surveys throughout the year linked both to business planning and improving our existing service. Customers may also be asked to take part in online focus groups or comment on items we post on online forums.

Director's view

Customer engagement is one of Wessex Water's main priorities. It is important that we find new ways to involve customers in the future of the business, as well as hear how Wessex Water can improve the services it provides now. Our online customer panels are one example of how we are achieving this.
Gillian Camm, Non-Executive Director.

Affordability, tariffs and debt recovery

Our aim is for bills to be affordable for our customers and value for money. Water is affordable for the great majority of customers but for some, on the lowest incomes, it is not.

We have launched 'tap', our tailored assistance programme, helping more than 12,000 vulnerable customers on the lowest incomes to afford their ongoing water charges or repay their debt
(see case study on page 8).

"We were delighted to receive your support of our money advice provision especially during such uncertain times for charity organisations and people they service."
Jan Westrope, Chief Executive of Citizens Advice Bureau for Bath and North East Somerset.

96%
customer satisfaction score

more than
12,000
customers helped with their bills

99.98%
water quality compliance

Case study – tap

'tap', brings together a wide range of schemes to help our vulnerable customers afford their ongoing water charges and help them repay their debt, getting them back on track.

Each customer is assessed individually and the help tailored to meet their needs with more than 12,000 benefiting from help through tap this year.

We deliver much of this assistance through our very strong partnerships with Citizens Advice, the Money Advice Trust and other local debt advice agencies.

In addition we have expanded our social tariff scheme Assist – in partnership with Citizens Advice Bureaux we have also introduced WaterSure Plus which has reduced the bills of 3,000 metered customers by £70 per year compared to the government's WaterSure scheme.

This year we have increased the funding to agencies in our region to acknowledge an increase in the demand for their independent services.

Jan Westrope, Chief Executive of Citizens Advice Bureau for Bath and North East Somerset, said, "We were delighted to receive your support of our money advice provision especially during such uncertain times for charity organisations and people they service."

We also recognise that simply helping customers once they are in debt is not enough, so this year we launched our Money Matters awards to improve financial literacy and money management skills among young people across our region.

We have been asked to take part in a number of Citizens Advice events this year designed to showcase our partnership work as an example of creditor best practice.

For more information visit:
www.wessexwater.co.uk/tap

Business customers and added value services

More than 10 years ago we established a dedicated service desk for our major business customers. We have continued to expand this service, in particular by including more customers who have multiple premises such as high street chains. In addition we have expanded the number of customers who now have a dedicated account manager.

We have worked hard with our customers to drive down water use. In particular we have worked with local authorities and other multi-site organisations to provide a site by site analysis of consumption over the past five years.

We have also completed a survey of schools in our region which has delivered savings to them in excess of £150,000.

A large proportion of our multi-site organisations have requested electronic bills and bill payment and we plan to roll this service out next year.

"We aim to provide high quality sustainable water and environmental services while keeping bills affordable for customers."
Andy Pymer, Director of Customer and Retail Services.

Education and water efficiency

Informing customers of all ages about what we do and encouraging them to use water wisely forms an important part of our work.

In the past year our education officers have received an unprecedented number of requests from schools, colleges and community groups across our region.

They delivered lessons about our water and sewage treatment as well as activities on environmental topics and water saving and behind the scenes insight into how we supply drinking water and treat sewage.

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

We engaged with them further by attending events, offering a free water home check service, promoting water efficient products through our online shop and distributing free WaterSave packs.

We have two free apps available for downloading on mobile devices. The Bag it and Bin it app communicates what should and should not be put down the toilet and a leakage app enables customers to pinpoint a leak and upload a picture so we can deal quickly with an incident.

For more information visit
www.wessexwater.co.uk

Watermark awards

Our Watermark awards help organisations with their environmental projects.

Organised by the Conservation Foundation, the scheme has awarded thousands of pounds to nearly 50 environmental groups in the last year.

Their projects received anything from £150 to £1,500 and included funding for nature trails for a disabled access group, the restoration of a charity bus and a pond to protect great crested newt colonies.

"Without these donations and our dedicated volunteers it wouldn't be possible to keep going."
Jules Bishop, Prickles Hedgehog Rescue Centre.

Our finance

We take a prudent approach to the financial management of the company, and with the full support of our shareholder we have decided not to adopt a highly leveraged structure. Virtually all the debt raised from the financial markets sits within the company and is primarily for the use of funding the capital programme.

The UK group structure is simple and transparent with the company owned by a Wessex Water intermediate company which in turn is owned by a YTL UK holding company.

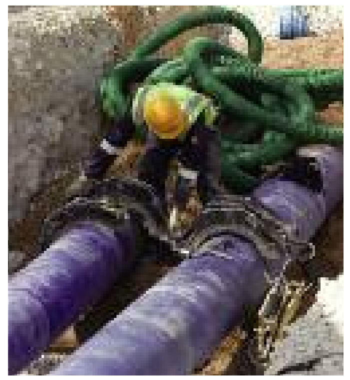
We recognise how important it is to maintain our existing credit ratings which enables us to access the financial markets at all times. When declaring dividends the board of directors pays great attention to the level of our financial ratios and hence our future credit ratings.

We have an open relationship with HMRC in respect of our tax affairs and we are consistently classified by them as a low risk taxpayer. We choose not to pursue anything that would seriously alter that position. We clearly recognise that we have a duty to pay an appropriate amount of tax on the profits we make and pay that in a timely manner.

Overall we operate our finances to reward our shareholder with an appropriate return on their investment. However, we do not lose sight of the fact that this return needs to be consistent with the needs of our customers, as well as our obligations to deliver a sizeable capital investment programme and to protect the environment in which we operate.

in brief

- Profit before taxation increased by £1m despite excessive rainfall in the year, inflationary pressure on operating costs and an increase in financing charges.
- The capital programme is beginning to peak for this price review period and we delivered an increase of 40% in investment compared to the previous year.
- Profit before taxation of £138.5m incurred a corporation tax charge of £29.4m which is already in the process of being paid to HMRC.
- Gearing, as measured by net debt to regulatory capital value, remains at 64% which is modest in water sector terms.
- Our total cost of debt remains attractive at around 5%.
- 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.



"Our investment programme supports more than 1,000 jobs across the Wessex Water region."

David Elliott, Director of Environment and Assets.

Our finance

in detail

Financial performance

In the third year of the current price review period, against a background of a continuation of challenging economic conditions and extreme rainfall that suppressed demand for water, we have been able to show a solid performance with operating profit increasing from £219.0m to £224.0m.

There was an increase in the costs of financing the business and as a result profit before tax rose only marginally from £137.5m to £138.5m. While the corporation tax charge grew, there was a reduced deferred tax charge resulting in profit after taxation increasing overall from £93.2m last year to £107.9m this year.

Turnover

Turnover increased by £24.6m or 5.3% from £467.5m to £492.1m.

The price increase allowed by Ofwat at 1 April 2012 was 7.1%, comprising November 2011 RPI of 5.2% and a K factor of 1.9%. There was a small growth in turnover due to new customers in the housing market and new connections, although economic growth in the region was flat.

There were two offsetting reductions in turnover because of the weather conditions and customers switching to metered supply. Total rainfall for the year to March 2013 was 1,278 millimetres compared with 640 millimetres in the previous year. The increased rainfall over the summer months had the greatest impact by reducing domestic metered water supply.

Operating costs

Operating costs (excluding depreciation, amortisation and disposal of assets) increased from £135.8m to £148.4m due to a number of factors:

- business rates continued to increase through the central government valuation process
- there was a full year cost of operation of private sewers, for which we were given responsibility half way through the previous year
- the bad debt charge increased both in line with the increase in turnover and because of the challenging economic conditions
- the price of power and chemicals increased by more than the level of inflation
- there was an accounting credit in the prior year for pension accounting under FRS17 which was not repeated this year
- an increase from the cost of meeting new obligations and installing additional meters.

Alongside these increases we were able to manage employment costs through a pay award effective from April 2012 that was below the rate of inflation.

Capital investment

In 2012-13 we delivered gross capital expenditure of £222.0m (£216.8m net of capital income) which is a 40% increase compared to £158.3m last year.

After three years of the current five-year price review period our capital expenditure represents 83.2% of the Final Determination allowance up to the end of year three.

We have completed a £26m project to help safeguard the future of water quality at beaches in Weston-super-Mare two years ahead of the introduction of new bathing water standards. Our work at the town's sewage treatment works will significantly contribute to safeguarding water quality at beaches in Weston.

The first outputs associated with our water supply grid programme have been completed and planning permission has been granted for a major section of the project – the £100m, 64km, Corfe Mullen to Salisbury trunk main.

The sewer overflow improvement programme remains ahead of the required regulatory output profile with 30 projects achieved by the end of year three compared with 23 required.

We have identified a solution which did not involve construction for the growth scheme at Ramsey service reservoir, resulting in significant savings. The network solution will be implemented on completion of the Operation Clean and Clear Taunton project in 2013-14.

We continue to deliver savings across our investment programme through efficient delivery and innovation. We are sharing £50m of outperformance with customers through a number of customer focused initiatives, such as:

- transfer of private sewers – taking ownership of an additional 11,000miles of sewers and drains that were previously owned by customers
- tap – debt advice and assistance through an innovative programme designed to meet individual customers' needs
- visible leak initiative and real-time monitoring – improving response times for visible leaks, ensuring we respond quickly and efficiently to emergent problems on our network
- customer engagement – developing our channels of communication with customers to offer them more opportunities to save money or deliver improvements to their water environment
- innovation – working with University of Bath to research new and more efficient ways of delivering resilient services in the future.

Depreciation

Historical cost capital maintenance charges (depreciation and the infrastructure maintenance charge) increased by £7.0m from £112.7m to £119.7m. There was a £2.9m increase in the infrastructure maintenance charge, while depreciation increased by £4.1m. Base depreciation increased by £3.4m from the continuing capital investment programme, and there was a £0.7m movement on the disposal of fixed assets.

Interest charges

Interest charges increased from £81.5m last year to £85.5m this year. The £4.0m increase was split between the base interest increase of £3.5m and a £0.5m increase in the interest costs associated with pension accounting under FRS 17, shown as other finance costs in the profit and loss account.

There was an increase in net debt during the year from £1,626.1m to £1,738.3m. The cost of debt in both years was around 5% which with the increase in net debt explains the increase in the interest charge.

There is a prudent mix of debt between fixed rate, index linked and floating rate instruments. At the year end the debt split was approximately 45% fixed, 35% index linked and 20% floating, with the index linked debt based on either November or March RPI. In August 2012, the company issued a £100m fixed rate bond through its subsidiary which will mature in 2021.

The maturity of debt is generally long term with £1,599m of debt maturing after 2020.

"We are investing £50m of efficiency savings in this price review period in additional, customer focused, schemes such as visible leak detection and water supply real-time monitoring."

Mark Watts, Director of Finance and Treasurer.

Taxation

The corporation tax charge in the year was £29.4m, an increase of £9.8m from £19.6m last year. The increase was mainly due to a one-off credit in the previous year following an industry-wide agreement with HMRC over the tax treatment of certain infrastructure income. There was also a benefit to the corporation tax charge from a reduction in the statutory tax rate from 26% last year to 24% 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. The first two payments are made in January and April before the tax year has ended, and the last two in July and October after the end of the year.

We use an external water industry expert to analyse our capital expenditure and ensure the correct capital allowances are claimed. We take a prudent approach to tax affairs, ensuring that we claim 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 substantial charge of £24.7m last year to a charge of £1.2m this year. In the prior year there was a reduction in the discounting of deferred tax due to the movement in discount rates, which pushed up the charge.

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 gearing stays at or below 70% in order to maintain its current credit ratings and give the company continued access to the capital markets.

Cashflow and gearing

Net debt increased by £112.2m to £1,738.3m. This comprised:

- cash inflow from operating activities of £334.6m, less
- capital investment cash outlay of £215.4m, less
- interest payments of £80.0m, less
- tax payments of £21.8m, less
- dividend payments of £129.6m.

Liquidity at year end was £206m comprising £181m cash bank deposits and £25m undrawn bank facilities.

The regulatory capital value increased by £190m, from £2,543m to £2,733m, of which £83m related to the impact of inflation and £126m to growth in assets, less a £19m outperformance adjustment. Gearing at 31 March 2013, calculated as net debt divided by regulatory capital value, was 63.6%, virtually unchanged from last year and well below the 70% ceiling.

Environmental accounting

In addition to normal financial accounting, major expenditure within the company is evaluated and accounted for using a range of environmental impact and sustainability criteria. Further details of this environmental accounting process are provided on page 37.

For more information visit www.wessexwater.co.uk

Electricity tariff management

In 2012-13 we built on the successes of previous years in reducing our demand during high tariff periods – these are times during the day when all electricity suppliers charge more for the power used.

Our supply business has installed software control on more than 50 sites which, in conjunction with tariff management schemes on waste sites, saved £70,000 on the high distribution tariff cost compared to 2011-12, and £120,000 compared to 2010-11.

Avoiding these high tariff periods has also reduced rates at which we purchase power on our main electricity contract. We are now using less electricity during times of high stress on the grid which is expected to result in a saving of £40,000 in 2013-14.

Staff engagement and innovation

Reducing the cost of energy has continued to be one of the main objectives of operational staff during 2012-13. Our energy bonus scheme has now entered its third year and continues to motivate staff to save energy. The scheme was recognised at the national Water Industry Achievement awards as a leading example of how to engage staff with energy and carbon saving initiatives, and during 2012-13 reduced our energy use by 0.625GWh; equivalent to £55,000 per year.

We have also looked at ways of implementing new and innovative technologies to reduce the whole life cost of operating plant across the business where possible, such as installation of state-of-the-art equipment and novel use of existing technology.

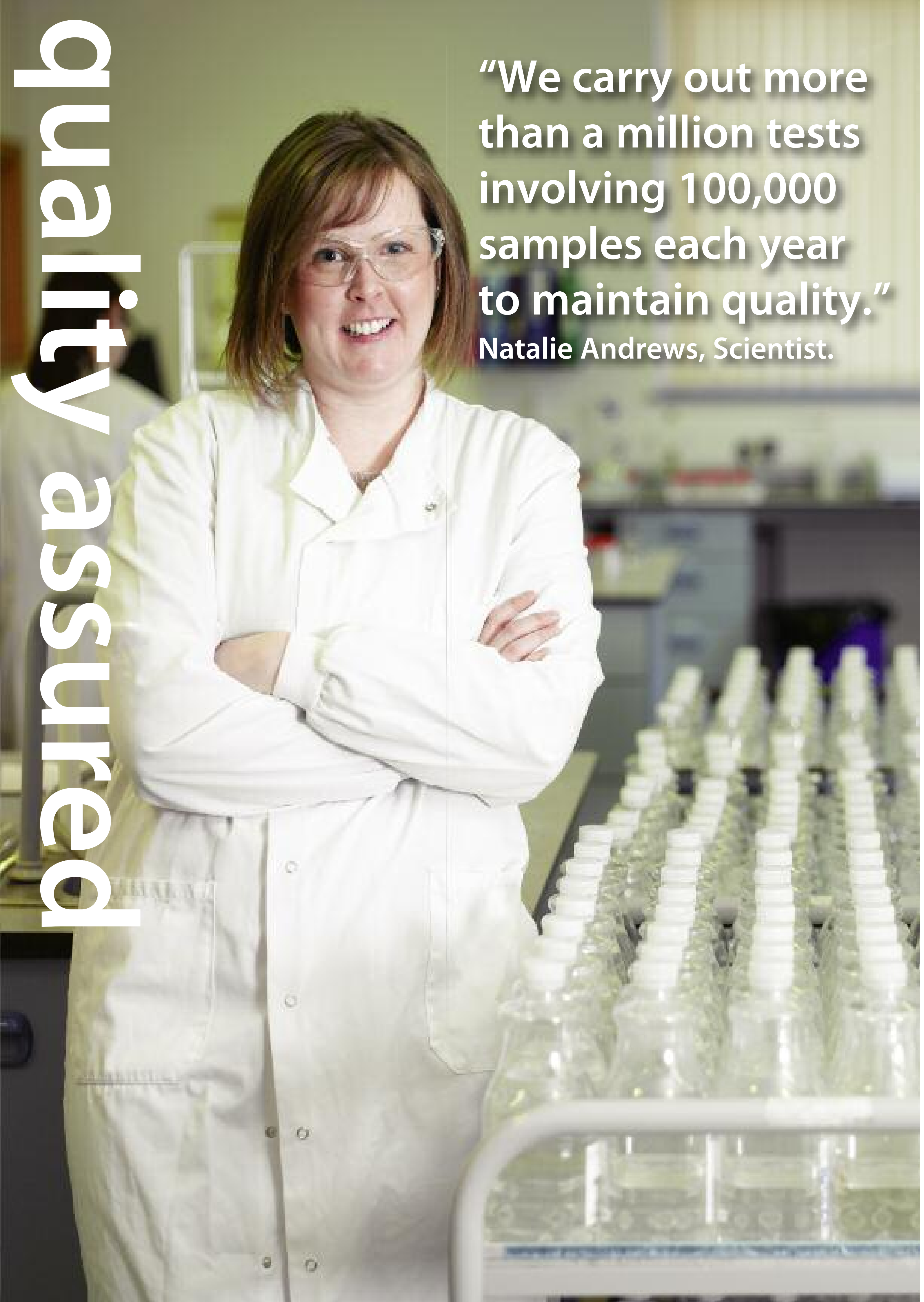
6%
post-tax return on capital

64%
gearing

A3/A-/BBB+
credit rating

Director's view

The Audit Committee, which I chair, is responsible for reviewing the company's financial reporting, risk management and internal controls. In our view, the company is well controlled and operates in a prudent manner commensurate with a utility operating in a regional monopoly. The company puts its customers and the environment at the forefront of the decisions it makes. These results show it is able to deliver good financial performance while meeting the needs of all its stakeholders.
David Barclay, Non-Executive Director.



Our environment

We aim to provide high quality, sustainable water and environmental services while at the same time protecting and improving the environment. Working in a collaborative way, focusing on the environment as one of our most important assets, enables us to provide more resilient solutions to improve raw and river water quality, reduce our energy demands and carbon footprint, as well as enhancing wildlife.

in brief

- Industry leading performer according to the Environment Agency’s annual Environmental Performance Assessment.
- 100% compliance with sewage discharge consents and abstraction licences.
- Fourth time in five years we have had no Category 1 or 2 pollution incidents.
- No prosecutions.
- Second lowest number of total pollution incidents.
- Frome and Piddle catchment initiative, a Defra sponsored collaborative project, to test the catchment based approach launched with an agreed and costed action plan.
- Sustainable phosphorus removal trial at Somerton sewage treatment works gained the Green Business award and Green Apple award.
- Completed 15 investigations to improve our understanding of our environmental impacts and target future investment based on sound science.

in detail

We believe in working with the environment more naturally to build resilience by gaining greater understanding and working together with other stakeholders, rather than relying solely on engineered solutions. Over the past year our innovative initiatives have covered a number of areas.

Catchment management

Our catchment management activities have expanded to cover 15 catchments where nitrate or pesticide pollution is having an impact on raw water quality. Over the previous six years where we have been working collaboratively with farmers, we have seen significant reductions in the levels of nitrate concentrations in our drinking water sources.

Although this year there has been a small rise in nitrate levels during the winter due to the weather, the opposite has been true at the sites at risk of pollution from metaldehyde (the active ingredient in slug pellets).

While other water companies have seen an increase in the incidence of metaldehyde in surface water reservoirs, we have not. This is directly due to our collaborative work with farmers throughout the season to provide an alternative to pesticides, and the advice we have given them on application rates, timings and frequency.

We continue to believe that dealing with the problem at source is a more sustainable and economic approach than energy and chemical intensive end-of-pipe treatment.

Our environment

Director's view

Investing solely in treatment solutions to remove pollutants is a missed opportunity. Not only are treatment solutions costly, chemical and energy intensive, they fail to deliver wider environmental benefits and absolve polluters of taking responsibility for their actions.

A catchment based approach enables those contributing to the problem to provide the solution, as well as offering opportunities for wider environmental and amenity gains. ***Dame Fiona Reynolds, Non-Executive Director.***

Storm overflows and Coastwatch

Storm overflows understandably concern our customers and can occur more frequently during very wet summers. We have completed intensive and innovative investigations to identify our impact on bathing waters at four Somerset beaches which do not meet the tighter standards that will be introduced in 2015.

The results of these studies will inform our quality programme during the next five-year price review period to ensure that investment is targeted and supported by sound scientific evidence.

Our Coastwatch online water quality service has been improved to include amenity waters such as beach streams and boating lakes. It is a key route to engaging with our partners along the coast including local councils, Surfers Against Sewage, Marine Conservation Society and local people.

Bathing Water Directive

The last 10 years have seen improvement in bathing waters in our region and for the last seven we have maintained 100% compliance with mandatory bathing water standards. However, the summer of 2012 was the wettest since records began and as a result 94% of bathing waters achieved mandatory standards, with 77% complying with the stricter guideline standard.

One of the bathing waters that failed was Uphill at Weston-super-Mare . Bathing waters can be affected by factors outside our control, but we aim to ensure our sewerage and treatment systems do not have an adverse impact.

Our £26m improvement scheme at Weston-super-Mare sewage treatment works was completed ahead of the 2013 bathing season, providing increased stormwater storage capacity and improved secondary treatment and ultraviolet disinfection.

Environmental investigations

Throughout the current five-year price review period our surveying and monitoring programmes have used new technologies, such as our in-river water quality monitoring trailer, to provide essential data on water quality responses to extreme weather events.

Other investigations have included:
- trialling reed beds as a more sustainable process for phosphorus removal
- assessing the impact of discharges from our assets and other sources on the nutrient levels at a number of Sites of Special Scientific Interest (SSSI) in Dorset
- investigating the presence and fate of certain priority hazardous substances through different types of treatment processes
- the impacts reservoirs have on aquatic ecology.

"Our online Coastwatch system means beach users can quickly find real-time information about the quality and cleanliness of bathing waters."

Ruth Barden, Environmental and Catchment Strategy Manager

Wildlife and conservation

In response to the government's Natural Environment White Paper and Biodiversity 2020, the new England Biodiversity Strategy, we have updated our Biodiversity Action Plan.

We were the first private company to publish one in 1998, following the Rio Earth Summit and maintain it as a live document, routinely updated following changes to legislation.

During 2012 we continued to manage nearly 300 hectares of our land designated as an SSSI and exceeded government targets for favourable or unfavourable but recovering status.

We continued to enhance our other land for wildlife as part of our ongoing birds, bats and bees project focusing on habitat management on our high priority wildlife sites.

The extreme weather during 2012 was challenging to the organisations we support through our Partners Programme. We help fund seven projects which are successfully delivering practical action to contribute to the overall aim of conserving and enhancing biodiversity across our region.

These include:
- Dorset Wild Rivers project, delivering 3.35km of river restoration, together with 4.8 hectares of targeted wet woodland and related wetland habitat
- Buglife's Wessex Springs and Seepages project, surveying the invertebrate potential of small and often ignored habitats on the West Dorset coastal cliffs
- a farm water management project in the River Parrett catchment.

For more information visit www.wessexwater.co.uk/environment

The past year has shown the value of our partnership approach to conservation with several new or emerging projects enhanced as a result of this collaboration:

- hosting the Frome and Piddle catchment initiative has highlighted the need for work which the Dorset Wild Rivers project has been able to start delivering
- our grid project has been able to work with the South Wiltshire Farmland Bird project to see how we can deliver wildlife enhancements along the pipeline route to offset the temporary impact on species and habitats during construction.

Carbon management

Our long-term aim is to be carbon neutral. We have a detailed carbon management plan focusing on avoiding emissions, energy efficiency and developing renewable energy.

We made significant energy savings during 2011-12 and although electricity use increased in 2012-13 by 16.5 GWh (7%), this was a result of the exceptionally wet weather from mid-April to the end of the year. Heavy rainfall increases the amount of energy required for pumping waste water.

Underlying energy use continues to go down and our energy management group carried out a range of projects to increase efficiency and identify unnecessary power use, including several at sewage treatment works to reduce energy use while maintaining treatment standards.

Outside the regulated business, we opened our food waste facility at Bristol sewage treatment works. Operated by our subsidiary business GENeco, this initiative makes use of spare digester capacity to increase the generation of biogas and will produce up to 10 GWh per year of additional renewable electricity at the site.

We have also reached an agreement with Triodos Renewables for their development of wind power at the Bristol works where four turbines are due to be installed in autumn 2013. They are expected to produce between 15 and 20 GWh of electricity per year.

"I've been impressed with Wessex Water's progressive commitment to providing SAS with real-time information in response to sewer overflows into the environment.

However, I want Wessex Water to do more to reduce these sewage spills, now and in the future. I'd like other water companies around the UK to be as transparent and helpful to work with as Wessex Water have been."

Andy Cummins, Campaigns Director, Surfers Against Sewage.

Compliant treatment works
100%

Beaches meeting mandatory standards
94%

100%
satisfactory sludge disposal

Case study – **Frome and Piddle catchment initiative**

Recent government strategies have highlighted the fact that the path to environmental improvement and enhancement is the responsibility of everyone. Whether in shaping the environment via development and construction, land and water management practices or simply appreciating the world around us, we are all in this together.

Defra's catchment based approach and the launch of catchment pilot projects is an example of this. The pilots aimed to produce an action plan that will deliver improvements in the state of rivers. This focuses on improvements required under the European Water Framework Directive but also looks for additional improvements for national and local requirements. Through the Frome and Piddle catchment initiative we have discovered that the foundations of this approach rely on collaboration, sound science and innovation.

Collaboration: the steering group comprised 14 partners representing a range of organisations, although further stakeholders were reached throughout the process via task and finish groups, talks and visits.

The strength of this approach was revealed when we identified a range of issues and discovered many were inter-related, and could be tackled through closer collaboration and extending existing action, eg, complementary catchment management working and agronomic advice.

Key issues that have been identified by the steering group are levels of nitrogen, phosphorus and sediment in watercourses, the impact of river channel and habitat alterations and river flows.

These issues are all affecting the ecology of the rivers.

Previously, many organisations, including Wessex Water, had worked in isolation, not seeing the interconnections or opportunities to achieve more.

Sound science: It is critical to understand the issues and identify the right range of solutions. Collecting data at a fine resolution, interpreting the findings and presenting these geographically through risk and opportunity mapping has been essential in establishing a way forward with all stakeholders. Where empirical data could not be collected, mathematical models were used as a substitute to help direct probable sources of pollution for further investigation.

This data collection has formed the basis for the action plan and will continue to be used to identify areas where additional information is required.

This approach has proved to be very engaging when working with wider stakeholders since providing an evidence-based map of their local area encourages stakeholders to respond.

Innovation: this has been the common thread throughout the initiative, whether it has been using state of the art water quality monitoring trailers to gather detailed data, the development of new modelling techniques to understand leaching rates or simply by working in collaboration with new partners. These elements all represent a new way of working which makes this project innovative.

An agreed and costed plan has been produced by the steering group, and can be viewed at: **www.fromeandpiddle.co.uk**

The steering group has made a commitment to continue working together to deliver the actions identified over the coming years.

Our employees

Our success is predicated on the skills, expertise and goodwill of our employees and without their commitment we would not perform so well. We have continued our recent focus on equipping our employees with the skills and continuing professional development they require to be successful in the future. We take pride in supporting employees' work-life balance, looking after their wellbeing and providing a variety of employee benefits. We believe in promoting diversity and opportunity across our workforce.

in brief

- Exceptional employee performance.
- 61% of employees (3,000 training days) took part in a range of development programmes.
- Staff believe we have a strong, positive and engaging culture.
- Development and introduction of key leadership behaviours.
- Web based, online recruitment process has improved service delivery to potential candidates and managers.

in detail

Training

We continue to extend our comprehensive training programme of professional development and upskilling for staff, with legal, regulatory and technical training our main priorities.

During the year 61% of employees (3,000 training days) took part in development programmes.

We currently have a portfolio of more than 76 technical and craft training courses. In addition, we have various external specialist environmental, engineering and manufacturer delivered programmes.

We aim to fulfill our commitment to actively encourage and support continuing professional development that guarantees both a high standard of performance for Wessex Water and a fulfilling and rewarding career for our staff.

Technical capability is vital to our business, but we also recognise the need for strong and effective managers and leaders. We have refined our talent model and are now in the process of ensuring we have meaningful and relevant development opportunities to support our succession plan.

We continue to invest in a range of National Vocational Qualifications (NVQs), with staff successfully achieving NVQ certificates in electrical and mechanical engineering, sewage treatment, plant operation, customer services and team leadership.

This year we have developed and delivered two new management programmes which we believe now complement and complete our leadership pathway.

- The Induction for New Managers is designed for people stepping up to management for the first time in their career. It explores the issues around potentially managing peers, setting expectations and performance goals and basic HR policy and procedures, with a key focus on the moral dilemmas associated with a required shift in attitude and approach from operator to manager.
- The Managing for Performance Programme supports our belief that as our business evolves our leaders of the future need to have a more strategic approach to how they manage their departments and teams. The programme examines and introduces tools and techniques on engagement, motivation and development. It was designed specifically for our middle management tier to bridge the gap between the foundation programme and the leadership capability programme we continue to run in partnership with Coventry University.

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

Our employees

The Supervisory Foundation for Leadership Programme continues to be one of our most frequently requested courses and more than 70% of our existing supervisory/team manager staff have completed the three-day programme.

We continue to forge and maintain links with the Institute of Directors, London Business School, and the University of West of England to deliver a range of executive development options.

Further education and professional development continue to be important to our business and we encourage our staff to actively seek charterships in their professional disciplines.

The business is currently supporting 23 candidates through professional development and more than 50 through further education programmes including environmental and engineering degrees and business administration and management programmes ranging from Institute of Leadership certificate to MBA.

Our apprenticeship programmes are flourishing and we are now in the process of extending apprenticeships to our customer contact centre, laboratory, information services and engineering and construction departments.

We are conscious that today's apprentices are our potential managers and leaders of the future, so we recognise the importance of our investment in our apprenticeship training programmes.

We actively seek to encourage our staff to participate with the aim of improving both the business and individual performance, which ultimately provides the best possible service and expertise to our customers.

Health and safety

Protecting the health, safety and welfare of our staff, contractors and anyone who is affected by our daily activities is a responsibility that Wessex Water takes very seriously. Health and safety is "not an optional extra" and this underpins a strong safety culture that is promoted across all parts of the business.

Our safety management processes centre on identifying hazards and ensuring that control measures are implemented to prevent injury or harm from any residual risk. All employees, whatever their position, have an active role in health and safety. We provide training, information and supervision to ensure employees work safely at all times, looking after their own and their colleagues' safety. We have a team of experienced health and safety professionals who offer support to individual managers and staff as required.

We have well established routes for consulting and communicating on health and safety matters across the company. Central to this is the Health Safety and Welfare Committee with senior management, health and safety professional staff and trade union representation. This is supported by a number of business areas and work activity based committees. We use a wide variety of media to communicate with staff including dedicated pages on our intranet, use of Source, our TV station, staff handbook, toolbox talks, DVDs and safety forums.

Our safety performance has continued to be good this year with a similar number of incidents reported to the Health and Safety Executive as in recent years. However, the severity of the incidents reported has been reduced. The principal causes of incidents remain linked to slips, trips and falls or to manual handling. Work to further improve performance and awareness in these areas forms part of our health and safety plan for 2013-14. During 2012-13 we received the British Safety Council international safety award (merit) and the Royal Society for the Prevention of Accidents gold safety award.

"Safety management is dynamic and we continuously strive to improve our arrangements to protect the safety and wellbeing of our employees and others who could be affected by our daily activities."

Ian Blair, Head of Health, Safety and Security.

Case study – **employee development**

We provide our employees with structured career development opportunities and have successfully created an environment for talented people to move within Wessex Water.

Ashlea Lane, Head of Waste Treatment, started with Wessex Water in 2001 as an electrical engineering apprentice. When he completed his apprenticeship we sponsored Ashlea to complete his degree in electrical and electronic engineering through part-time study while continuing to develop his career through a range of different roles.

After graduating with honours Ashlea continued to progress his career performing roles in water treatment and waste treatment in operations and in our construction business as an automation technician.

Ashlea applied for and attended a two-year Wessex Water graduate manager programme where he spent time in each area of the business including engineering and construction, operations, special projects and corporate divisions. As part of this programme, he was allocated a director as a mentor for regular, development focused discussions.

After completing the graduate manager programme Ashlea was appointed to a senior craftsman position in waste treatment. Two years later, a promotion to treatment manager in waste water followed.

Ashlea takes responsibility for his own personal development via mentoring and coaching and, with our support, he is currently in his final year of a three-year MBA post-graduate study programme through the University of the West of England.

Ashlea is also studying to become a chartered engineer through the Institute of Engineering and Technology. Wessex Water actively encourages and promotes employees achieving chartered member and chartered fellow status within their recognised professional bodies.

In 2013, Ashlea was appointed to the senior management position of Head of Waste Treatment for our entire region. This appointment was testament to his performance, future potential and commitment to his own development.

"Ten years of career training and personal development have allowed me to put into practice what I have learned and enabled me to provide the best service to our customers," said Ashlea.

Reflecting on the development opportunities he has benefited from, he commented: "Wessex Water understands one of its most important assets is its employees and it is good at recognising its people, identifying potential and nurturing their development and is willing to make an investment in their careers.

"Wessex Water is a brilliant company to work for; it is more than a utility – it is a business of people and provides a platform for highly-motivated, skilled employees to forge a career for themselves."

Our employees

Innovation

During the course of this year, we have changed the way we recruit suitable, skilled employees who are culturally aligned, flexible and deliver results.

We have replaced our paper based, manual recruitment process with a web based, online process which has improved our service delivery to potential candidates and managers and is expected to reduce the time taken to recruit skilled candidates to vacant roles.

A key driver for continued innovation is cost reduction alongside maintaining or improving the quality of our service delivery. The online recruitment process has enabled us to recruit good quality candidates while leaving potential employees with a positive impression of Wessex Water through their experience of the recruitment process. The quality of the online recruitment process reflects our position in the marketplace.

We will continue to look for innovative opportunities to improve service levels to all stakeholders.

"Every employee, no matter what their job, has an important leadership role to play."

Mark Nicholson, Group Head of Human Resources.

Leadership behaviours

All companies have their own culture – the atmosphere at work, the way people behave and the way things are done. While our staff have told us we have a strong, positive and engaging culture (82% of staff rated Wessex Water a good place to work), we are continuing to develop our culture further.

Every employee, no matter what their job, has an important leadership role to play whether it is with our regulators, our customers or our employees. Supported, respected leaders and enthusiastic, empowered staff play a vital role in building our culture and reinforcing our position as a high performing water and sewerage company.

We have developed and introduced key behaviours that we expect leaders at all levels to demonstrate in all interactions with customers and employees. Through consistent behaviours by all staff at different levels, this will support the culture we are looking to build.

The Wessex Water leadership behaviours support our corporate aims and values and the model covers three key areas:

- business – describes behaviours expected from leaders to manage the business successfully
- people – describes how to lead others
- self – sets out personal leadership behaviours.

We use leadership behaviours to identify leadership potential, select and appoint leaders, develop leadership capability, talent and succession planning processes and give feedback to our leaders on their performance.

For more information visit
www.wessexwater.co.uk

Stakeholder's view

Wessex Water clearly recognises the value of talent management and investment in the development of their future leaders. It carefully selects from an identified talent pool right across the organisation in order to encourage shared understanding and cross functional working.

As an external leadership consultant, I am impressed by the calibre and commitment of their emerging leaders and the range and high standards of personal and leadership development programmes and initiatives they offer.
Stephanie Thompson, ACUA Ltd (Coventry University).

1,795
employees

3,000
training days

82%
employees rating Wessex Water a good place to work

caring for assets

“We maintain our infrastructure to a high standard as it makes the continuity of our high levels of treatment achievable.”
Rachael McCreery,
Site Engineer.

Our infrastructure

We aim to manage and maintain our assets by making sure they operate efficiently and effectively, providing high quality treatment and service. We are the largest infrastructure investor in the region and create local jobs both directly in constructing new assets and in the chain of regional suppliers necessary to support the workload. We fully integrate sustainability principles and practice in our capital programme and scheme options.

More than
3,500
operational sites

£22.2bn
replacement cost of assets

100%
security of supply index

Length of water mains and sewers
29,200 miles

in brief

- £222m invested in maintaining and improving services to our customers and the environment.
- Provided more than 1,000 jobs both directly in constructing new assets and in the regional supply chain.
- Met all our regulatory outputs.
- Prepared our draft water resources management plan for consultation.
- Progressed our water supply grid, a key component of our water resources planning over the next 25 years which will increase security of supply to customers.
- Making good progress on a major programme of mains rehabilitation in Taunton to improve the appearance of the water.
- Exceptional 2012 weather affected the number of flooding incidents from our sewerage network and we invested more than £7m to reduce flooding.
- Completed the first full year following the transfer of private sewers.
- Completed schemes at Weston-super-Mare sewage treatment works to improve quality of bathing water, at Holton Heath sewage works, in Dorset, to meet the Shellfish Directive, and at six sewage treatment works in the Somerset Levels to reduce levels of phosphorus.

in detail

Water resources

Following the very dry weather in 2011 the last 12 months have been the wettest since the early 1960s with nearly 300% of average rainfall falling in April 2012. Reservoir levels, river flows and groundwater levels recovered and have been above average ever since.

While the wet weather resulted in a very healthy water resources position throughout most of 2012-13, it caused high nitrate concentrations in the water at a number of groundwater sources. To ensure compliance with drinking water standards was maintained we stopped using some sources and blended source water where required.

In February 2013 we published an update of our drought plan which set out the actions we would take during extended periods of dry weather to reduce demand and/or increase supplies. The update included lessons learnt from the dry weather in 2011 and early 2012.

At the end of March 2013 we submitted our draft water resources management plan to Defra. The plan describes how we will balance water supplies with water demands while protecting the environment for the next 25 years.

Our proposals include the introduction of a policy to install meters on properties when they change ownership and enhance our water efficiency services – both of which will help drive demand and abstraction down and reduce leakage.

The plan forecasts a surplus of supply over demand and we have examined the scope to export water to neighbouring companies with a deficit of resources. We are consulting on the plan in spring and summer 2013.

Population growth will test our resources and infrastructure and advising customers and encouraging water saving behaviours will help with this.

Leakage

Over the last year we have continued to make good progress on leakage. We have moved towards 24-hour repair of leaks and successfully beat our new lower leakage target.

Sewage flooding

The record wet weather in 2012 had a significant impact on the number of flooding incidents experienced in our region. Fully saturated ground for approximately half the year meant that rainfall events that would otherwise not have caused incidents, resulted in flooding.

Unprecedented groundwater levels infiltrated private drains and public sewers throughout the region. In order to protect properties from flooding and losing the ability to use their drainage facilities, we mobilised overpumping and tankering in 36 locations.

We have invested more than £7m to reduce the probability of flooding at 92 properties and external areas in the past year and remain on track to meet our regulatory commitment of removing 527 properties and areas from the flooding risk registers during the current five-year period.

Work continues with local councils in developing surface water management plans and flood management strategies. We worked with Bournemouth Borough Council at Leybourne Avenue, Bournemouth, on plans to construct a sustainable above ground embankment storage system on land owned and maintained by the council, reducing surface water flood risk to properties in the area.

Climate change is bringing more frequent periods of dry weather and very heavy rainfall and planning for this now is essential to dealing successfully with these issues. Providing infrastructure to capture rain when it is abundant and saving it for times of drought will be essential.

Private sewers transfer

Last year was the first full regulatory year following the transfer of private sewers and lateral drains in October 2011 which doubled the length of our sewer network to approximately 22,000 miles (35,000 kilometres).

We recruited additional staff in our call centre and control room and used external drainage contractors to supplement our crews, allowing us to manage the initial influx of work in October 2011 and the subsequent, steady increase in customer calls and work activities throughout the following year.

In 2012-13, more than 11,000 jobs were raised and actioned against transferred assets, more than doubling the sewerage workload pre-transfer.

> "It is again evident that Wessex Water has mature and effective procedures and processes in place.... Numerous examples of Wessex Water's commitment to continual improvement were made available during the assessment."
> ***Lloyd's Register.***

Asset management

To manage our assets effectively and efficiently we continue to ensure all risks associated with operational service are understood and managed throughout the business in order to plan and prioritise maintenance and investment needs.

Our asset management framework has helped us develop a more integrated approach to defining strategic asset management objectives and business processes and systems for delivering them.

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.

For risk management we use modelling and analytical tools to help prioritise investment. These incorporate:

- assessments of the impact and likelihood of service failure which can be applied consistently across all our assets
- a review of all customer, environmental, legal, and regulatory risks
- reporting to senior management/Board on strategic high-level risks and mitigation measures.

Under Ofwat's serviceability toolkit our serviceability was stable for the sixth consecutive year.

For more information visit www.wessexwater.co.uk

Our infrastructure

Infrastructure improvements

In Taunton we are carrying out a major programme of mains rehabilitation in order to improve the appearance of the water and provide increased security of supply. No dig techniques have been used extensively to minimise interruptions to customers and businesses and disruption to the public.

A major milestone on our water supply grid project was achieved in April 2013 when planning permission was granted for the 64km transfer pipeline from the south to north of our region. This means construction will be able to start in the autumn. The scheme is due to be completed by 2018.

We completed a scheme at Holton Heath sewage works in Dorset where, by transferring flows to the larger treatment works nearby at Wareham, we have ensured the treated effluent is disinfected and the frequency of storm spills reduced. This scheme meets the requirements of the Shellfish Directive to improve the quality of shellfisheries in Poole Harbour.

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

Other schemes include:
- construction work to extend Sutton Bingham water treatment works, near Yeovil and improve its performance with regard to taste and odour
- construction work at Taunton sewage treatment works on a major £14.3m scheme to extend the secondary treatment plant and improve the quality of the effluent discharged into the River Tone
- construction work at Puddletown sewage treatment works in Dorset to improve the quality of effluent discharged to the river
- more than £4m invested to improve the environmental impact at a further 20 overflows in Bristol
- a further £4m spent on proactively renovating more than 15km of sewers throughout our region.

Drought and the development of infrastructure to meet the demands of dry weather conditions pose challenges for the future.

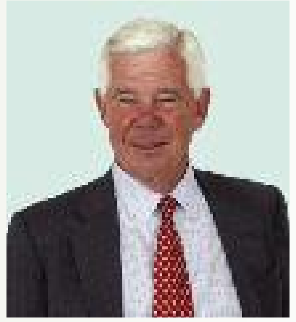
The drainage infrastructure will need to cope with increasing levels of urban creep, especially if planning laws are relaxed, and rainfall events will have more significant impacts on flow rates in sewers as the percentage of impermeable areas continues to grow.

We continue to use environmental and sustainability criteria in the evaluation of all new capital project expenditure. Project screening includes impacts on biodiversity, landscape, watercourses, heritage, visual impact, vehicle movements, noise and the whole-life carbon footprint of new assets.

Innovation

Innovation is important to us so we have signed a joint venture enterprise with the University of Bath. It is worth more than £3m, will create around 20 new research posts and engender innovative ideas that will give us a clear advantage in the next decade.

Director's view



Wessex Water continues to invest in maintaining and improving its infrastructure. This investment creates local jobs both directly in constructing new assets and in the chain of regional suppliers necessary to support the workload. I continue to be impressed by the depth of expertise and dedication from the in-house teams in resolving problems and providing the best possible solutions.
Peter Costain, Non-Executive Director.

Case study – **Olympic year network management in Weymouth**

The 2012 Olympic sailing events in Weymouth provided the perfect opportunity to trial new network management techniques to ensure excellent customer service throughout the games.

One of our strategic aims is to deliver water without restrictions or unplanned interruptions. Currently the first warning of a network failure is often a telephone call from our customers reporting a loss of supply or low water pressure. Our long-term aim is to be more proactive in the management of the water network so we can respond to supply issues before they affect customers.

As part of the trial we installed more than 200 new data logging devices that can monitor and transmit flow and pressure recordings every 15 minutes for up to five years. The instruments send data back to Wessex Water's operations centre in Bath via mobile phone technology. This investment provided real-time data for flow and pressure across the Weymouth water supply area. Each of the monitoring points is linked to an alarm within our regional monitoring and control system. These alarms are configured to notify the control room operators of a network failure when one or more of the monitors breach a specific threshold. If an alarm is received the control room operators use the information available to them to guide the site staff towards the problem, reducing the time needed to search for the failure.

Positive results as a result of the trial in Weymouth include:
- during the Olympics we were able to use the new loggers to inform the fire brigade of supply network pressures during a small fire at Weymouth Pavilion
- an alarm flagged a large leak on a customer's pipework before it affected customer supplies in the wider network
- operational staff were able to intervene in multiple cases of illegal use of fire hydrants, thus averting potential discoloured water problems
- an alarm alerted the control room to a burst main one hour before the first "no water" contacts from customers.

On the back of the successful trial, we are now planning to roll out real-time monitoring across the network over the next five years.

"Keeping our fleet of vehicles on the road all contributes to providing our customers with top quality service."

Kim Smith, Commercial Fleet Assistant.

Our performance indicators

We monitor a number of performance indicators that we believe reflect the service, compliance and environmental standards that are most important to our customers and external regulators. Incorporated within these measures are the specific key performance indicators that Ofwat requires us to publish annually as part of a balanced approach to regulation.

Key performance indicators	Performance level			Performance vs 2005-10 average	Status
	2005-10 average	2011-12	2012-13		
CUSTOMER EXPERIENCE					
Service Incentive Mechanism (out of 100)	New measure	85	85	New measure	a
Billing contacts dealt with in 5 days*	100%	100%	100%	Same	b
Written contacts dealt with in 10 days*	100%	100%	100%	Same	b
WATER SUPPLY					
Serviceability water non-infrastructure	Stable	Stable	Stable	Same	a
Serviceability water infrastructure	Stable	Stable	Stable	Same	a
Water quality compliance*	99.9%	>99.9%	>99.9%	Same	b
Properties at risk of receiving low pressure*	178	166	144	Better	b
Water supply interruptions (hours per property served)	New measure	0.6	0.4	New measure	c
Properties experiencing supply restrictions*	0%	0%	0%	Same	b
Total leakage (million litres per day)	73	69	69	Better	a
Security of supply index	100%	100%	100%	Same	a

*Additional measures to the Ofwat key performance indicators that we believe give a balanced report of our performance.

Status notes:
a - Status is allocated in accordance with Ofwat key perfomance indicators guidance - March 2012 and May 2013
b - Status based on comparison with 2005-10 average.
c - Status based on comparison with company average for 2010/11 and 2011/12. Better than average is green, average to plus 25% from average is amber, above 25% is red.

Key performance indicators	Performance level			Performance vs 2005-10 average	Status
	2005-10 average	2011-12	2012-13		
SEWERAGE					
Serviceability sewerage non-infrastructure	Stable	Stable	Stable	Same	a
Serviceability sewerage infrastructure	Stable	Stable	Stable	Same	a
Repeat flooding incidents	New measure	37	109	New measure	d
Properties at risk of internal flooding more than once in 10 years*	345	92	98	Better	b
ENVIRONMENTAL STANDARDS					
Compliance with EA abstraction licences*	100.0%	100.0%	100.0%	Same	b
Discharge permit consent	98.3%	99.7%	99.7%	Better	a
Population served by compliant sewage treatment works*	99.9%	100.0%	100.0%	Better	a
Number of pollution incidents*	105	66	65	Better	b
Pollution incidents (sewerage) per 10,000km	50.0	35.5	35.4	Better	a
Serious pollution incidents (sewerage) per 10,000km	1.4	1.1	0.0	Better	a
Satisfactory sludge disposal	100%	100%	100%	Same	a
Greenhouse gas emissions (ktonnes CO_2 equivalent)	161	149	159	Better	a
FINANCIAL					
Post-tax return on capital	6.9%	6.6%	6.0%	Lower	e
Credit rating	A3/A-/BBB+	A3/A-/BBB+	A3/A-/BBB+	Same	e
Gearing	66%	64%	64%	Lower	e
Interest cover	na	3.1	3.2	na	e

*Additional measures to the Ofwat key performance indicators that we believe give a balanced report of our performance.

Status notes:
a - Status is allocated in accordance with Ofwat key perfomance indicators guidance - March 2012 and May 2013
b - Status based on comparison with 2005-10 average.
c - Status based on comparison with company average for 2010/11 and 2011/12. Better than average is green, average to plus 25% from average is amber, above 25% is red.
d - Status is allocated as follows: Less than 89 is green based on the assumption that the total number of repeats in the report year should not be greater than the lowest number of properties that have suffered an internal flooding incident since 1999. More than 89 and less than 136 is amber, greater than 136 is red. 136 represents the average number of properies suffering an internal flooding incident between 1999 to 2012
e - Internal company target met.

ENVIRONMENTAL ACCOUNTING

For the year to 31 March 2013

The following pages cover:

- an overview of how environmental impacts are monetised and associated investment that is underway
- a summary of our expenditure in 2012-13 on items relevant to sustainability in its broader sense.

We began environmental cost accounting in 2001 in partnership with the sustainability charity Forum for the Future. These accounts were used to highlight externalised environmental impacts, ie, those which have not been tackled comprehensively through investment or some other intervention.

We calculated the hypothetical monetary cost of reducing these impacts to a sustainable level – through investment, offsetting, markets or shadow prices – and then subtracted that value from our profit and loss account.

Regulated investment in service improvements and the water environment
Our agreed investment programme for 2010-15 includes a range of schemes to benefit society and the environment. Issues being addressed include 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. These schemes are often driven by the standards and environmental programme overseen by Defra, the Environment Agency and Natural England.

Our capital maintenance and quality enhancement investment totalled approximately £222m in 2012-13. The single largest scheme being carried out is the integrated supply grid, which will involve investment of more than £200m over eight years.

As well as conventional investment in physical assets we are increasingly looking to address the source of impacts on the water environment through methods such as catchment management and surface water management plans.

We are currently assembling our investment programme for 2015-20, which will be submitted to Ofwat for the 2014 price review. This will include investment required to meet tighter quality standards and to accommodate changing volumes associated with population growth and climate change. In the medium to long term, with the implementation of the Water Framework Directive and the Priority Substances Directive, we can expect continuing pressure to upgrade sewage treatment to meet new or tighter standards. The challenge will be to do this without significant increases in energy consumption or chemical dosing.

Licences and fiscal measures
As well as the investment outlined above, there are annual payments made through licences, taxation and other 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 (CRC) which charges £12 for every tonne of carbon dioxide associated with energy use, and the Climate Change Levy. Combined, we paid approximately £7.0m for these in 2012-13.

Greenhouse gas emissions
The CRC is an incentive for participants to reduce energy use. However, the money it raises goes into the public finances via the Treasury, rather than being spent on carbon abatement measures. So, to assess the economic impact of our carbon emissions we have to look at other costing methods.

One top-down method favoured by economists is to use shadow prices. UK government guidance shows annually ascending values, which distinguish between traded and non-traded emissions, and also three scenarios that allow for the climate having high, medium or low sensitivity to greenhouse gas emissions. Under the current medium sensitivity value the traded and non-traded prices of carbon dioxide are £6 and £59 per tonne respectively.

Overall the monetary cost of our greenhouse gas emissions using UK shadow prices ranges between £1m and £10m.

An alternative method is to calculate the investments that would be needed to convert our energy and fuel use to renewable sources, or to buy carbon offsets.

We continue to look closely at the investment that we could make ourselves to reduce our carbon footprint. These include renewable energy generation and emerging technologies such as pyrolysis which could be used to produce biochar, which locks carbon into a virtually inert form. Across all these options, there is a wide range of payback periods, depending on the cost and effectiveness of technologies employed. It is clear that significant investment will be needed to reach carbon neutrality.

In terms of carbon offsets, recognised providers charge between £7 and £12 per tonne of carbon dioxide avoided through renewable energy projects and the like.

Our carbon emissions for 2012-13 are shown below. These are calculated in line with the most recent Decc/Defra reporting guidance and Ofwat's key performance indicators guidance.

The 2012-13 emissions at 169kt CO_2 equivalent are 5% higher than the emissions for 2011-12. The main reason for the increase is the wet weather from April 2012 onwards, which significantly increased sewage pumping electricity consumption.

Emissions are split into three broad categories:

- scope 1: emissions produced directly from activities on our sites (eg, on-site fuel use)
- scope 2: emissions related to purchased grid electricity
- scope 3: third-party emissions associated with Wessex Water's activities, eg, personal vehicles for business travel and outsourced fuel use and transport.

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 our sewage treatment and sludge activities.

By generating and using our own electricity from sludge digestion we have avoided the need to use an additional 35GWh of grid electricity, with an associated avoidance of 18ktCO_2 equivalent.

In 2012-13 we also exported 5.3GWh of self-generated electricity which is equivalent to a reduction of 3ktCO_2 equivalent.

In addition we can estimate the emissions associated with producing the process chemicals that we use to treat water and sewage. These emissions amount to around 9ktCO_2 equivalent; this does not cover all the chemicals we use, nor the transport of the chemicals to our sites.

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.

Investment towards sustainability
Expenditure made in the last 12 months is shown in the table on page 40. This includes two main components. Firstly, we report on mandatory expenditure driven by legislation, which is increasingly embracing sustainable development considerations. Secondly, we show our additional discretionary expenditure that benefits our customers, the environment in our region and our employees, while helping our general movement towards being a sustainable business.

Greenhouse gas emissions 2012-13 (ktCO_2 equivalent)*

Appointed business	Scope 1 (Wessex Water direct fuel use)	Scope 2 (grid electricity)	Scope 3 (use by third parties)	**Total 2012-13**	Total 2011-12
Gas, diesel and other fuels	6	0	4	**10**	8
Grid electricity	0	115	0	**115**	107
Transport	9	0	1	**11**	11
Methane	17	0	2	**20**	20
Nitrous oxide	10	0	7	**17**	19
Exported renewable (emissions netted off)	0	(3)	0	**(3)**	(4)
TOTAL (net emissions)	42	112	14	**169**	161

*Table includes Scope 3 methane and nitrous oxide which are excluded from the Ofwat KPI calculation.

Investment towards sustainability – unaudited 2012-2013

	2013* £m	2012* £m
CUSTOMERS AND COMMUNITIES		
Mandatory expenditure	54	37
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)	<0.5	<0.5
Example – charitable donations to community projects		
ENVIRONMENT		
Mandatory expenditure	29	24
Example – capital investment to meet the Habitats Directive		
Discretionary expenditure (a)	-	-
Discretionary expenditure (b)	1	1
Example – trials on options for more sustainable water resources		
Discretionary expenditure (c)	<0.5	<0.5
Example – conservation grants to Wildlife Trusts		
EMPLOYEES		
Mandatory expenditure	41	40
Example – basic pay and conditions including pension		
Discretionary expenditure (a)	3	2
Example – enhanced overtime payments		
Discretionary expenditure (b)	5	4
Example – staff training		
Discretionary expenditure (c)	0	0
Example – enhanced maternity leave		
INVESTMENT – INFRASTRUCTURE		
Mandatory expenditure	139	116
Example – replacement/refurbishment of sewers		
TOTALS		
Customers and communities	55	38
Environment	30	25
Employees	49	46
Infrastructure	139	116
Total	273	225

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.

BOARD OF DIRECTORS
Executive Directors


Left to right: Mark Watts, Andy Pymer, Colin Skellett, David Elliott and Sean Cater

Colin Skellett – Executive Chairman
A chartered chemist and engineer by training, he has been working 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. He is Chairman of the West of England Local Enterprise Partnership.

Mark Watts – Finance Director and Treasurer
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 shortly after the acquisition of Wessex Water by Enron.

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.

David Elliott – Director of Environment and Assets
He has 30 years' experience in the water industry. He joined Wessex Water in 1985 working as a technician engineer in sewerage. He spent time in Argentina where he managed sewerage services to 2.5 million customers. On returning to the UK he became Southern Divisional Manager. In 2004 he became General Manager, Group Services, responsible for IT, FM, logistics and customer services. He was appointed to his current position on 11 June 2007.

Sean Cater – Director of Operations and Construction
He has more than 30 years' experience in the construction and engineering industry. Sean joined Wessex Water in 1992 as a resident engineer in the Somerset division. He subsequently worked as a construction manager and in 2000 he took on the role of Head of Capital Investment. In 2002 he became General Manager of Wessex Utilities Contracting. He was appointed to his current position on 11 June 2007.

Andy Pymer – Director of Customer and Retail Services
A chartered civil engineer turned economist, he has more than 20 years' experience in the water sector holding roles both overseas and in the UK, including 10 years as Head of Regulation and Policy at Wessex Water.

He was appointed Director of Customer and Retail Services on 1 August 2012 and is also a Director of Wessex Water's joint venture billing company, BWBSL, and Chair of Wessex WaterAid, which has raised more than £1.5m for the charity since 2002.

BOARD OF DIRECTORS
Non-Executive Directors

Independent

Left to right: Fiona Reynolds, Peter Costain, David Barclay and Gillian Camm.

David Barclay
More than 20 years' experience as an investment banker, including Head of Corporate Finance at NatWest Markets and Head of European Corporate Finance at Dresdner Kleinwort, where he was Vice-Chairman. Has served on the Audit Committees of two listed companies (VT Plc, the support services company, and Gartmore Limited, the fund manager). Also currently Non-Executive Deputy Chairman of John Lewis Partnership Plc, Senior Independent Director at Wates Group and a member of the Board of the British Library, serving on the Audit Committees of each of these organisations. Appointed to the Wessex Water Board in November 2005 and is Senior Independent Director and Chairman of the Audit Committee.

Gillian Camm
Senior Independent Director at ROK Plc for eight years to 2010, and Council Member of the General Medical Council for five years to 2008. Formerly Business Transformation Director at Clerical Medical Investment Group and a Partner in Hay Management Consultants. Currently Chair of the Board of Governors – University of the West of England, Deputy Lieutenant Gloucestershire, Vice President Quartet Community Foundation, Chair Wycliffe College, member Society of Merchant Venturers, Non-Executive Director of law firm Capsticks. Appointed to the Wessex Water Board in November 2011 and Chair of the Customer and Communities Panel.

Peter Costain
With a background in construction and a chartered accountant he was Deputy Chairman of Costain Group Plc 1995-1997, Chief Executive 1980-1995 and Joint Chairman of Trans Manche Link 1988-1992, Anglo French consortium who built the Channel Tunnel. Chaired the Board Audit and Compliance Committee of AMP (UK) Plc (which included Pearl Assurance, NPI, London Life and HHG Plc (now Hendersons)) for three years to 2005 having previously been a member of that committee. Appointed to the Wessex Water Board in 1999 and is Chairman of the Pensions Committee.

Fiona Reynolds DBE
Director General of the National Trust for eleven years to 2012, and a member of several Government advisory panels since the 1990's. Eleven years Assistant Director and then Director with the Council for the Protection of Rural England. Currently Senior Independent Director of the Executive Board of the BBC and board member of the Green Alliance. Master of Emmanuel College, Cambridge from October 2013. Appointed to the Wessex Water Board in August 2012 and Chair of the Sustainability Panel.

Shareholder

Francis Yeoh CBE
Managing Director of YTL Corporation Berhad, Malaysia, since 1988. A founder member of the Malaysia Business Council and member of Malaysia's Capital Markets Advisory Council and the Barclays Asia-Pacific Advisory Committee. 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. He 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, YTL Vacation Club Berhad and Wessex Water Limited. Director since July 2003.

Hann Yeoh
Non-Executive Director of Wessex Water since July 2012. Executive Director of YTL Power Generation Sdn Bhd and part of the business development team of YTL Power International Berhad.

+Kathleen Chew
Group Legal Adviser for 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.

+ Alternate director to Francis Yeoh

RISK AND COMPLIANCE STATEMENT FOR THE REGULATORY YEAR 2012-13

Introduction

The Water Services Regulation Authority (WSRA) 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

The WSRA requires the Board 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 is meeting, 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. Major risks and the appropriate management of them are described below
- 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 in note 6 to the accounts
- any failure to deliver outputs agreed at the Final Determination has been disclosed
- the Company is compliant with condition F6A.6 on credit ratings
- greenhouse gas reporting complies with Defra reporting requirements.

Output review

Outputs agreed with regulators or promised to customers in the Final Determination are kept under constant review by the Company's senior managers. A monthly report is prepared for Directors and senior managers detailing progress with the delivery of outputs and highlighting instances where such delivery may be at risk.

Where there is a risk of failing to deliver an output, potential mitigation strategies are assessed to see if the project can be brought back on schedule. If a major issue, such as land acquisition or planning permission, means that an output cannot be met, senior managers engage 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 is made to each Board meeting showing progress against scheduled outputs. The Board reviews the report and proposed mitigations where difficulties have been experienced.

The Company is meeting, 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 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, site left clean and tidy and the customer is satisfied
- each month an independent telephone survey is undertaken of a random selection of customers who have contacted the Company during the month

- each year, an independent image tracking survey gauges customer views
- focus groups are used to analyse customer attitudes to the services provided by the Company and to guide future planning
- our four customer liaison panels will be used as a key part of the PR14 price setting regime to consider various aspects of the business for the future. These panels will report to the customer scrutiny group, which comprises an independent chairman, representatives of the regulators and representatives of the customer liaison panels. This group will consider the key issues to be addressed in the strategic direction statement and the business plan
- 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.

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 internally reviewed and have formally been submitted for approval to Ofwat on a three-year cycle.

We note Ofwat's recent changes to the provision of customer information as detailed in information note 13/04. We believe that our existing communication process with customers is consistent with the proposed new approach, with all information provided being reviewed for its accuracy, transparency, clarity, accessibility and timeliness.

We already consult with CCWater to ensure that the information provided meets customer requirements. We will ensure that the content of information provided and the way that we provide it is customer led by annual review with CCWater at the time of annual revisions of customer charges.

Risk review

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 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. The Audit Committee has oversight of the controls and mitigations put in place to ensure that the Company is only exposed to the degree of risk set by the Board.

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 Wessex Water Services Limited Board. The Board reviews and holds ultimate responsibility for the risk process and for the identification and mitigation of risks.

At the lowest level, 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. Results are reported monthly to the Group Management Team and to each Board meeting.

These identified risks 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 business experts responsible for that area of the business. Where a high scoring risk has been identified the risk group reviews additional measures that could be put in place to reduce its impact to an acceptable level.

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 in 2014. The risk group meets twice a year and submits the current corporate risk register and summary report to a Risk Management Committee comprising the Executive Directors of the Board, again meeting twice a year.

The Risk Management Committee 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 Board Chairman 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).

Principal risks

The 11 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. 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 Information management and digital security. The Company holds and processes large quantities of data which is 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 project to improve understanding of the importance of data integrity and to enhance security measures has been undertaken, resulting in the implementation of an information security management system in accordance with ISO27001 best practice. This will continue to evolve and expand during the next 12 months.

3 IS business resilience. Most activities undertaken by the business are reliant on the availability of IT services and facilities. The Security Service has identified the growing threat of cyber attack or industrial espionage as a high risk to both businesses and utilities. The Company continues to examine ways in which IT resilience can be maintained and where appropriate improved. During this year a third data centre has been implemented where business critical systems and data can be replicated to improve availability.

4 Staff integrity. 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. CRB checks are undertaken for all new permanent staff and for contract staff who are to work in particularly sensitive positions.

5 Theft of plant/materials. The high price of commodities and fuel makes isolated sites such as reservoirs and treatment works obvious targets for thieves. Thefts could affect the environment, service to customers or the safety of staff. Extensive measures including installation of CCTV, forensic marking and liaison with the police have been taken to detect and prevent theft.

6 Incorrect site/asset knowledge. Accurate information about the location and status of the Company's assets is central to their protection and maintenance. A project to improve the asset records of the business, including the newly transferred private sewers, is continuing.

7 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. No major pollution incidents were recorded during the year.

8 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 secure compliance.

9 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.

10 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.

11 Leakage. Failure to control leakage could breach a regulatory output and lead to loss of an important resource at times of drought. The Company sets a tighter level of leakage than the official target. The existing regulatory approach to leakage control is the most cost effective way of achieving the economic level of leakage.

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 risk committee. The internal audit programme includes a rolling review of principal mitigation measures with regular reports to the Audit Committee.

Assurance

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 updated to reflect all changes to reporting requirements and is approved by the Audit Committee.

The Compliance Statement was reviewed by the Audit Committee on 24 June 2013 and by the full Board one day later. The Audit Committee received presentations from Company Executive Directors and managers involved in compiling the Compliance Statement, KPMG (the Auditor) and Halcrow (the Engineering Auditor).

Board endorsement of the Compliance Statement

At the Board meeting the Directors were able to consider the Compliance Statement together with an oral report from the Chairman of the Audit Committee, and to question the Executive Directors.

The Board was satisfied that it could make the Compliance Statement in the form appearing above.

Colin Skellett
Chairman

Governance report

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 relationships the Company has 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. The Company is making the changes referred to below in the coming financial year so that we continue to reflect best practice and maintain our position as the leading water and sewerage company for customer service and satisfaction.

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

Colin Skellett
Chairman

Governance structures

The Board
All decisions which affect Wessex Water are the responsibility of the Board, which controls and directs the undertaking of the regulated water and sewerage business. The Board is well balanced with five Executive Directors, four Independent Non-Executive Directors and four Non-Executive Directors appointed by the shareholder.

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 set out 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, approval of 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 five Executive Directors, all appointed on one-year rolling contracts. There are four Independent Non-Executive Directors, exceeding by one the requirements of Condition P of the Licence. Four further Non-Executive Directors are appointed by the Company's sole shareholder.

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, are responsible for performance evaluation 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 complies with the Code's Main Principles and Supporting Principles as to the composition of the Board. Moreover, Wessex Water exceeds the requirements of the Code (designed for listed rather than privately held companies) by having four Non-Executive Directors 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. This is a deliberate decision, intended to ensure that the Board has the appropriate balance of skills, experience, independence and knowledge and that the Board has an appropriate combination of Executive Directors and Non-Executive Directors, 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:

Governance report

Executive Directors	Independent Non-Executive Directors	Shareholder Non-Executive Directors
Colin Skellett OBE (Executive Chairman)	David Barclay	Francis Yeoh CBE (alternate Kathleen Chew)
Sean Cater	Gillian Camm	Hann Yeoh (appointed 1 August 2012)
Julian Dennis (resigned 28 November 2012)	Peter Costain	Hong Yeoh
David Elliott	Jonathon Porritt (resigned 1 August 2012)	Mark Yeoh
Andy Pymer (appointed 1 August 2012)	Fiona Reynolds DBE (appointed 1 August 2012)	
Mark Watts		

Chairman
Colin Skellett is the Company's Chairman and Chief Executive. He brings more than 40 years' water industry experience to the Company including 25 years as Chief Executive covering privatisation of the industry and two changes of ownership. By agreement with the shareholder, Colin Skellett's dual role is an exception to the relevant Code Provision which generally requires separation of the roles of running the Board and running the Company's business.

The division of responsibilities required under the Code between the roles of an independent Chairman and Chief Executive is intended principally to protect against one individual having unfettered powers of decision making (effectively running both the Board and the Company's business) in the context of a public company with disparate shareholders and with no direct shareholder board representation. However, Wessex Water is a private company with a single shareholder who appoints Non-Executive Directors to the Board and, accordingly, these concerns are of limited relevance. Further, in the specific context of Wessex Water, good governance is ensured and the concern of individual dominance alleviated by the presence on the Board of Executive Directors responsible for the main business functions, together with a majority of Non-Executive Directors who are able to hold the entire executive function to account.

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. The Chairman meets regularly with representatives of the Company's shareholder and has separate group and individual meetings with the Independent Non-Executive Directors.

The Chairman ensures that new Directors receive a full, formal and tailored induction on joining the Board (including an opportunity to meet with representatives of the shareholder) and regularly reviews and agrees with each Director their training and development needs.

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 Nomination 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 include leading the evaluation of the performance of the Chairman. Led by the Senior Independent Director, the Non-Executive Directors meet annually without the Executive 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. The last two financial years have seen the appointment of two new Independent Non-Executive Directors, one other new Non-Executive Director and one new Executive Director.

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. The Board considers that both Peter Costain and David Barclay remain 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. The Board has concluded that it is in the Company's interests due to the importance of its infrastructure construction programme that Peter Costain, with a background in major engineering projects, continues as an Independent Non-Executive Director beyond the period suggested in the Code. David Barclay's continued appointment brings to the Board his experience on other listed and private company boards as well as his knowledge of financial markets. The continued appointment of Peter Costain and David Barclay therefore promotes the long-term success of the Company and is in accordance with the spirit of the Code.

Independent Non-Executive Director	Appointed	Current term expires
David Barclay	1/11/2005	31/10/2014
Gillian Camm	1/11/2011	31/10/2014
Peter Costain	1/12/1999	31/03/2014
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. The training and development needs of the Executive Directors and Independent Non-Executive Directors are reviewed annually by the Chairman.

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 the Company's O&CA are followed and advising on suggested changes, as well as ensuring that Board procedures are complied with. The Company Secretary gives legal and regulatory advice as required by the Board or any Director and is responsible for advising the Board through the Chairman on all governance matters. The Board is kept informed of all 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 by 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 regular 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:

Board Attendance 2012-13			
Colin Skellett	7/7	Jonathon Porritt	3/3
David Barclay	7/7	Fiona Reynolds	4/5
Gilliam Camm	7/7	Mark Watts	7/7
Sean Cater	5/7	Francis Yeoh	1/7
Peter Costain	7/7	(alternate Kathleen Chew)	
Julian Dennis	5/5	Hann Yeoh	3/5
David Elliott	7/7	Hong Yeoh	2/7
Andy Pymer	5/5	Mark Yeoh	5/7

It is expected that all Independent Non-Executive Directors attend all Board meetings except where prevented by prior commitments or illness. Directors who are unable to attend a particular meeting receive the Board papers and may comment in advance of the meeting to the Chairman or to the Senior Independent Non-Executive Director. At least one of the four Non-Executive Directors representing the Company's sole shareholder has attended all Board meetings. The Chairman briefs all Directors unable to be present after the meeting about the discussions held and decisions reached.

Board Committees and Advisory Panels

Four formal Committees operated throughout the financial year under review:

- Audit Committee
- Risk Management Committee
- Remuneration Committee
- Nomination 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 55 to 67.

A fifth Committee for Corporate Responsibility was established in June 2013. The principal purpose of the Committee is to make recommendations to the Board about the Company's corporate and social obligations to its employees and other stakeholders. The Committee will be chaired by Gillian Camm with Fiona Reynolds, David Elliott and Andy Pymer as members.

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, David Elliott 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.

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.

A Board effectiveness review was carried out in June 2013. This involved the use of a questionnaire to Independent Non-Executive Directors and covered a range of issues around Board and Committee processes, Board roles and responsibilities. Individual responses to the questionnaire were aggregated and analysed, and the results presented to and discussed by the Board at its meeting on 25 June 2013 with several improvements suggested as a result, including:

- Prior to the start of each financial year the Board will review the calendar to ensure key strategic issues are covered at meetings during the year.
- Regular reviews of implementation of key policies including post investment appraisal of capital projects.

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.

Directors' Remuneration
Details of Directors' remuneration are set out in the Remuneration 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 operates a written whistleblowing policy that is publicised to employees 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. Nothing was reported during the financial year under review.

Anti-corruption
The Company operates a written policy on business ethics that makes known its expectation that Directors and employees commit to the highest possible standards of professional and ethical conduct to protect its reputation and standing. Bribery and corruption is not tolerated. All Directors and employees are made aware of the Company's policy and that breaching it will result in the severest disciplinary action. No instances of a breach of the policy were recorded during the year.

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 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.

Audit Committee Report

Members:

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

David Barclay (Chair)
Gillian Camm
Peter Costain FCA

In addition Fiona Reynolds joined the Audit Committee in June 2013.

The Board is satisfied that all members of the Audit Committee are independent and that, through David Barclay and Peter Costain, it has relevant financial experience as described on page 42.

Role and Report on Activities
In accordance with Code Provision C.3.2. the Audit Committee's full terms of reference are available on the Company's website.

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. The Director of Finance and Treasurer, Director of Customer and Retail Services, Director of Environment and Assets, Head of Internal Audit, Group Financial Controller and the Company's external auditors KPMG attend, by invitation, all meetings of the Audit Committee. Other Executive Directors, members of 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 is 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:

- progress made in the mitigation of a number of the principal risks identified in the Risk and Compliance Statement
- Company performance on a number of internal processes to deliver regulatory outputs
- detailed independent consideration of the annual review document prior to its ultimate approval by the Board
- consideration of the Company's pension arrangements, bad debts and taxation. The Committee was satisfied that the Company's treatment of these matters was properly addressed within the Company's financial statements.

In reviewing the financial statements the Audit Committee considered the content, accuracy and tone of the financial statements, the Risk and Compliance Statement (see pages 44 to 47) and other financial disclosures prior to their release.

KPMG reported to the Audit Committee on their review of the half-year interim results and 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 letters received from the external auditors.

The Audit Committee also receives a report on any incidents of fraud or bribery including the actions taken to investigate and respond to such incidents. There were no material incidents during the financial year under review.

The Audit Committee also reviews arrangements by which staff of the Company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. The Audit Committee's objective is to ensure that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action. No such matters were raised during the financial year under review.

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 44 to 47.

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 auditors. The Audit Committee reviews the performance of the internal and external auditors annually to ensure that they are effective and recommends to the Board whether the external auditors should be reappointed.

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

At the request of Executive Directors 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 Auditors
KPMG Audit Plc were appointed as the Company's auditor in 2002 and the audit contract has not been put out to tender since. Each year the Finance Director and Treasurer reports to the Audit Committee on the effectiveness of the external auditor throughout the year. The Audit Committee reviews that report and their own experience of the auditor's effectiveness in the year. They then make a recommendation to the Board as to whether they be reappointed. In June 2013 the Board again decided that KPMG be re-appointed for the following year. 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 retender can take place at the end of the current audit partner's term of office.

KPMG Audit Plc was paid £141k for audit fees and £38k for non-audit services during the financial year under review. The non-audit services were low and so had no impact on auditor objectivity and independence.

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

Audit Committee Attendance	
David Barclay	5/5
Peter Costain	4/5
Gillian Camm	5/5

Risk Management Committee Report

Members:

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

Colin Skellett (Chair)
Sean Cater
David Elliott
Andy Pymer
Mark Watts

Julian Dennis was a member of the Committee until 28 November 2012.

Role
Responsibility for the Company's risk management policy rests with the Board. The purpose of the Risk Management Committee is to identify and manage the key business risks faced by the Company. It produces for the Board's annual approval a risk management plan addressing the Company's risk management systems, practices and procedures to ensure effective risk identification, management and compliance with risk management policies. The Audit Committee reviews the annual Risk and Compliance Statement which includes a description of the Company's risk process. As part of its terms of reference, if the Audit Committee is not satisfied that a correct and proper risk process is in place and has been carried out at least annually, it is authorised to refer the matter to the Board's attention with a recommendation that the Committee assumes direct responsibility for managing the risk management process.

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

The Risk Management Committee meets at least twice a year or at such shorter intervals as may be necessary to consider changes to the Company's business risks and enable it to discharge its duties effectively. The Risk Management Committee also plays a key role in the Company's processes for complying with the Ofwat requirement for an annual Risk and Compliance Statement.

Risk Management Committee Attendance	
Colin Skellett	2/2
Sean Cater	2/2
Julian Dennis	1/1
David Elliott	2/2
Andy Pymer	1/1
Mark Watts	2/2

Nomination Committee Report

Members:

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

Hong Yeoh (Chair)
David Barclay
Mark Yeoh
Colin Skellett

The Nomination 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, the Company's Nomination Committee complies with the Principles and spirit of the Code and reflects the requirements of a private company with a sole shareholder.

Role and Report on Activities
The Nomination Committee's full terms of reference are available on the Company's website.

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

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

The Nomination Committee evaluates the balance of skills, experience, independence and knowledge on the Board and, in the light of this evaluation, prepares a description of the role and capabilities required for a particular appointment.

The Nomination Committee meets sufficiently regularly to enable it to discharge its duties. It met once during the financial year under review under the chair of Hong Yeoh. In future financial years under revised terms of reference its role will also be expanded to include monitoring the independence of Independent Non-Executive Directors, advising the Board on any conflicts of interest, succession planning below Board level and 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. Fiona Reynolds' appointment brings gender balance to 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.

The principal area of activity was the internal promotion of a new Executive Director, Andy Pymer, on the retirement of Julian Dennis, and the selection of two new Non-Executive Directors: Hann Yeoh as a shareholder appointee and Fiona Reynolds DBE as an Independent Non-Executive Director on the retirement from the Board of Jonathon Porritt CBE.

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.

Nomination Committee Attendance	
Hong Yeoh	1/1
Mark Yeoh	1/1
David Barclay	1/1
Colin Skellett	1/1

Remuneration Committee Report

Members:

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

Hong Yeoh (Chair)
David Barclay
Peter Costain
Mark Yeoh

Gillian Camm will join the Remuneration Committee as an additional Independent Non-Executive Director with effect from the next meeting.

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 2013. 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.

A review of the job sizing of Executive Director roles and senior executive managers was completed during the financial year under review. Salary and bonus levels were benchmarked against the Hay Group Industrial and Service and National 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 to specifically consider this aspect as part of its decision making process.

To ensure that the Company's remuneration practices are market competitive, the Remuneration Committee had access to detailed external research on market data and trends from experienced specialist consultants.

Hay Group provided detailed market analysis and independent advice to the committee. Hay Group provides no other services to the Company and has no other connection to the Company.

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 Chairman and Chief Executive (Colin Skellett) and the Group Head of Human Resources (Mark Nicholson) also attended the Remuneration Committee meeting 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
Peter Costain	1/1
Hong Yeoh	1/1
Mark Yeoh	1/1

Remuneration Committee Attendance
The remuneration policy for senior executives is based on the Company's four key focus areas and risk management.

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 maximising returns to our shareholder.

The Remuneration Committee continues to monitor the 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.

Remuneration Arrangements for Executive Directors
The remuneration arrangements for the Executive Directors comprise the following elements:

- basic salary
- bonus
- pension plan
- car and health benefits
- share option scheme of the indirect parent company YTL Power International Berhad.

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

Component	Colin Skellett Executive Chairman	Sean Cater Director	David Elliott Director	Andy Pymer Director	Mark Watts Director
Target bonus (% of salary)	40	40	40	40	40
Maximum bonus (% of salary)	80	80	80	80	80
Actual bonus paid (% of salary)	42	51	50	59	55
Share options (maximum)	Approved 87,000 Unapproved 1,913,000	Approved 87,000 Unapproved 913,000	Approved 87,000 Unapproved 913,000	Approved 87,000 Unapproved 913,000	Approved 87,000 Unapproved 913,000
Pension arrangement	Defined benefit	Defined benefit	Defined benefit	Defined benefit	Defined benefit
Benefits	Benefits: Company car benefit based on list price and CO2 emissions, fuel benefit £4,047 private medical insurance £1,578 (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 similar roles in the relevant employment market) and internal relativities.

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.

The Remuneration Committee has reviewed salaries for 2012-13 and has determined that salaries for all Executive Directors will be increased by 2.15% from 1 April 2013. This increase is in line with the agreed increase across the rest of the Company.

Executive Directors' Bonuses

2012-13 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, team and individual targets. In the case of Executive Directors these targets are weighted as 60% Company, 20% team and 20% individual. The Company targets are 22 key performance indicators covering financial measures, customer service and efficiency measures, asset performance, and environmental and employee matters, as shown below:

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

Service – Service Incentive Mechanism – customer satisfaction / Service Incentive Mechanism – customer contact / drinking water quality / customer service rating / operating cost comparative performance.

Asset – regulatory outputs / serviceability / security of supply / leakage.

Environmental – energy usage / energy self-generation / sewage treatment compliance / bathing water quality / pollutions category 1, 2 and 3.

Employees – reportable injuries / employee rating of company / compliance with training plan.

In the financial year under review, 19 of the 22 Company targets were achieved or bettered. Those not achieved were in respect of energy usage, energy self-generation and bathing water quality all of which were adversely affected by the unusual weather conditions during the financial year.

The bonus payments are shown on page 65.

Annual bonus payments to Executive Directors are not pensionable.

Bonus Arrangements for 2013-14
The Remuneration Committee regularly reviews the target and maximum bonus levels of Executive Directors, to ensure that they are in line with industry standards.

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 dependent'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.

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%.

Of the current executive directors, 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 party on one year's notice.

Provision	Summary
Notice period	12 months from either party
Termination payment	Theoretical maximum payment in the case of redundancy of 100% of salary (inclusive of allowances, benefits) plus redundancy entitlement.
Change of control	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
Sean Cater	11/06/2007	11/06/2007
David Elliott	11/06/2007	11/06/2007
Andy Pymer	1/08/2012	1/08/2012
Colin Skellett	1/01/2006	1/09/1989
Mark Watts	16/03/2010	16/03/2010

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 2012 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

	Salary £000	Compensation for loss of office £000	Bonus £000	Benefits £000	Total before pension contributions £000	Pension contributions £000	Total including pension contributions £000	Total 2011-12 including pension contributions £000
Independent Non-Executive Directors								
Peter Costain	80	-	-	-	80	-	80	70
David Barclay	80	-	-	-	80	-	80	70
Gillian Camm	55	-	-	-	55	-	55	21
Jonathon Porritt	23	-	-	-	23	-	23	50
Lesley Bennett	-	-	-	-	-	-	-	38
Fiona Reynolds	37	-	-	-	37	-	37	-
Executive Directors								
Colin Skellett	328	-	138	21	487	-	487	487
Sean Cater	173	-	88	13	274	31	305	299
Julian Dennis	89	132	-	8	229	1	230	235
David Elliott	170	-	85	15	270	31	301	301
Andy Pymer	96	-	56	8	160	18	178	-
Mark Watts	157	-	84	14	255	27	282	272
Total	**1,288**	**132**	**451**	**79**	**1,950**	**108**	**2,058**	**1,843**

Notes
1. There were no emoluments earned by or paid to Francis Yeoh, Hann Yeoh, Hong Yeoh or Mark Yeoh.
2. Andy Pymer and Fiona Reynolds' emoluments from 1 August 2012 and Gillian Camm's emoluments for 2011-12 is a part year.
3. Jonathan Porritt's emoluments up to 31 July 2012 and Julian Dennis' up to 28 November 2012.
4. The following Directors received emoluments for their services to other Group Companies:
   Colin Skellett £222,000
   Mark Watts £150,000
   Sean Cater £126,000
   The Remuneration Committee was satisfied that services provided to other Group Companies did not affect the Directors' provision of services to the Company.

Executive Directors' Defined Benefit Pension Provision

	Pension service completed in years (including transfers in and bonus years)	Accrued pension at 31 March 2012 £pa	Increase in accrued pension during the year £pa	Accrued pension at 31 March 2013 £pa
Colin Skellett	41	150,337	7,120	157,457*
Andy Pymer	22	50,167	3,905	54,072
David Elliott	24	83,577	5,544	89,121
Sean Cater	22	54,265	5,444	59,709
Mark Watts	24	69,057	5,971	75,028

* Pension in payment

Executive Directors' Share Interests

Share Options

YTL Power International Berhad (the 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 of 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.

	Opening number 1/6/2012	Exercise price RM	Date of grant	Exercise date	Expiry date	Closing number 31/3/2013
Sean Cater	87,000	1.65	01/06/2012	01/06/2015	31/03/2021	87,000
Sean Cater	913,000	1.49	01/06/2012	01/06/2015	31/03/2021	913,000
David Elliott	87,000	1.65	01/06/2012	01/06/2015	31/03/2021	87,000
David Elliott	913,000	1.49	01/06/2012	01/06/2015	31/03/2021	913,000
Andy Pymer	87,000	1.65	01/06/2012	01/06/2015	31/03/2021	87,000
Andy Pymer	913,000	1.49	01/06/2012	01/06/2015	31/03/2021	913,000
Colin Skellett	87,000	1.65	01/06/2012	01/06/2015	31/03/2021	87,000
Colin Skellett	1,913,000	1.49	01/06/2012	01/06/2015	31/03/2021	1,913,000
Mark Watts	87,000	1.65	01/06/2012	01/06/2015	31/03/2021	87,000
Mark Watts	913,000	1.49	01/06/2012	01/06/2015	31/03/2021	913,000

Approved options were granted at an exercise price of RM1.65 and unapproved options at RM1.49. The share price at 31 March 2013 was RM1.46 or £0.31.

Share Warrants

YTL Power International Berhad issued share warrants in May 2008 at a price of RM0.10 that entitled the owner of the warrant to convert the warrant into ordinary shares of YTL Power International Berhad at an exercise price of RM1.21 over a period of 10 years.

	Exercise price RM	Date of grant	Expiry date	Opening number 31/3/2012	Closing number 31/3/2013
David Elliott	1.21	12/06/2008	11/06/2018	37,800	37,800
Mark Watts	1.21	12/06/2008	11/06/2018	37,800	37,800

Shares Held

The Executive Directors held the following ordinary shares of YTL Power International Berhad at the start and end of the accounting period.

	Opening number 31/03/2012	Closing number 31/03/2013
David Elliott	81,253	81,253
Andy Pymer	51,253	51,253
Mark Watts	333,553	333,353

Directors' report

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 2013. 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.

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 1.9% price increase for Wessex Water Services Ltd from 1 April 2012, before adjustment for inflation. The announcement also included price limits of 1.9% and 1.5%, before adjustment for inflation, for the years commencing 1 April 2013 and 2014 respectively.

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 special training facilities to enable them to compete or qualify for positions, or to progress, within the Company.

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.

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 Company's full 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 2013.

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 2013 trade creditors represented approximately 30 days trade purchases (2012 - 33 days). The Company does not follow any specific external code or standard on payment policy.

CHARITABLE DONATIONS

During the year £320,000 was donated to UK charities (2012 – £350,000) of which £255,000 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, as 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

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG Audit Plc will therefore continue in office.

By order of the Board
Andrew Phillips – Company Secretary
25 June 2013
Claverton Down
Bath BA2 7WW

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors of Wessex Water Services Ltd ("the Directors") have accepted responsibility for the preparation of these non-statutory accounts for the year ended 31 March 2013 on the basis set out in note 1a to the non-statutory accounts. These non-statutory accounts are intended by the Directors to give a true and fair view of the state of affairs of the Company and of the profit or loss for that period.

They have decided to prepare the non-statutory accounts in accordance with UK Accounting Standards (UK Generally Accepted Accounting Practice).

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.

INDEPENDENT AUDITOR'S REPORT TO THE DIRECTORS OF WESSEX WATER SERVICES LTD

We have audited the non-statutory accounts of Wessex Water Services Ltd for the year ended 31 March 2013 set out on pages 72 to 91. These non-statutory accounts have been prepared for the reasons set out in note 1a to the non-statutory accounts and on the basis of the financial reporting framework of UK Accounting Standards (UK Generally Accepted Accounting Practice) and as if applicable UK law applied to them.

As explained in note 1a, these non-statutory accounts have been prepared by the Directors of the Company for the year ended 31 March 2013, which is not the Company's statutory financial year, in order to comply with Condition F of the Instrument of Appointment by the Secretary of State for the Environment to Wessex Water Services Ltd as a water and sewerage undertaker under the Water Industry Act 1991 (the "Regulatory Licence"). Statutory accounts for the year to 30 June 2012 have been filed with the Registrar of Companies.

This report is made solely to the Company in accordance with the terms of our engagement. Our audit work has been undertaken so that we might state to the Company those matters we have been engaged to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and KPMG Audit Plc

As explained more fully in the Statement of Directors' Responsibilities on page 70, the Directors are responsible for the preparation of the non-statutory accounts, which are intended by them to give a true and fair view. Our responsibility is to audit, and express an opinion on, the non-statutory accounts in accordance with the terms of our engagement letter dated 9 May 2013 and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board (APB's) Ethical Standards for Auditors.

Scope of the audit of the non-statutory accounts

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

Opinion on the non-statutory accounts

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 2013 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006, as if those requirements were to apply.

Andrew Campbell-Orde (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
100 Temple Street
Bristol
BS1 6AG
25 June 2013

PROFIT AND LOSS ACCOUNT
For the year to 31 March 2013

	NOTE	2013 £m	2012 £m
Turnover	2	492.1	467.5
Operating costs	3	(268.1)	(248.5)
Operating profit	2	224.0	219.0
Interest payable and similar charges	4	(86.9)	(81.7)
Interest receivable	4	2.9	1.2
Other finance costs		(1.5)	(1.0)
Profit on ordinary activities before taxation		138.5	137.5
Taxation on profit on ordinary activities	5	(30.6)	(44.3)
Profit attributable to shareholders	19	107.9	93.2

The Company's turnover and operating profit were generated from continuing activities.

The accompanying notes on pages 75 to 91 are an integral part of this profit and loss account.

BALANCE SHEET
At 31 March 2013

	NOTE	2013 £m	2012 £m
Fixed assets			
Tangible assets	8	2,167.1	2,069.2
Investments	9	-	-
		2,167.1	2,069.2
Current assets			
Stock and work in progress	10	7.0	6.3
Debtors	11	162.6	153.9
Cash at bank and in hand	12	181.0	211.0
		350.6	371.2
Creditors - amounts falling due within one year	13	(198.8)	(171.7)
Net current assets	32	151.8	199.5
Total assets less current liabilities		2,318.9	2,268.7
Creditors - amounts falling due after more than one year	14	(1,891.5)	(1,811.9)
Provisions for liabilities and charges	15	(114.9)	(115.3)
Retirement benefit obligations	16	(93.1)	(83.0)
Deferred income	17	(17.2)	(17.9)
Net assets	2	202.2	240.6
Capital and reserves			
Called up equity share capital	18	81.3	81.3
Profit and loss account	19	120.9	159.3
Shareholders' funds	20	202.2	240.6

The accompanying notes are an integral part of this balance sheet.

The accounts on pages 72 to 91 were approved by the Board of Directors on 25 June 2013 and signed on its behalf by:

Colin Skellett
Chairman

Mark Watts
Director

Company Registration No. 2366648

CASH FLOW STATEMENT

For the year to 31 March 2013

	NOTE	Year to 31.03.13 £m	Year to 31.03.12 £m
Net cash inflow from operating activities	21	334.6	303.2
Returns on investments and servicing of finance	22	(80.0)	(79.2)
Taxation		(21.8)	(31.5)
Capital expenditure and financial investment	23	(215.4)	(149.7)
Dividends paid		(129.6)	(129.4)
Cash outflow before financing		(112.2)	(86.6)
Financing	24	79.0	222.2
(Decrease) / increase in cash		(33.2)	135.6
Reconciliation of cash movement to the movement in net debt			
(Decrease) / increase in cash – above		(33.2)	135.6
Movement in loans and leases		(79.0)	(222.2)
Movement in net debt	25	(112.2)	(86.6)
Opening net debt	25	(1,626.1)	(1,539.5)
Closing net debt	25	(1,738.3)	(1,626.1)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year to 31 March 2013

	Year to 31.03.13 £m	Year to 31.03.12 £m
Profit for the financial year	107.9	93.2
Total recognised gains relating to the financial year	107.9	93.2
Actuarial (loss) recognised in the pension scheme	(18.2)	(46.5)
Deferred tax arising on actuarial (loss) in the pension scheme	3.2	9.9
Total recognised gains and losses relating to the financial year	92.9	56.6

NOTES TO THE ACCOUNTS

For the year to 31 March 2013

1 Accounting policies

a. Basis of preparation

The financial statements have been prepared on a basis consistent with last year, under the historic cost convention, in accordance with applicable accounting standards in the United Kingdom and, except for the treatment of certain grants and contributions (see note 1e), in accordance with the Companies Act 2006.

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 31).

The non-statutory accounts do not constitute the Company's statutory accounts for the years ended 31 March 2013 or 2012. 31 March 2013 is not the accounting reference date for the Company. The latest statutory accounts of the Company were for the years ended 30 June 2012 and 30 June 2011. 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 2013.

As explained on page 68, 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.

b. Turnover

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 premesis are unoccupied or where no services are provided, charges are not raised and no turnover is recognised.

c. Tangible fixed assets and depreciation

Tangible fixed assets comprise infrastructure assets and other assets.

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

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

ii Other assets include properties, plant and equipment and are shown at cost less accumulated depreciation. Freehold land is not depreciated. Other assets are depreciated evenly over their estimated economic lives, which are principally as follows:

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

NOTES TO THE ACCOUNTS
continued

d. Leased assets
Where assets are financed by leasing arrangements which transfer substantially all the risks and rewards of ownership of an asset to the lessee (finance leases), the assets are treated as if they had been purchased and the corresponding capital cost is shown as an obligation to the lessor. Leasing payments are treated as consisting of a capital element and finance costs, the capital element reducing the obligation to the lessor and the finance charge being written off to the profit and loss account over the period of the lease in reducing amounts in relation to the outstanding obligations. The assets are depreciated over the shorter of their estimated useful lives and the period of the lease. All other leases are regarded as operating leases. Rental costs arising under operating leases are written off in the year they are incurred.

e. Grants and contributions
Grants and contributions in respect of specific expenditure on non-infrastructure fixed assets are treated as deferred income and recognised in the profit and loss account over the expected useful economic lives of the related assets (note 17). Grants and contributions relating to infrastructure assets have been deducted from the cost of those assets. This is not in accordance with the requirements of the Companies Act 2006 which requires assets to be stated at their purchase price or production cost, without deduction of grants and contributions, which would be accounted for as deferred income. The departure from the requirement of the Act is, in the opinion of the Directors, necessary to give a true and fair view, because infrastructure assets are not depreciated directly and accordingly the related grants and contributions would not be recognised through the profit and loss account. The effect on the value of fixed assets is disclosed in note 8.

f. 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.

g. Stock
Stock and work in progress are stated at the lower of cost and net realisable value. In respect of work in progress, cost includes labour, materials and attributable overheads.

h. Foreign currency
All transactions of UK companies denominated in foreign currencies are translated into sterling at the actual rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

i. Research and development
Research and development expenditure is written off in the year in which it is incurred.

j. Taxation
The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised with discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

k. Pensions
The Wessex Water Ltd Group operates a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Group. Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. The scheme has been closed to new members since 2009.

The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full. The movement in the scheme surplus/deficit is split between operating charges, finance items and, in the statement of total recognised gains and losses, actuarial gains and losses.

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

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

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

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

o. Dividends on shares presented within shareholders' funds
Dividends are proposed by the Board and immediately afterwards are authorised by the shareholder and therefore are recognised as a liability in the accounts until paid.

p. Share-based payments
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 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.

NOTES TO THE ACCOUNTS
continued

2 Segmental analysis

Substantially all of the turnover, operating profit and net assets derive from activities within the United Kingdom. Unregulated activities arise from the use of regulated assets, but are outside the price controls of the regulator.

	2013 £m	2012 £m
a. Turnover		
Regulated	486.6	462.4
Unregulated	5.5	5.1
	492.1	467.5
b. Operating profit		
Regulated	224.0	219.0
Unregulated	-	-
	224.0	219.0
c. Net assets		
Regulated	202.2	240.6
Unregulated	-	-
	202.2	240.6

3 Operating costs

	2013 £m	2012 £m
Manpower costs (note 6b)	51.7	45.3
Materials and consumables	29.1	26.7
Other operational costs	67.6	63.8
Depreciation	120.3	114.0
Amortisation of grants and contributions	(0.8)	(0.8)
Loss/(gain) on disposals of fixed assets	0.2	(0.5)
	268.1	248.5
Operating costs include:		
Operating leases for plant and machinery	1.5	1.2
Research and development	0.1	0.1
Directors' remuneration	2.1	1.8
Fees paid to the auditor	0.2	0.2

	2013 £000	2012 £000
Auditor's remuneration:		
Audit of these financial statements	141	146
All other services	38	88
	179	234

4 Net interest payable

	2013 £m	2012 £m
Interest payable:		
To Group Companies	81.5	74.5
On bank loans	4.7	6.3
On finance leases	0.7	0.9
Total interest payable	86.9	81.7
Interest receivable on short term bank deposits	(2.9)	(1.2)
Net interest payable	84.0	80.5

Interest payable to group companies relates to the bonds listed in note 14.

5 Taxation

	2013 £m	2012 £m
a. Taxation on profit on ordinary activities		
Current year corporation tax:		
UK corporation tax at 24% (2012 - 26%)	31.7	32.0
Adjustments in respect of previous years	(2.3)	(12.4)
Total corporation tax charge	29.4	19.6
Deferred tax – current year:		
Origination and reversal of timing differences	(8.8)	(16.3)
Decrease in discount	9.9	35.4
	1.1	19.1
Deferred tax – prior year:		
Origination and reversal of timing differences	0.3	7.2
(Increase) in discount	(0.2)	(1.6)
	0.1	5.6
Total deferred tax charge at 23% (2012 – 24%)	1.2	24.7
Taxation charge on profit on ordinary activities	30.6	44.3
b. Current tax reconciliation		
Profit on ordinary activities before tax	138.5	137.5
Current tax at 24% (2012 - 26%)	33.2	35.7
Group relief for nil consideration	(1.8)	(1.5)
Capital allowances less than depreciation	3.7	2.6
Payment of lease creditor capital	(1.6)	(1.7)
Other timing differences	(1.8)	(3.1)
Total corporation tax charge - as above	31.7	32.0

c. On 20 March 2013 the Chancellor announced the reduction in the corporation tax rate to 20% with effect from 1 April 2015. There is no change to the total corporation tax charge shown above, but there is a change to deferred taxation (see note 15b).

NOTES TO THE ACCOUNTS
continued

6 Employees

	2013 £m	2012 £m
a. Total employment costs of the Company were:		
Wages and salaries	61.1	55.3
Social security costs	5.5	5.0
Other pension costs	10.7	9.5
	77.3	69.8
b. Total employment costs are charged as follows:		
Capital schemes	25.6	24.5
Manpower costs (note 3)	51.7	45.3
	77.3	69.8

	2013 £000	2012 £000
c. Directors' remuneration:		
Total remuneration (including benefits in kind)	2,058	1,843
Highest paid Director (including benefits in kind)	487	487

Details of Directors' remuneration can be found in Governance Report - Remuneration Committee Report.

	2013 number	2012 number
d. Monthly average number of employees during the year	1,741	1,651

7 Dividends

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

	2013 £m	2012 £m
Dividends in respect of 2010-2011 not recognised as a liability in that year	-	21.0
Final dividend for the previous year	38.0	43.5
	38.0	64.5
Dividends for the current year	93.3	86.6
	131.3	151.1

In April 2013 a final dividend of £26.0m was declared in respect of the financial year just ended. This compares with a final dividend of £38.0m declared on the same basis in April 2012.

8 Tangible fixed assets

	Freehold land & buildings £m	Infra-structure assets £m	Plant machinery & vehicles £m	Other assets £m	Payments on account & assets in course of construction £m	Total £m
Cost						
At 1 April 2012	676.3	1,229.7	1,204.6	105.0	93.2	3,308.8
Additions	9.5	67.8	49.1	2.3	96.2	224.9
Transfers on commissioning	13.7	11.2	42.2	2.8	(69.9)	-
Disposals	(0.2)	-	(13.1)	(0.5)	-	(13.8)
Grants and contributions	-	(5.0)	-	-	-	(5.0)
At 31 March 2013	699.3	1,303.7	1,282.8	109.6	119.5	3,514.9
Depreciation						
At 1 April 2012	211.3	435.5	558.8	34.0	-	1,239.6
Charge for the period	13.7	43.2	56.8	6.6	-	120.3
Disposals	(0.1)	-	(11.5)	(0.5)	-	(12.1)
At 31 March 2013	224.9	478.7	604.1	40.1	-	1,347.8
Net book value						
At 31 March 2013	474.4	825.0	678.7	69.5	119.5	2,167.1
At 1 April 2012	465.0	794.2	645.8	71.0	93.2	2,069.2

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.

Other assets include furniture and fittings, laboratory and other equipment.

The net book value of assets held under finance leases is £40.4m (2012 - £46.7m).

The depreciation charge for the period on assets held under finance leases is £6.5m (2012 - £6.5m).

The net book value of infrastructure assets at 31 March 2013 is stated after the deduction of grants and contributions amounting to £131.8m (2012 - £126.8m) in order to give a true and fair view (note 1e).

Included in the cost of infrastructure assets is £491.6m (2012 - £442.1m) of expenditure on maintaining the network, and £478.7m (2012 - £435.5m) of depreciation included in the profit and loss account.

Included in freehold land and buildings above is an amount of £11.3m (2012 - £11.0m) in respect of land which is not depreciated.

NOTES TO THE ACCOUNTS
continued

9 Investments

The Company has an investment of £13,000 (2012 - £13,000) in 100% of the £1 ordinary shares of a subsidiary company, Wessex Water Services Finance Plc.

10 Stock and work in progress

	2013 £m	2012 £m
Raw materials and consumables	2.8	2.8
Work in progress	4.2	3.5
	7.0	6.3

11 Debtors – amounts falling due within one year

Trade debtors	48.9	48.1
Owed by Group Companies	31.8	35.0
Prepayments and accrued income	70.3	62.1
Other debtors	11.6	8.7
	162.6	153.9

12 Cash at bank and in hand

Short-term bank deposits	181.0	211.0
	181.0	211.0

£68.0m of short-term bank deposits mature within 1 month, £12.0m within 2 months, £23.0m within 4 months, £12.0m within 6 months, £46.0m within 7 months and £20.0m within 10 months.

13 Creditors – amounts falling due within one year

Bank overdraft	21.8	18.6
Inter-company loan	-	1.3
Obligations under finance leases	7.0	6.3
Trade creditors	4.3	3.1
Amounts owed to Subsidiary Company	18.9	14.2
Amounts owed to other Group Companies	0.6	0.6
Amounts owed to Associate Company	0.7	0.2
Dividend	23.3	21.7
Other creditors	2.4	2.0
Corporation tax	16.7	9.2
Taxation and social security	1.9	1.7
Accruals and deferred income	101.2	92.8
	198.8	171.7

The inter-company loan was due to a fellow subsidiary company SC Technology GmbH and has been repaid.

14 Creditors – amounts falling due after more than one year

		2013 £m	2012 £m
Loans repayable	- in more than 1 year, but not more than 2 years	-	50.0
	- in more than 2 years, but not more than 5 years	100.0	100.0
	- in more than 5 years	215.0	215.0
		315.0	365.0
Finance lease repayable	- in more than 1 year, but not more than 2 years	7.8	7.1
	- in more than 2 years, but not more than 5 years	29.1	26.7
	- in more than 5 years	14.7	24.9
		51.6	58.7
Inter-company loans	- in more than 5 years	1,523.9	1,387.2
Other		1.0	1.0
		1,891.5	1,811.9

The inter-company loans are due to a subsidiary company Wessex Water Services Finance Plc in respect of the proceeds of the following bond issues lent to the Company:

Bond at 5.375% repayable in March 2028	198.4	198.3
Bond at 5.75% repayable in October 2033	346.3	346.1
Bond at 4.0% repayable in September 2021	305.7	197.5
Index Linked bonds		
At 3.52% plus inflation repayable in July 2023	69.0	65.9
At 2.186% plus inflation repayable in June 2039	57.4	55.8
At 1.75% plus inflation repayable in July 2046	92.9	88.6
At 1.75% plus inflation repayable in July 2051	92.8	88.6
At 1.369% plus inflation repayable in July 2057	92.9	88.6
At 1.374% plus inflation repayable in July 2057	92.8	88.6
At 1.489% plus inflation repayable in November 2058	58.5	56.4
At 1.495% plus inflation repayable in November 2058	58.6	56.4
At 1.499% plus inflation repayable in November 2058	58.6	56.4
	1,523.9	1,387.2

NOTES TO THE ACCOUNTS
continued

15 Provisions for liabilities and charges

	Deferred tax £m	Restructuring costs £m	Total £m
At 1 April 2012	115.1	0.2	115.3
Provided in year	-	-	-
Utilised during year	-	(0.1)	(0.1)
Origination and reversal of timing differences	(9.9)	-	(9.9)
Decrease in discount	9.6	-	9.6
At 31 March 2013	114.8	0.1	114.9

	2013 £m	2012 £m
a. Deferred tax is provided as follows:		
Accelerated capital allowances	251.6	261.6
Other timing differences	(0.7)	(0.8)
Undiscounted provision for deferred tax	250.9	260.8
Discount	(136.1)	(145.7)
Discounted provision for deferred tax	114.8	115.1

b. On 20 March 2013 the Chancellor announced the reduction in the corporation tax rate to 20% with effect from 1 April 2015, but these changes were not substantially enacted by 31 March 2013, and the impact has not been included above. Had this change been enacted at the balance sheet date the deferred tax provision above would have decreased by £17.0m to £97.8m, and the deferred tax asset (note 16) would have decreased by £3.5m to £23.9m.

16 Pension liability

FRS 17 pension liability (note 16e)	119.3	107.5
FRS 17 deferred tax asset	(27.4)	(25.7)
Unfunded and compensatory added years pension	1.2	1.2
	93.1	83.0

a. The defined benefit scheme operated by the Group, which covers the majority of staff, is the Wessex Water Pension Scheme (WWPS). The assets are held in separate trustee administered funds. The pension cost charged to the profit and loss account has been determined on the advice of independent qualified actuaries and is such as to spread the cost of pensions over the service lives of the members of the scheme. The scheme has been closed to new members.

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

b. The total pension cost of the Company under FRS 17, including amounts set aside for employees retiring early and other finance income, was £12.2m (2012 - £10.5m).

c. The latest actuarial valuation for WWPS was undertaken at 31 December 2010. The assumptions which have the most significant effect on the results of a valuation are those relating to the discount rate for scheme liabilities and the rate of increase in salaries and pensions. It was assumed that the pre retirement discount rate would be 6.3% and the post retirement discount rate 5.3%, that salary increases would be 3.5% per annum in year 1, 3.0% in years 2 and 3 and 4.3% thereafter and that present and future pensions would increase between 2.2% and 3.3% per annum. The market value of the WWPS assets as at 31 December 2010 was £345.3m which represented 81.2% of the actuarial value of the accrued benefits of £425.2m, a deficit of £79.9m. The next actuarial valuation will be at 31 December 2013.

In response to this valuation the Company has agreed to pay additional contributions of £8.6m per annum at 31 March 2012, and at 31 March for a further 9 years.

d. The actuarial valuation described above has been updated to 31 March 2013 by a qualified actuary using revised assumptions that are consistent with the requirements of FRS 17. Investments have been valued, for this purpose, at fair value. The major assumptions used by the actuary were:

	31.03.13	31.03.12
Rate of increase in salaries – short term	2.15% and 3.4%	2.9%
Rate of increase in salaries – long term	4.2%	4.2%
Rate of increase in pensions in payment	2.4% or 3.2%	2.4% or 3.2%
Rate of increase in pensions in payment (reduced level members)	2.2%	2.2%
Discount rate	4.4%	4.8%
Inflation assumption - RPI	3.4%	3.4%
Inflation assumption - CPI	2.4%	2.4%

The mortality assumptions are based upon the recent actual mortality experience of members within the scheme, and the assumptions also allow for expected future mortality improvements. The assumptions are that a member currently aged 60 will live, on average, for a further 27.1 years if they are male, and for a further 28.9 years if they are female. For a member who retires in 2033 at age 60 the assumptions are that they will live, on average, for a further 28.7 years after retirement if they are male, and for a further 30.5 years after retirement if they are female.

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 4.4% to 4.3% would increase the scheme liabilities by £10.2m from £552.3m to £562.5m, increasing the scheme deficit to £129.5m. An increase in the inflation assumption of 0.1% (from 2.4% to 2.5% for CPI and 3.4% to 3.5% for RPI) would increase the scheme liabilities by £9.1m from £552.3m to £561.4m, increasing the scheme deficit to £128.4m.

e. The value of the assets and liabilities at 31 March 2013 and the previous year was as follows:

	31.03.13 £m	31.03.12 £m
Equities	184.1	180.2
Property	44.7	27.6
Government bonds	112.2	92.5
Corporate bonds	82.5	81.4
Other	9.5	9.2
Total fair value of the assets	433.0	390.9
Present value of defined benefit obligations	(552.3)	(498.4)
Deficit in the scheme	(119.3)	(107.5)

The expected rates of return were as follows:

	31.03.13 %	31.03.12 %
Equities	7.8	8.1
Property	7.1	7.1
Government bonds	2.8	3.1
Corporate bonds	3.8	4.1
Other	0.8	1.8
Total	5.5	5.9

NOTES TO THE ACCOUNTS
continued

Narrative description of the basis used to determine expected value:
Wessex Water Services Ltd employs a building block approach in determining the long-term rate of return on pension plan assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed long-term rate of return of each asset class is set out within this note. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the scheme as at 31 March 2013.

f. Additional analysis:

	31.03.13 £m	31.03.12 £m
Analysis of profit and loss charge		
Current service cost	10.5	9.2
Past service cost	0.2	0.3
Interest cost	23.8	23.6
Expected return on scheme assets	(22.3)	(22.6)
Expense recognised in profit and loss account	12.2	10.5
Changes to the present value of defined benefit obligations during the year		
Opening present value of defined benefit obligations	498.4	424.8
Current service cost	10.5	9.2
Interest cost	23.8	23.6
Contributions by scheme participants	0.2	0.3
Actuarial losses on scheme liabilities	35.8	55.2
Net benefits paid out	(16.6)	(15.0)
Past service cost	0.2	0.3
Closing present value of defined benefit obligations	552.3	498.4
Changes to the fair value of scheme assets during the year		
Opening fair value of scheme assets	390.9	355.2
Expected return on scheme assets	22.3	22.6
Actuarial gains on scheme assets	17.6	8.7
Contributions by the employer	18.6	19.1
Contributions by scheme participants	0.2	0.3
Net benefits paid out	(16.6)	(15.0)
Closing fair value of scheme assets	433.0	390.9
Actual return on scheme assets		
Expected return on scheme assets	22.3	22.6
Actuarial gains on scheme assets	17.6	8.7
Actual return on scheme assets	39.9	31.3
Analysis of amounts recognised in Statement of Total Recognised Gains and Losses		
Total actuarial losses	(18.2)	(46.5)
Cumulative amount of losses recognised	(155.6)	(137.4)

History of asset values, defined benefit obligations, deficit in the scheme and experience gains and losses	31.03.13 £m	31.03.12 £m	31.03.11 £m	31.03.10 £m	31.03.09 £m
Fair value of scheme assets	433.0	390.9	355.2	325.9	256.9
Present value of scheme liabilities	(552.3)	(498.4)	(424.8)	(405.8)	(303.8)
(Deficit) in the scheme	(119.3)	(107.5)	(69.6)	(79.9)	(46.9)
Experience gains/(losses) on scheme assets	17.6	8.7	3.6	44.2	(64.6)
Experience (losses)/gains on scheme liabilities	(5.0)	-	9.1	4.3	(1.1)

17 Deferred income

	2013 £m	2012 £m
Grants and contributions:		
At 1 April	17.9	18.7
Received in the year	0.1	-
Less amortisation	(0.8)	(0.8)
At 31 March	17.2	17.9

18 Called up equity share capital

81,350,000 ordinary shares of £1 each: Allotted, called up and fully paid	81.3	81.3

19 Profit and loss account

At 1 April	159.3	253.8
Actuarial losses net of taxation	(15.0)	(36.6)
Profit attributable to shareholders	107.9	93.2
Dividends (note 7)	(131.3)	(151.1)
At 31 March	120.9	159.3

NOTES TO THE ACCOUNTS
continued

20 Shareholders' funds

	2013 £m	2012 £m
At 1 April	240.6	335.1
Actuarial losses net of taxation	(15.0)	(36.6)
Profit attributable to shareholders	107.9	93.2
Dividends (note 7)	(131.3)	(151.1)
At 31 March	202.2	240.6

21 Reconciliation of operating profit to net cash inflow from operating activities

	Year to 31.03.13 £m	Year to 31.03.12 £m
Operating profit	224.0	219.0
Depreciation	120.3	114.0
Amortisation of grants and contributions	(0.8)	(0.8)
Provisions	(8.2)	(9.2)
Loss/(profit) on disposal of fixed assets	0.2	(0.5)
(Increase) in stocks	(0.7)	(1.1)
(Increase) in debtors	(8.8)	(22.1)
Increase in creditors	8.6	3.9
	334.6	303.2

22 Returns on investments and servicing of finance

Interest received	2.9	0.7
Interest paid	(81.9)	(78.8)
Interest element of finance lease rentals	(1.0)	(1.1)
	(80.0)	(79.2)

23 Capital expenditure and financial investment

Purchase of tangible fixed assets	(222.0)	(158.3)
Sale of tangible fixed assets	1.4	3.0
Connection charges, grants and deferred income	5.2	5.6
	(215.4)	(149.7)

24 Financing

Loans and finance leases drawn down	108.5	197.4
Loans and finance leases repaid	(57.7)	(5.6)
Bond non cash movements	28.2	30.4
	79.0	222.2

25 Movement in net debt

	1 April 2012 £m	Cash flow £m	Non cash items £m	31 March 2013 £m
Cash at bank and in hand	211.0	(30.0)	-	181.0
Bank overdraft	(18.6)	(3.2)	-	(21.8)
Short-term borrowings	(1.3)	1.3	-	-
Loans repayable after one year	(365.0)	50.0	-	(315.0)
Finance leases repayable within one year	(6.3)	(0.7)	-	(7.0)
Finance leases repayable after one year	(58.7)	7.1	-	(51.6)
Bonds repayable after one year	(1,387.2)	(108.5)	(28.2)	(1,523.9)
	(1,626.1)	(84.0)	(28.2)	(1,738.3)

26 Financial instruments

Short-term debtors and creditors have been excluded from the financial instruments disclosure other than £28.8m (2012 - £26.2m) of short-term borrowings.

The Company has financed its activities through a combination of short-term borrowings, long-term loans and leases and bonds issued by its subsidiary company Wessex Water Services Finance Plc. At 31 March 2013 there were £25.0m (2012 - £25.0m) of undrawn facilities. The Company may use derivative financial instruments to reduce the exposure to foreign currency fluctuations and to limit the exposure to floating interest rates.

a. Interest rate and currency exposure

	Fixed rate borrowings 2013 £m	Floating rate borrowings 2013 £m	Total borrowings 2013 £m	Fixed rate borrowings 2012 £m	Floating rate borrowings 2012 £m	Total borrowings 2012 £m
Sterling	1,523.9	395.4	1,919.3	1,387.2	449.9	1,837.1

The average interest rates and average period to maturity of the fixed rate borrowings are as follows:

	Interest rate % 2013	Period years 2013	Interest rate % 2012	Period years 2012
Sterling	3.8	25.1	3.8	27.1

£28.8m (2012 - £26.2m) of floating rate borrowings are short term, and £366.6m (2012 - £423.7m) are long term with interest rates moving in line with LIBOR.

NOTES TO THE ACCOUNTS
continued

b. Fair values

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.

	Book value £m 2013	Fair value £m 2013	Book value £m 2012	Fair value £m 2012
Borrowings less than 1 year	28.8	28.8	26.2	26.2
Floating rate borrowings over 1 year	366.6	366.6	423.7	423.7
Fixed rate borrowings over 1 year	1,523.9	1,928.1	1,387.2	1,661.8
	1,919.3	2,323.5	1,837.1	2,111.7

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.

27 Share-based payments

YTL Power International Berhad (a parent company and subsidiary of the ultimate parent company 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 the Inland Revenue, the "Approved" scheme, but some are 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.

Granted – Ordinary shares of RM0.50 each	Outstanding at 31 March 2012	Granted 1 June 2012	Forfeited	At 31 March 2013
01/06/2012 Unapproved	-	9,997,000	(452,000)	9,545,000
01/06/2012 Approved	-	41,919,000	(620,000)	41,299,000
TOTAL	-	51,916,000	(1,072,000)	50,844,000

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

Granted – Ordinary shares of RM0.50 each	Vesting date	Expiry date	Exercise price RM	Fair value RM
01/06/2012 Unapproved	01/06/2015	31/03/2021	1.49	0.22
01/06/2012 Approved	01/06/2015	31/03/2021	1.65	0.16

Under FRS 20 equity settled share-based payments are measured at the fair value at the date of the grant, and the fair value is expensed on a straight line basis through to the exercise date. 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

28 Commitments and guarantees

a. There were £0.1m (2012 - £0.1m) of operating leases under leases on land and buildings due within the next year, which expire in over 5 years. There were no other commitments under operating leases.

b. At 31 March 2013 the Company had no interest rate and currency instrument agreements outstanding with commercial banks (2012 - nil).

c. Capital expenditure contracted but not provided at 31 March 2013 was £101.2m (2012- £97.0m).

d. The Company has guaranteed bonds of £1,523.9m (2012 - £1,387.2m) issued by its wholly owned subsidiary company Wessex Water Services Finance Plc.

29 Contingent liabilities

There are no material contingent liabilities at 31 March 2013 for which provision has not been made in these accounts.

30 Related parties

There are no related party transactions requiring disclosure in these accounts. As the Company is a wholly owned subsidiary of Wessex Water Ltd (see note 31), the Company has taken advantage of the exemption contained in FRS 8 'Related Party Transactions' and has therefore not disclosed transactions or balances with entities which form part of the Group.

31 Ultimate parent company

The smallest group into which the accounts of the Company will be consolidated is that headed by Wessex Water Ltd, a company incorporated in the United Kingdom whose registered address is Wessex Water Operations Centre, Claverton Down Road, Claverton Down, Bath, BA2 7WW.

The ultimate parent company is YTL Corporation Berhad, which is incorporated in Malaysia under the Companies Act 1965, whose registered address is Yeoh Tiong Lay Plaza, 55 Jalan Bukit Bintang, 55100 Kuala Lumpur, Malaysia.

32 Going concern

The Directors have considered the financial position of the Company and have concluded that it will be able to meet its 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.

REGULATORY ACCOUNTS

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 Regulatory 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 100 to 114.

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 2013. 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 2014 and the business plan model through to March 2015. 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 5.05 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. Andy Pymer is also a Director of Bristol Wessex Billing Services Ltd. Sean Cater is also a Director of Wessex Water Enterprises 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 2013.

The Directors also confirm that, except for the departure explained in note 1e on page 76 to the financial statements, and 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 100 to 114 do not constitute the Company's statutory accounts for the years ended 31 March 2013 or 2012. 31 March 2013 is not the accounting reference date for the Company. The latest statutory accounts of the Company were for the years ended 30 June 2012 and 2011. 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 2013.

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, except for the treatment of certain grants and contributions (see note 1e on page 76). The principal accounting policies are described on pages 75 to 77.

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 102.

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.

DIRECTORS' RESPONSIBILITIES AND ACCOUNTING POLICIES continued

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.

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.

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.

The principles laid out above apply to both new and existing premises.

Current cost statements
The principal accounting policies are described on page 105.

The effect of not applying FRS15 in respect of infrastructure renewals accounting, has been to reduce fixed assets by £12.9m (2012 - £6.6m) and increase working capital by the same amount. Within fixed assets the impact has been to reduce cost by £491.6m (2012 - £442.1m) and reduce accumulated depreciation by £478.7m (2012 - £435.5m).

Reconciliation to the non-statutory accounts
In the non-statutory accounts the Company has continued to capitalise customer pipe leak repairs. The impact is to increase historic cost profit after tax and to increase historic cost net assets as shown on page 102.

ACCOUNTING SEPARATION METHODOLOGY STATEMENT

Our methodology and corporate finance systems are aligned with the RAG 4.04-guideline for the definitions for the regulatory accounts tables.

Over time our corporate financial system has been enhanced to construct the accounting separation dataset directly. This has allowed a greater level of transparency and interrogation with fewer requirements for manual intervention.

We have been members since its inception of Ofwat's accounting separation working group that supports further refinement and evolution of the accounting separation data.

In common with other companies our approach to accounting separation in 2011-12 was subject to external review in 2013 by Ernst and Young on behalf of Ofwat. Ofwat has since confirmed that the review found no areas where we did not comply with the published guidance.

Changes for 2012-13

Our methodology is unchanged compared to 2011-12 although we continue to enhance the data held on core systems so that the need to make further manual adjustments to data for compliance with the requirements of RAG4.04 lessens over time.

We have updated some of our allocation of costs to take into account changed guidance from Ofwat on the boundary between retail and non-retail business units. In particular:

- costs associated with the installation, maintenance and repair of customer meters are now allocated in full to the wholesale business
- the physical cost of newly connecting a property to the water supply and/or sewerage network is allocated to the wholesale business.

General approach

All costs are booked against cost centres and an associated 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, eg, 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.

Over time we are also making 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 unit. 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, and sludge disposal. 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 unit without any manual intervention.

ACCOUNTING SEPARATION METHODOLOGY STATEMENT continued

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. In other areas we use the most appropriate based on the drivers of these costs, for instance:

- the energy management team costs are apportioned based on power spend
- guaranteed standards scheme payments are allocated to the distribution or sewerage business unit by a detailed analysis derived directly from the finance system
- Human Resources, Information Services and other Central Services are apportioned on the basis of full-time employees.

Some specific costs are not allocated to the Ofwat requirements in the corporate finance system. Subsequently, it has been necessary to make a small number of manual adjustments. We make such adjustments where we consider:

- the initial analysis is materially inconsistent with Ofwat guidance, eg, all fisheries costs charged to third party services rather than direct costs of resources
- where costs have continued to be coded to the general process cost code that are known to relate to more than one business unit, eg, power costs at works that undertake activities that fall within both sewage treatment and sludge treatment business units. The allocation is based on a bottom up assessment of energy use at each relevant site.

An allocation is also made to other central costs. This support function includes Chairman, Legal and Finance teams. This has been left as the last apportionment as it is allocated based on total operating costs less local authority rates and service charges.

Although we have a short length of raw water aqueduct no customers are supplied with raw water. As such we do not believe a viable separated raw water distribution business unit exists within our boundary.

Historically, we have aimed to identify specific operating costs that are identifiable as raw water distribution; however, the only material opex 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 from 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.

Retail costs

The Ofwat review of 2012 focused particularly on the split of costs between wholesale and retail costs, and within retail on the split between household and non-household. The review found no issues with the way we allocated costs.

We have made no changes to our methodology from 2011-12 except where Ofwat guidance has been subsequently updated.

Around one third of total retail costs is invoiced to Wessex Water Services Ltd (WWSL) by Bristol Wessex Billing Services Ltd (BWBSL), an associate of WWSL, for billing and debt recovery services.

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.

Legacy systems and structures within BWBSL are not set up so that workflows can readily be identified as either non-household or household. Most BWBSL departments deal with both household and non-household customers. By contrast processes are often different for dealing with metered and unmetered customers. Structures and systems are set up accordingly and workflows are therefore more readily identifiable as being driven by metered and unmetered customers.

For this reason BWBSL finds it helpful when analysing costs between household and non-household to split costs of departments firstly into metered or unmetered. Where the department deals with both metered and unmetered, customer costs are allocated based on appropriate cost drivers.

Where departments are 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 for instance.

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 costs are allocated on the same basis as described for the wholesale business units.

The costs attributable to doubtful debts (£11.2m) are split between household and non-household based on the collectability of debt in each sector.

Operational customer services costs are included within Customer Services and include the costs of visits to customers from operational staff driven by a customer contact, as well as the costs of handling calls and correspondence on operational matters.

Other operating expenditure (£3.1m) includes the full cost of repairing and/or replacing customers' service pipes where there are leaks, the costs of sampling at customer taps, the costs of trade effluent officers who raise bills for trade effluent customers, the costs of sampling effluent flows for billing purposes and the costs of the water efficiency initiatives.

One change in the regulated accounting guidelines for 2012-13 reporting has seen the cost of making the physical new connections being charged to treated water distribution activity, whereas it had previously been reported as a retail activity. The value for 2012-13 of the costs of the new connections was £1.9m.

Gross replacement cost and current cost depreciation (CCD)

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 asset is located.

Current cost depreciation is calculated by our corporate financial system on a per-asset basis after annual indexation for RPI and (if applicable) MEA adjustments.

We have split the assets and associated CCD into household and non-household within the retail table according to the number of customers served.

For 2012-13 the methodology guidance has been amended resulting in meters being allocated in full to treated water distribution rather than the retail business unit.

Infrastructure renewals charge (IRC)

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 1990s.

As expected the vast majority of IRC is allocated to the sewerage and distribution networks.

Regulatory accounting

INDEPENDENT AUDITOR'S REPORT TO THE WATER SERVICES REGULATORY AUTHORITY AND THE DIRECTORS OF WESSEX WATER SERVICES LTD

We have audited the regulatory accounts of Wessex Water Services Ltd for the year ended 31 March 2013 on pages 100 to 112 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 non-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 Water Services Regulatory Authority (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 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 KPMG Audit Plc

As explained more fully in the Statement of Directors' Responsibilities set out on page 93, 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 non-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 & 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 93, 94 and 105, the state of the Company's affairs at 31 March 2013 on a 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 non-statutory financial statements of the Company and have not been prepared under the basis of United Kingdom Generally Accepted Accounting Practice ('UK GAAP'). Financial information other than that prepared on the basis of UK GAAP does not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in non-statutory financial statements prepared as if the requirements of the Companies Act 2006 applied to them. Furthermore, the regulatory historical cost accounting statements on pages 100 to 102 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 Financial Reporting Standards 12 and 15 be disapplied. The effect of this departure from UK GAAP and a reconciliation of the balance sheet drawn up on this basis to the balance sheet drawn up as if the requirements of the Companies Act 2006 applied to them is given on page 102.

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 non-statutory financial statements of the Company for the year ended 31 March 2013 on which we report, which are prepared for a different purpose. Our audit report in relation to the non-statutory financial statements of the Company (our 'non-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 non-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 non-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 non-statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Our opinion on the non-statutory accounts, whilst separate from our opinion on the regulatory accounts for the year ended 31 March 2013, will be provided to allow the Company's regulatory accounts to be reconciled to the historical cost accounts of the Company.

Andrew Campbell-Orde (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
100 Temple Street
Bristol
BS1 6AG
25 June 2013

HISTORICAL COST PROFIT AND LOSS ACCOUNT

For the year to 31 March 2013

	2013 Appointed £m	2013 Non-appointed £m	2013 Total £m	2012 Appointed £m	2012 Non-appointed £m	2012 Total £m
Turnover	486.6	5.5	492.1	462.4	5.1	467.5
Operating costs	(145.5)	(5.5)	(151.0)	(133.3)	(5.1)	(138.4)
Infrastructure renewals	(43.2)	-	(43.2)	(40.3)	-	(40.3)
Depreciation	(76.3)	-	(76.3)	(72.9)	-	(72.9)
Operating income	(0.2)	-	(0.2)	0.5	-	0.5
Operating profit	221.4	-	221.4	216.4	-	216.4
Other income	0.3	-	0.3	0.3	-	0.3
Net interest	(85.5)	-	(85.5)	(81.5)	-	(81.5)
Profit on ordinary activities before taxation	136.2	-	136.2	135.2	-	135.2
Current taxation	(29.4)	-	(29.4)	(19.6)	-	(19.6)
Deferred taxation	(1.2)	-	(1.2)	(24.7)	-	(24.7)
Profit for the year	105.6	-	105.6	90.9	-	90.9
Ordinary dividend	(131.3)	-	(131.3)	(151.1)	-	(151.1)
Retained profit for year	(25.7)	-	(25.7)	(60.2)	-	(60.2)

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

For the year to 31 March 2013

	2013 Appointed £m	2012 Appointed £m
Profit for the year	105.6	90.9
Actuarial losses net of tax	(15.0)	(36.6)
Total recognised gains	90.6	54.3

HISTORICAL COST BALANCE SHEET

At 31 March 2013

	2013 Appointed £m	2012 Appointed £m
Fixed assets		
Tangible fixed assets	2,128.2	2,038.9
Current assets		
Infrastructure renewals prepayment	12.9	6.6
Other	350.6	371.2
	363.5	377.8
Creditors - amounts falling due within one year		
Borrowings	(28.8)	(26.2)
Other creditors	(169.5)	(145.0)
	(198.3)	(171.2)
Net current assets	165.2	206.6
Total assets less current liabilities	2,293.4	2,245.5
Creditors - amounts falling due after more than one year		
Borrowings	(1,890.5)	(1,810.9)
Other creditors	(1.0)	(1.0)
	(1,891.5)	(1,811.9)
Provisions for liabilities and charges	(225.2)	(216.2)
Net assets employed	176.7	217.4
Capital and reserves	176.7	217.4
Capital and reserves	176.7	217.4

There are no assets, liabilities or shareholders' funds attributed to the non-appointed business at either year end.

The regulatory information on pages 100 to 114 was approved by the Board of Directors on 25 June 2013.

Colin Skellett
Chairman

Mark Watts
Director

RECONCILIATION FROM REGULATORY ACCOUNTS TO NON-STATUTORY ACCOUNTS At 31 March 2013

	2013 £m	2012 £m
Profit and loss account		
Profit for the year – regulatory accounts	105.6	90.9
Operating costs – capitalisation of customer pipe leak repairs	2.3	2.3
Profit attributable to shareholders – non-statutory accounts UK GAAP	107.9	93.2
Balance sheet		
(a) Fixed assets		
Regulatory accounts	2,128.2	2,038.9
Capitalisation of customer pipe leak repairs – current year	2.3	2.3
Capitalisation of customer pipe leak repairs – prior years	23.7	21.4
Infrastructure renewals expenditure under FRS 15	12.9	6.6
Non-statutory accounts UK GAAP	2,167.1	2,069.2
(b) Current assets		
Regulatory accounts	363.5	377.8
Infrastructure renewals expenditure under FRS 15	(12.9)	(6.6)
Non-statutory accounts UK GAAP	350.6	371.2
(c) Creditors – amounts falling due within one year		
Regulatory accounts	(198.3)	(171.2)
Tax adjustment on prior year customer pipe leak repairs	(0.5)	(0.5)
Non-statutory accounts UK GAAP	(198.8)	(171.7)
(d) Capital and reserves		
Regulatory accounts	176.7	217.4
Capitalisation of customer pipe leak repairs – current year	2.3	2.3
Capitalisation of customer pipe leak repairs – prior years	23.2	20.9
Non-statutory accounts UK GAAP	202.2	240.6

CURRENT COST PROFIT AND LOSS ACCOUNT FOR APPOINTED BUSINESS For the year to 31 March 2013

	2013 Water £m	2013 Sewerage £m	2013 Total £m	2012 Water £m	2012 Sewerage £m	2012 Total £m
Turnover						
Unmeasured – household	68.0	138.7	206.7	65.0	135.5	200.5
Unmeasured – non-household	2.5	3.6	6.1	2.4	3.7	6.1
Measured – household	54.2	101.2	155.4	48.8	92.5	141.3
Measured – non-household	38.6	48.3	86.9	39.0	46.1	85.1
Trade effluent	-	4.0	4.0	-	4.3	4.3
Bulk supplies	0.2	-	0.2	0.3	-	0.3
Other third party services	0.1	1.1	1.2	0.1	0.9	1.0
Other sources	12.9	13.2	26.1	11.7	12.1	23.8
Total turnover	176.5	310.1	486.6	167.3	295.1	462.4
Operating costs – wholesale	(105.4)	(162.1)	(267.5)	(93.8)	(151.3)	(245.1)
Operating costs – retail	(14.2)	(16.4)	(30.6)	(14.2)	(18.5)	(32.7)
Operating income	(0.6)	(0.3)	(0.9)	(0.4)	(0.4)	(0.8)
Working capital adjustment	(0.3)	(0.9)	(1.2)	(0.3)	(0.7)	(1.0)
Current cost operating profit	56.0	130.4	186.4	58.6	124.2	182.8
Other income			0.3			0.3
Net interest			(85.5)			(81.5)
Financing adjustment			32.2			33.0
Current cost profit before taxation			133.4			134.6
Net revenue movement out of tariff basket	0.3	0.4	0.7	(0.1)	(0.5)	(0.6)
Back-billing amount identified	-	-	-	-	-	-

The accompanying notes on pages 105 to 112 form part of the current cost regulatory accounts.

CURRENT COST CASH FLOW STATEMENT

For the year to 31 March 2013

	2013 Appointed £m	2012 Appointed £m
Current cost operating profit	186.4	182.8
Working capital adjustment	1.2	1.0
Movement in working capital	2.1	3.1
Other income	0.3	0.3
Current cost depreciation	109.4	104.2
Current cost loss on disposal of fixed assets	0.9	0.8
Infrastructure renewals charge	43.2	40.3
Movement in provisions	(11.2)	(31.6)
Net cash inflow from operating activities	332.3	300.9
Returns on investments and servicing of finance	(80.0)	(79.2)
Taxation paid	(21.8)	(31.5)
Capital expenditure and financial investment		
Gross cost of purchase of fixed assets	(170.2)	(110.9)
Receipt of grants and contributions	5.2	5.6
Infrastructure renewals expenditure	(49.5)	(45.1)
Disposal of fixed assets	1.4	3.0
Movement on long term group loans to group companies	136.7	227.8
Net cash (outflow)/inflow from investing activities	(76.4)	80.4
Acquisitions and disposals	-	-
Equity dividends paid	(129.6)	(129.4)
Management of liquid resources	-	-
Net cash inflow before financing	24.5	141.2
Financing	(57.7)	(5.6)
(Decrease)/increase in cash	(33.2)	135.6

The analysis of net debt is shown in note 25 to the non-statutory accounts.

NOTES TO THE CURRENT COST STATEMENTS

For the year to 31 March 2013

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 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.

NOTES TO THE CURRENT COST STATEMENTS

continued

4 OPERATING COST ANALYSIS for the year to 31 March 2013 – Wholesale business

	Water					Sewerage					
	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
Operating expenditure											
Power	1.5	-	3.6	1.1	6.2	3.6	11.0	0.8	-	15.4	**21.6**
Income treated as negative expenditure	-	-	-	-	-	-	-	-	-	-	-
Service charges	2.2	-	0.1	-	2.3	0.8	2.1	-	-	2.9	**5.2**
Bulk supply imports	-	-	1.1	-	1.1	-	-	-	-	-	**1.1**
Other operating expenditure	1.9	-	7.8	12.0	21.7	12.1	16.4	7.6	4.4	40.5	**62.2**
Local authority rates	0.7	-	1.3	11.9	13.9	0.1	7.8	1.7	-	9.6	**23.5**
Exceptional items	-	-	-	-	-	-	-	-	-	-	-
Total operating expenditure	**6.3**	**-**	**13.9**	**25.0**	**45.2**	**16.6**	**37.3**	**10.1**	**4.4**	**68.4**	**113.6**
Capital maintenance											
Infrastructure renewals charge	0.8	-	-	22.7	23.5	18.7	0.9	0.1	-	19.7	**43.2**
Current cost depreciation	4.2	-	12.8	16.9	33.9	10.7	51.3	10.2	2.6	74.8	**108.7**
Recharges to other business units	-	-	-	-	-	-	-	-	-	-	-
Recharges from other business units	-	-	-	-	-	-	-	-	-	-	-
Amortisation of deferred credits	-	-	-	(0.2)	(0.2)	(0.6)	(0.4)	-	-	(1.0)	**(1.2)**
Amortisation of intangible assets	-	-	-	-	-	-	-	-	-	-	-
Total capital maintenance	**5.0**	**-**	**12.8**	**39.4**	**57.2**	**28.8**	**51.8**	**10.3**	**2.6**	**93.5**	**150.7**
Third party services											
Operating expenditure	0.7	-	-	2.3	3.0	0.2	-	-	-	0.2	**3.2**
Infrastructure renewals charge	-	-	-	-	-	-	-	-	-	-	-
Current cost depreciation	-	-	-	-	-	-	-	-	-	-	-
Total operating costs	**12.0**	**-**	**26.7**	**66.7**	**105.4**	**45.6**	**89.1**	**20.4**	**7.0**	**162.1**	**267.5**

5 CURRENT COST ANALYSIS OF FIXED ASSETS – at 31 March 2013 – Wholesale business

	Water					Sewerage					
	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**
Non-Infrastructure assets											
Gross replacement cost											
At 1 April 2012	179.1	1.6	466.3	606.1	1,253.1	411.7	1,844.4	306.1	70.5	2,632.7	**3,885.8**
AMP adjustment	-	-	-	-	-	-	-	-	-	-	-
Reclassification adjustment	-	-	-	-	-	-	-	-	-	-	-
RPI adjustment	5.1	0.1	12.3	16.3	33.8	9.7	52.8	7.8	1.8	72.1	**105.9**
Disposals	(0.3)	-	(2.2)	(2.0)	(4.5)	(2.8)	(7.0)	(0.9)	(0.9)	(11.6)	**(16.1)**
Additions	3.1	-	25.7	16.4	45.2	14.4	68.0	10.8	0.5	93.7	**138.9**
At 31 March 2013	**187.0**	**1.7**	**502.1**	**636.8**	**1,327.6**	**433.0**	**1,958.2**	**323.8**	**71.9**	**2,786.9**	**4,114.5**
Depreciation											
At 1 April 2012	59.3	0.4	212.1	285.0	556.8	221.0	922.6	165.1	40.5	1,349.2	**1,906.0**
AMP adjustment	-	-	-	-	-	-	-	-	-	-	-
Reclassification adjustment	-	-	-	-	-	-	-	-	-	-	-
RPI adjustment	1.2	-	4.7	6.1	12.0	3.9	23.1	3.1	0.9	31.0	**43.0**
Disposals	(0.3)	-	(1.5)	(1.7)	(3.5)	(2.4)	(6.3)	(0.9)	(0.6)	(10.2)	**(13.7)**
Charge for year	4.2	-	12.8	16.9	33.9	10.7	51.3	10.2	2.6	74.8	**108.7**
At 31 March 2013	**64.4**	**0.4**	**228.1**	**306.3**	**599.2**	**233.2**	**990.7**	**177.5**	**43.4**	**1,444.8**	**2,044.0**
Net book amount at 31 March 2013	**122.6**	**1.3**	**274.0**	**330.5**	**728.4**	**199.8**	**967.5**	**146.3**	**28.5**	**1,342.1**	**2,070.5**
Net book amount at 1 April 2012	119.8	1.2	254.2	321.1	696.3	190.7	921.8	141.0	30.0	1,283.5	**1,979.8**
Infrastructure assets											
Gross replacement cost											
At 1 April 2012	40.2	0.6	0.8	2,935.1	2,976.7	16,278.5	163.4	-	-	16,441.9	**19,418.6**
AMP adjustment	-	-	-	-	-	-	-	-	-	-	-
Reclassification adjustment	-	-	-	-	-	-	-	-	-	-	-
RPI adjustment	1.3	-	-	96.2	97.5	533.3	5.4	-	-	538.7	**636.2**
Disposals	-	-	-	-	-	-	-	-	-	-	-
Additions	-	-	-	21.4	21.4	11.5	-	-	-	11.5	**32.9**
At 31 March 2013	**41.5**	**0.6**	**0.8**	**3,052.7**	**3,095.6**	**16,823.3**	**168.8**	**-**	**-**	**16,992.1**	**20,087.7**

Regulatory accounting

NOTES TO THE CURRENT COST STATEMENTS
continued

6 OPERATING COST ANALYSIS – for the year to 31 March 2013 – Retail business

	Household £m	Non-household £m	Total £m
Operating expenditure			
Customer services	8.2	1.1	**9.3**
Debt management	2.6	0.2	**2.8**
Doubtful debts	10.1	1.1	**11.2**
Meter reading	1.5	0.2	**1.7**
Services to developers	-	0.6	**0.6**
Other operating expenditure	2.7	0.4	**3.1**
Local authority rates	-	-	-
Exceptional items	-	-	-
Total excluding third party services	25.1	3.6	**28.7**
Third party services	-	-	-
Total operating expenditure	25.1	3.6	**28.7**
Capital maintenance			
Current cost depreciation	1.7	0.2	**1.9**
Recharges to other business units	-	-	-
Recharges from other business units	-	-	-
Amortisation of deferred credits	-	-	-
Amortisation of intangible assets	-	-	-
Total capital maintenance	1.7	0.2	**1.9**
Total operating costs	26.8	3.8	**30.6**
Debt written off	8.1	0.7	**8.8**

7 CURRENT COST ANALYSIS OF FIXED ASSETS - at 31 March 2013 – Retail business

	Household £m	Non-household £m	Total £m
Non-infrastructure assets			
Gross replacement cost			
At 1 April 2012	26.0	2.9	**28.9**
AMP adjustment	-	-	-
Reclassification adjustment	-	-	-
RPI adjustment	0.6	0.1	**0.7**
Disposals	(0.7)	(0.1)	**(0.8)**
Additions	1.2	0.1	**1.3**
At 31 March 2013	27.1	3.0	**30.1**
Depreciation			
At 1 April 2012	15.3	1.8	**17.1**
AMP adjustment	-	-	-
Reclassification adjustment	-	-	-
RPI adjustment	0.4	-	**0.4**
Disposals	(0.7)	(0.1)	**(0.8)**
Charge for year	1.7	0.2	**1.9**
At 31 March 2013	16.7	1.9	**18.6**
Net book amount at 31 March 2013	10.4	1.1	**11.5**
Net book amount at 1 April 2012	10.7	1.1	**11.8**

NOTES TO THE CURRENT COST STATEMENTS
continued

8 ANALYSIS OF CAPITAL EXPENDITURE, GRANTS AND CONTRIBUTIONS AND LAND SALES – For the year to 31 March 2013

	2013 Gross £m	2013 Grants £m	2013 Net £m	2012 Gross £m	2012 Grants £m	2012 Net £m
Capital expenditure - water base						
Infrastructure renewals expenditure	24.6	-	24.6	27.9	-	27.9
Maintenance non-infrastructure	28.9	-	28.9	25.9	-	25.9
Enhancements						
Infrastructure enhancements	21.4	(1.7)	19.7	12.5	(2.5)	10.0
Non-infrastructure enhancements	16.1	-	16.1	8.0	-	8.0
Total capital expenditure – water	91.0	(1.7)	89.3	74.3	(2.5)	71.8
Grants and contributions – water						
Developer contributions		(0.2)			(0.8)	
Infra charges receipts – connections		(1.4)			(1.7)	
Other contributions		(0.1)			-	
Total grants and contributions – water		(1.7)			(2.5)	
Capital expenditure – sewerage base						
Infrastructure renewals expenditure	24.9	-	24.9	17.2	-	17.2
Maintenance non-infrastructure	61.1	-	61.1	45.3	-	45.3
Enhancements						
Infrastructure enhancements	11.5	(3.3)	8.2	10.5	(2.9)	7.6
Non-infrastructure enhancements	34.1	-	34.1	30.6	-	30.6
Large projects capex						
Infrastructure enhancements	-	-	-	-	-	-
Non-infrastructure enhancements	-	-	-	-	-	-
Total capital expenditure – sewerage	131.6	(3.3)	128.3	103.6	(2.9)	100.7
Grants and contributions – sewerage						
Developer contributions		(0.9)			(0.4)	
Infra charges receipts – connections		(2.3)			(2.5)	
Other contributions		(0.1)			-	
Total grants and contributions – Sewerage		(3.3)			(2.9)	
Total capital expenditure – water and sewerage	222.6	(5.0)	217.6	177.9	(5.4)	172.5
Land sales – proceeds from disposals of protected land			(0.2)			(1.6)

9 ANALYSIS OF WORKING CAPITAL

	2013 £m	2012 £m
Stocks	7.0	6.3
Trade debtors – measured household	18.0	14.8
Trade debtors – unmeasured household	24.5	27.5
Trade debtors – measured non-household	5.5	4.5
Trade debtors – unmeasured non-household	0.3	0.5
Other trade debtors	0.6	0.8
Measured income accrual	59.6	51.1
Prepayments and other debtors	53.4	54.0
Trade creditors	(4.3)	(3.1)
Deferred income – customer advance receipts	(33.4)	(28.7)
Short-term capital creditors	(44.4)	(41.5)
Accruals and other creditors	(28.0)	(25.3)
	58.8	60.9
Total revenue outstanding – household	42.5	42.3
Total revenue outstanding – non-household	5.8	5.0

10 ANALYSIS OF NET DEBT, GEARING AND INTEREST COSTS – At 31 March 2013

	Fixed rate £m	Floating rate £m	Index linked £m	Total £m
Borrowings	(850.3)	(395.4)	(673.6)	(1,919.3)
Preference share capital	-	-	-	-
	(850.3)	(395.4)	(673.6)	(1,919.3)
Cash				-
Short term deposits				181.0
Net debt				(1,738.3)
Regulatory capital value £m				2,733
Gearing %				64%
Full year equivalent nominal interest cost £m	(42.9)	(4.0)	(36.1)	(83.0)
Full year equivalent cash interest payment £m	(42.9)	(4.0)	(15.3)	(62.2)
Indicative interest rates				
Indicative weighted average nominal interest rate %	2.2%	0.2%	1.9%	4.3%
Indicative weighted average cash interest rate %	2.2%	0.2%	0.8%	3.2%
Weighted average years to maturity – number	6.4	1.0	12.9	20.3

NOTES TO THE CURRENT COST STATEMENTS
continued

11 NON-FINANCIAL INFORMATION – For the year to 31 March 2013

	2013 Water	2013 Sewerage	2012 Water	2012 Sewerage
Number of properties (000s)				
Households billed	525	1,083	520	1,074
Non-households billed	52	82	52	82
Household voids	12	25	12	25
Non-household voids	2	5	2	5
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	143		144	
Measured household	128		134	
Volume (Ml/d)				
Bulk supply export	1	-	1	-
Bulk supply import	5	-	7	-
Distribution input	323		334	

ADDITIONAL REGULATORY DISCLOSURES
For the year to 31 March 2013

A REGULATORY CAPITAL VALUE

	2013 £m
Closing RCV for 2011-12	2,543
Indexation	83
Opening RCV for 2012-13	2,626
Capital expenditure	245
Infrastructure renewals expenditure	46
Grants and contributions	(9)
Depreciation	(113)
Infrastructure renewals charge	(43)
Outperformance of regulatory assumptions (5 years in arrears)	(19)
Closing RCV for 2012-13	2,733
Average RCV	2,636

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.

		2012-13
Post-tax return on capital (target = 5.2%)		6.0%
Credit rating – latest published (target = investment grade)	Moody's Standard & Poor's Fitch Ratings	A3 BBB+ A-
Gearing (net debt as a percentage of closing Regulatory Capital Value)		64%
Interest cover – times	Adjusted interest cover (i) FFO/interest (ii)	2.7 3.2

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 2011-12
(ii) Calculation as per Standard & Poor's methodology for 2011-12

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 46 and 47.

D DISCLOSURE OF TRANSACTIONS WITH ASSOCIATES
For the year to 31 March 2013

Services provided by appointee to associated companies

Associate company	Service provided	Turnover of associate £m	Terms of supply	2012-13 Value £m
Wessex Water Ltd	Corporate charges	nil	No market	0.5
Bristol Wessex Billing Services Ltd	Information systems, transport, insurance, staff costs and personnel	12.9	No market	1.3
Wessex Water Enterprises Ltd	Sludge treatment, transport, accommodation, insurance, laboratory and central services	15.8	No market	6.5

Services provided to appointee by associated companies

Associate company	Service provided	Turnover of associate £m	Terms of supply	2012-13 Value £m
Bristol Wessex Billing Services Ltd	Billing services	12.9	Competitive letting	10.5
Wessex Water Enterprises Ltd	Supply of electricity	15.8	Other market testing	1.8

Financial transactions
Dividends declared by the appointee to Wessex Water Ltd are disclosed in note 7 to the accounts.

The appointee paid £81.5m 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 £5.2m on behalf of Wessex Water Enterprises Ltd and transferred those assets to that company.

FOR FURTHER INFORMATION

Wessex Water has a range of leaflets and reports which are available free to customers.

For further details, write to:

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Wessex Water
Claverton Down
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Alternatively you can visit our website at
www.wessexwater.co.uk

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