Annual report and accounts 2017-18

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Wessex Water
YTL GROUP

Contents

Risk and Compliance Statement for the regulatory year 2017-18

Introduction

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

- the Board has a full understanding of and is meeting, in all material respects, its statutory, licence and regulatory obligations
- the Company has met, in all material respects, relevant regulator and customer expectations as demonstrated by those outputs and service standards set out in its business plan and funded through the Final Determination
- the Board is satisfied that the Company has sufficient processes and internal systems of control to fully meet its obligations, or has disclosed any modification or failure to meet such obligations
- the Company has appropriate systems and processes in place to allow the Board to identify, manage and review risks. Principal risks and the appropriate management of them are set out in the Strategic Report and in the relevant section of the annual review summary
- the Company has sufficient financial and management resources for the 12 months from the date of this report
- the Company has sufficient rights and assets available to enable a special administrator to run the business
- any trade with associate companies was at arm’s length and no cross subsidy arose
- Directors’ pay is linked to standards of performance as disclosed on page 28
- any failure to deliver outputs agreed at the Final Determination has been disclosed
- the Company is compliant with condition F6A.6 on credit ratings
- the Board considered and approved the proposed charges for 2018 and the associated assurance statement confirming that the Company had met Ofwat’s charging expectations and all regulatory and statutory obligations
- greenhouse gas reporting complies with Defra reporting requirements.

Output Review

The Company has 958 individual regulatory outputs covering the AMP6 period of which 218 were delivered in 2017-18 against a target of 202. In addition, the Company has 32 performance commitments covering the AMP6 period. These regulatory outputs and performance commitments agreed with regulators or promised to customers in the Final Determination were kept under constant review by the Company. Regular reports were prepared for Directors and senior managers detailing progress with the delivery of regulatory outputs and performance commitments highlighting instances where such delivery may have been at risk.

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

Each Board meeting reviewed a report showing progress against scheduled regulatory outputs and performance commitments. For any performance commitments with difficulties, the Board reviewed and approved any proposed mitigations.

The Wessex Water Partnership, which replaced the AMP5 Customer Scrutiny Group, has an independent chair and representation from our key stakeholder groups, met five times in 2017-18. The Company's progress on the end of year performance commitments was reported to the Partnership after it had been externally audited by the Company's technical auditor. Some of the performance commitments included in the Final Determination were stretch targets with the potential that the target would not be met in the year or in subsequent years. Where there was the potential for the target not to be met either in year or in subsequent years, the issue was discussed with the Partnership to seek their views representing customers and stakeholders.

The Partnership reviewed the performance commitment information prepared for 2017-18 in their meeting in June 2018. They produced a final report to the Board recommending their support for the performance commitment information provided in the annual review and annual performance report. Our Company website has a copy of the Partnership's report.

To date in AMP6 the Company has delivered 498 AMP6 regulatory outputs exceeding the target by 83 outputs. This is principally by early delivery of CSO monitors and catchment management investigations. All outputs as set out in our business plan and funded through the Final Determination due by 31 March 2017 have been delivered.

Customer Experience

The Company achieves continuous monitoring of the customer experience through a range of mechanisms:

- feedback cards are left with all customers visited upon departure
- our customer care team keeps the customers informed on the progress of our work at their property. They also contact customers within an hour or two of work being completed at their property to check that the problem is resolved,

the site has been left clean and tidy and the customer is satisfied. This feedback is displayed in visual dashboards shared across the business to drive continuous improvement

- each month an independent telephone satisfaction survey replicating the SIM survey is undertaken of a random selection of customers whose billing or operational contacts have been resolved.
- throughout the year, a continuous independent image tracker uses telephone interviewing to gain customers' views on our service now and in the future including satisfaction, value for money and customer effort scoring, along with other topical issues
- our online customer panel, Have Your Say, is used to gather customers' views on different aspects of our service. In 2017-2018, surveys have been conducted to understand customer's priorities for certain investment areas and their willingness to pay for service improvements in each as well as their views on the recreational use of our reservoirs
- the Wessex Water Partnership represents the views of customers and key stakeholder groups and has been giving independent challenge as the Business Plan for 2020-15 has been developed. It has three subgroups that scrutinise key areas of the Plan, namely customer engagement, affordability and vulnerability and performance commitments. The Company has carried out a significant number of research projects as part of its Your Say Your Future engagement programme over this year to supplement insight from continuous engagement and to inform the Business Plan.

Customer Information

The Company satisfies Licence conditions G, H and I, on providing customer information by regular review of a suite of individual codes of practice.

We believe that our communication process with customers is consistent with Ofwat's requirements for the provision of customer information as detailed in Information Notice 13/04, with all information provided being reviewed for its accuracy, transparency, clarity, accessibility and timeliness. This is supported by publication of the Company's Information Assurance Plan 2018 on our website, which provides details of how we are proposing to improve the information that we provide to customers and stakeholders.

We consult with CCWater to ensure that the information provided meets customer requirements. Both the nature of the information provided, and the way we provide it, are reviewed annually by CCWater when customer charges are revised, as well as at other times during the year as and when individual leaflets are updated. This year we have also redesigned our bill and CCWater were consulted as part of that process.

Risk Review

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

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

Risk Process

The identification and management of risk is delivered through a tiered system of groups drawn from operational staff, senior management, Executive Directors and the Board. The Board reviews and holds ultimate responsibility for the risk process and for the identification and mitigation of risks. The process for identifying, evaluating and managing principal risks has been ongoing for the year under review and up to the date of the approval of the annual report and accounts

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

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

Wherever possible, a risk is measured by its potential financial, social and environmental impact over the next five years, whether direct or indirect, including any possible impact on the next price review. The Risk Group meets through the year and submits the current corporate risk register and summary report to a Risk Management Advisory Group comprising the Executive Directors and key senior managers, twice a year. Any significant new risks are reported to the Advisory Group as they arise.

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

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

Assurance and Board endorsement of the Compliance Statement

In compiling the Compliance Statement, the Company has a clear focus on its performance reporting and verification procedures. This statement is assured by:

- a detailed set of methodologies that are externally audited and verified.
- an annual process of self-certification confirming compliance to the methodologies.
- a procedure manual setting out the process for completing all aspects of the Annual Review, including the Compliance Statement.
- an annual review of the manual reported and approved by the Audit Committee ensuring it reflects all changes to reporting requirements.

The Board confirms it is satisfied it has the appropriate assurance processes in place and based on these processes endorses this compliance statement and states that, to the best of its knowledge and belief, the information produced is accurate, reliable and complete in all material respects.

Francis Yeoh Chairman	Gillian Camm Senior Independent Director	Andy Pymer Managing Director	Huw Davies Chair of Audit Committee

7 July 2018

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.

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

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

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

Francis Yeoh
Chairman

6 July 2018

Governance Structures

The Board

The affairs of the Company are ultimately the responsibility of the Board, which controls and directs the undertaking of the regulated water and sewerage business. During the reporting year the Board composition was as shown on page 10.

The Board annually reviews and approves the Company's framework for control of the Company's affairs detailing the effective management of the Company and granting 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. Matters reserved to the Board include strategy, charges, material changes to the Company's management and control structure, Board appointments, approval of material contracts, risk management, health and safety policies, disposal of material assets, approval of the annual operating budgets, employee pension arrangements, significant changes in accounting policies and defence and settlement of material litigation.

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

There are four Executive Directors. During the year there were 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, plus an alternate director. The shareholder also appoints the Chair.

This balance on the Board ensures a high level of engagement and dialogue with the Company's customers and shareholder. In this way, the Company 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. The Independent Non-Executive Directors, led by the Senior Independent Director form or participate in the various Company Committees, assess the integrity of financial information and whether financial controls and systems of risk management are robust and defensible, determine appropriate levels of remuneration for Executive Directors, assist in appointing and, if necessary, removing Executive Directors and assist 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.

The Company complied with the Code’s Main Principles and Supporting Principles as to the composition of the Board. Moreover, the Company exceeded the requirements of the Code (designed for listed rather than privately held companies) by having no fewer than four Non-Executive Directors, during the reporting year who are directors or employees of the Malaysian holding company, thus enabling effective dialogue with the shareholder.

While the Board has a majority of Non-Executive Directors, it does not have a majority of Independent Non- Executive Directors as envisaged by the relevant Code Provision. The Ofwat Board Leadership, Transparency and Governance Principles are based on the Code, which applies to UK listed companies. The principal purpose of the Code is to ensure that the interests of a company's members are protected and represented at board level. The preface to the Code states that: "the function should be to help boards discharge their duties in the best interests of their companies." The preamble to the Ofwat Principles states that: "any departures from the principles should be by exception in the spirit of corporate governance for listed companies." In the context of a privately held company with a 100 percent shareholder, we consider it to be in accordance with good corporate governance practice for there to be a significant number, if not a majority, of shareholder representatives on the Board. In the Company’s case, the shareholder appointed Non-Executive Directors (excluding the Chairman) are not a majority on the Board. Further, the Company has four highly capable and experienced Independent Non-Executive Directors.

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

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

The following were Directors during the year under review:

Executive Directors	Independent Non-Executive Directors	Shareholder Non-Executive Directors
Colin Skellett	Gillian Camm (Senior Non-Executive Director)	Francis Yeoh (Chair)
Mark Watts	Huw Davies	Hann Yeoh
Andy Pymer	Fiona Reynolds	Hong Yeoh
James Rider	Richard Keys	Mark Yeoh
		David Barclay

Chairman

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

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.

Senior Independent Director

Gillian Camm is the Board's Senior Independent Director. Gillian is a member of the Remuneration Committee and the Nominations Committee. As Senior Independent Director, Gillian 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 as well as an additional point of contact for the shareholder and other stakeholders.

As the Senior Independent Director appointed in accordance with the Licence, Gillian is well placed to provide an independent link to Ofwat, our regulator. Her responsibilities during the reporting year included leading an evaluation of the Board's performance.

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.

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. Continuity of appointment of some Independent Non-Executive Directors between Ofwat price reviews is desirable to facilitate scrutiny of Company performance against its business plan.

Independent Non-Executive Director	Appointed	Current term expires
Richard Keys	01/05/2016	01/05/2019
Gillian Camm	01/11/2011	01/11/2018
Huw Davies	01/09/2014	01/09/2020
Fiona Reynolds	01/08/2012	30/09/2018

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. Non-Executive Directors representing the Company's sole shareholder do not have formal terms of appointment and receive no payments from the Company with the exception of David Barclay, who receives an annual fee under a formal appointment. 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 that the Company's delegated authority and Board procedures are followed and for advising on suggested changes.

Leigh Fisher-Hoyle was appointed as Company Secretary in 2015. As Company Secretary her role is to provide legal and regulatory advice as required by the Board or any Director and is responsible for advising the Board through the Chairman on governance matters. The Board is kept informed of major changes to law and regulation affecting the Company's business. The Company Secretary also advises on Directors' duties and conflicts. All Directors are aware that any conflicts of interest must be reported to and registered with the Company Secretary.

Board Meetings

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

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

Board Attendance 2017-18			
Colin Skellett	6/6	Francis Yeoh	6/6
David Barclay	6/6	Hann Yeoh	6/6
Gillian Camm	6/6	Hong Yeoh	6/6
Mark Watts	6/6	Mark Yeoh	6/6
Huw Davies	6/6	Andy Pymer	6/6
Fiona Reynolds	6/6	James Rider	6/6
Richard Keys	6/6		

Board Committees and Advisory Panels

Four formal committees operated throughout the financial year under review:

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

These Committees operate under the authority of the Board and assist the Board in carrying out its duties. The Committees report back to the Board on decisions and actions taken together with any specific recommendations. Reports from the Chair of each of the Committees are set out on pages 15 to 39.

The Board also receives reports from two liaison panels and a customer partnership panel, the Wessex Water Partnership (WWP), as part of the Company's commitment to wide stakeholder engagement.

The Futures Panel is chaired by Fiona Reynolds. It keeps under review emerging issues facing all companies today (including sustainability, health and the environment). By invitation a range of external scientific and technical expertise is brought to this panel.

The Wessex Water Partnership including our key organisational stakeholders, scrutinises and assesses the Company's delivery against customer related outcomes and performance commitment. The Partnership is independently chaired by Dan Rogerson who was previously Water Minister under the coalition Government. The Senior Independent Executive Director attends most meetings.

The Catchment Panel helps to inform the Company's decision making about sustainable land and water resource use in the context of the Company's services, constructed and natural assets and entitlements. The panel includes representatives of the Environment Agency, Natural England, the Drinking Water Inspectorate, the National Farmers' Union and the Country Landowners Association. The panel is chaired by Dr Richard Cresswell.

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 consultant at least one year in three.
Between external evaluations, reviews are facilitated by the Company Secretary. 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 related to its effectiveness.

Several improvements were identified in the 2017 review. The Independent Non-Executive Directors now have a wider visibility of the Group's activities outside the regulated entity through the Independent Directors' performance committee that sits prior to each Company Board.

For the financial year under review, a questionnaire was sent to relevant parties within the Company. The results will be presented to Directors for discussion and action.

Directors' Remuneration

Details of Directors' remuneration are set out in the Remuneration Committee Report on page 25.

Directors' Interests and Conflicts

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

Whistleblowing

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

Anti-corruption

The Company has adopted a formal policy on business ethics. Directors and employees are expected to commit to the highest standards of professional and ethical conduct in order to protect the Company's reputation and standing. Bribery and corruption is not tolerated. All Directors and employees are made aware of the Company's policy and that breaching it will result in disciplinary action. No instances of a breach of the policy were recorded in 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 2016 and for contracts below the relevant thresholds in accordance with clear internal rules. The rules promote fair competition for potential suppliers. All relevant staff are required to certify to internal audit through the year that they have complied with the rules or to disclose non-compliance. No material instances of non-compliance were recorded during the year.

Group Structure

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

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

A diagrammatic representation of the Group's structure appears below showing ownership of the regulated company through to YTL Corporation Berhad and each company's country of incorporation and role in the structure. YTL Corporation Berhad at 31 March 2018 was 51.24% owned by third-party shareholders and 48.76% owned by Yeoh Tiong Lay & Sons Holdings Sdn Bhd.

All companies 100% owned unless stated	Principal activities	Company details
YTL Corporation Berhad	Investment holding and management company	Incorporated in Malaysia and quoted on the Main Market of Bursa Malaysia Securities Berhad
53.44% ↓ YTL Power International Berhad	Investment holding and provision of administrative and technical support services	Incorporated in Malaysia and quoted on the Main Market of Bursa Malaysia Securities Berhad
↓ YTL Utilities Limited	Investment holding company	Incorporated in Cayman Islands to look for global mergers & acquisitions in the utilities sector
↓ YTL Utilities Holdings Limited	Investment holding company	Incorporated in Cayman Islands to look for global mergers & acquisitions in the utilities sector
↓ YTL Utilities (UK) Limited	Investment holding company	Incorporated in United Kingdom, the acquisition vehicle for the purchase of the Wessex Water group of companies
↓ Wessex Water Limited	Investment holding company	Incorporated in United Kingdom, also owns SC Technology AG, Wessex Water Enterprises Ltd, 70% of Water2Business Ltd, 65% of Flipper Ltd, 51% of Albion Ltd and 50% of Bristol Wessex Billing Services Ltd
↓ Wessex Water Services Limited	Water supply and waste water services	Incorporated in United Kingdom, granted a Licence as a water and sewerage undertaker under the Water Industry Act 1991

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

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

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

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

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

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

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

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

YTL Corporation Berhad has confirmed that it:

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

Audit & Risk Committee Report

This is the Annual Report of the Audit & Risk Committee.

Audit Committee Members Attendance

Audit committee attendance		Length of Committee Service
Huw Davies	4/4	4 years
Gillian Camm	4/4	7 years
Fiona Reynolds	3/4	6 years
Richard Keys	4/4	2 years

The members of the Audit Committee receive updates on financial reporting, the regulatory framework and performance throughout each financial year from appropriate sources.

During the year senior executives were invited to attend and/or present at meetings of the Committee including the Managing Director, Group Financial Director, Director of Regulation, the Financial Controller, the Director of Risk and Investment, the Head of Group Internal Audit and the audit partners from the external auditors KPMG and EY. As appropriate the Company's external technical auditor, other senior managers and representatives of the Wessex Water Partnership (including their technical editor) are also invited to attend.

Composition

All the independent non-executive directors of the Board as below were members of the Audit Committee throughout the financial year under review. The Committee comprises Gillian Camm, Fiona Reynolds, Richard Keys and Huw Davies as Committee Chair.

The Board is satisfied that each of the Committee members is appropriately qualified and experienced to fulfil their role. For the purposes of the Code Huw Davies and Richard Keys are the members of the Committee nominated as having significant, recent and relevant financial experience.

Role and Report on Activities

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

- overseeing the Company's financial reporting processes and accounting policies
- ensuring that the Company has adequate internal controls and that they are appropriately reviewed and implemented
- overseeing the internal and external audit programmes
- ensuring compliance with the regulatory reporting obligations of the Company, including the Risk and Compliance Statement and the Company's performance commitments.
- detailed independent consideration of the half year results, the Annual Review documents incorporating the Annual Performance Report prior to their ultimate approval by the Board
- consideration of the material subjective assessments within financial reporting to ensure that the Company's treatment of these matters was properly addressed within the Company's financial statements
- the review and agreement of the annual internal audit programme, the monitoring of internal audit progress and the consideration of 17 internal audit reports in the year.

In accordance with Code Provision C.3.2. and C3.3., our Governance Arrangements are available on the Company's website and provide full terms of reference for the Audit Committee.

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

- Detailed review of the Company's preparedness for the regulated business planning (PR19) process
- Continued assurance of the Open Water processes post sector retail non-household market opening
- Detailed review of the Company's Information Assurance Statement and Information Assurance Plan in accordance with Ofwat's Company Monitoring framework – final position and recommending their approval to the Board
- Company performance on a number of internal processes to deliver regulatory outputs and performance commitment data

In reviewing the financial statements the Audit Committee considered the content, accuracy and tone of the financial statements, the principal risks to the business on pages 46 to 48 of the Annual Review Summary, the Risk and Compliance Statement on pages 2 to 6, and other financial disclosures prior to their release ensuring compliance to the Code Provision C1.1. and C3.4. that the Annual Report and Accounts present a fair, balanced and understandable position.

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

Internal Controls

Topic	Activity
Internal Controls	The Audit Committee, assisted by internal audit, monitors the effectiveness of the system of internal controls which have been in place for the year under review and up to the date of approval of the annual report and accounts. It also reviews management reports received from the external auditor. The Audit Committee receives reports on any whistleblowing allegations made to the Company from either internal or external sources, concerning fraud, bribery or other matters. Reports include the outcomes of resulting investigations and the management action taken. Where appropriate the Audit Committee is asked to approve the proposed management actions. Two anonymous whistleblowing allegations were received and investigated in the year and all appropriate actions completed.
Oversight of Internal Audit and External Audit	The Audit Committee oversees the work of the Company's internal audit function, monitoring and reviewing the effectiveness of the internal audit activities, and manages the relationship with its external auditor. The Audit Committee reviews the performance of the internal and external auditor to ensure that they are effective. The Audit Committee regularly holds discussions at the end of its meetings with both the internal and external auditor in the absence of executive management.
Internal Audit	The annual programme of planned internal audits is agreed by the Audit Committee prior to the start of each financial year based on a balance of topics which represent major business risks, and internal business processes which affect either financial or regulatory compliance. A total of 16 individual audit reports were submitted to the Committee in the year. At the request of either Executive Directors, senior managers or the Audit Committee, additional audits are undertaken throughout the financial year to address any issues that arise in the financial year. The Head of Group 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 Group Internal Audit is free to raise any issues with the Audit Committee or its Chairman at any time during the financial year.

Topic	Activity
External Auditor	EY were appointed as the Company's auditor at the end of 2017. This has been retendered in accordance with the FRC code. KPMG Completed all required audit work up to December 2017. The audit partner attends by invitation meetings of the Committee, and the Committee monitors the effectiveness of the external auditor throughout the year taking into account their own experience of the auditor's effectiveness in the year. KPMG was paid £156k for audit fees and a total of £36k for advice on tax and other matters in the 2016/17 financial year. EY were paid £99k for audit work in the 2017/18 financial year. The individual commissions for non-audit work were considered to have no impact on the auditor's objectivity and independence. As a matter of policy, fees paid to the external auditor for non-audit services will not exceed 50% of the annual audit fee unless approved in advance by the Chair of the Audit Committee. EY reports to Ofwat in respect of the Company's Annual Performance Report. As part of the assurance process for this Annual Review document the Audit Committee also receives a report from its technical auditor on non-financial regulatory performance information provided in the Annual Review including the performance commitment data. The technical auditor services were re-tendered in 2015-16 and a new technical auditor, Mott McDonald, was appointed for AMP6.

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 2 to 6.

Financial Reporting

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

Topic	Activity
Revenue Recognition	The Committee considered the key financial risk that can arise from the estimation of the amount of unbilled income charges at the period. In this they discussed the management estimates and assumptions are alignment to current accounting standards.
Bad Debt Provision	The Committee considered the key financial risk that arose due to the subjective nature of the provision. It reviewed the methodology of the provision in relation to the different components of the debt and the reasonableness of the differing provision made against each component.
Pension Deficit	The Committee considered the key financial risk that the assumptions made by the Company in association with the independent actuary, in arriving at the pension deficit under IAS 19, could lead to an overly prudent or aggressive position. In particular, the assumptions in relation to inflation, discount rate, pension and salary increases, return on equity and life expectancy were tested against the range of assumptions used by other companies.
Classification of Capital Expenditure	The Committee considered the key financial risk of the degree of judgement involved in the classification of expenditure between operating expenses and capital expenditure. In doing so they considered the level of capital expenditure, the Regulatory Accounting Guidelines and International Financial Reporting Standards, the recharges from overhead to capital projects and the controls of the Company.
Taxation	The Committee also considered the amounts recorded for corporation tax and deferred taxation in the income statement and balance sheet. They reviewed the split between current and prior year taxation, the impact of the removal of IAB, overall tax reconciliation and current taxation issues as highlighted by the external auditor. The Committee was satisfied that each of the above issues had been adequately explained and correctly recorded in the non-statutory accounts of the Company.
Misstatements	Management confirmed to the Audit Committee that they were no material misstatements or immaterial misstatements in the financial statements to achieve a particular presentation. The external auditor reported to the Committee that in the course of their work no material misstatements had been found. The Committee was satisfied that the external auditor had fulfilled its responsibilities to the Audit Committee and the Company.

Nominations Committee Report

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

Francis Yeoh (Chair)
David Barclay
Gillian Camm
Huw Davies
Fiona Reynolds
Richard Keys
Colin Skellett
Hong Yeoh

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

Role and Report on Activities

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

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

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

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

The committee met once during the period and noted that as a result of changed circumstances Mark Watts had agreed to continue as Group Finance Director so the recruitment process for a successor had been terminated. The committee also noted that Gillian Camm had now served for 6 years as an independent director but concluded that as she was now Senior Independent Director it was appropriate to continue her appointment for a further year.

Nominations committee attendance	
Francis Yeoh	1/1
Hong Yeoh	1/1
David Barclay	1/1
Gillian Camm	1/1
Huw Davies	1/1
Fiona Reynolds	1/1
Richard Keys	1/1
Colin Skellett	1/1

Corporate Responsibility Committee

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

Gillian Camm (Chair)
Fiona Reynolds
Richard Keys

Chaired by an Independent Non-Executive Director, the principal purpose of this Committee established in 2013 is to make recommendations to the Board about the Company's corporate and social obligations to its employees and other stakeholders. The Committee invited one current and one former executive director to the Company, Andy Pymer and David Elliott to attend.

Role and Report on Activities

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

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

During the year the Committee commented on and reviewed progress on diversity including areas of current focus to improve diversity. The Committee reviewed the Company's gender pay gap report and initiatives to over time, reduce the Company's gender pay gap.

At each meeting, the diversity metrics have been reviewed and challenged by the Committee. It is recognised that progress is being made to attract, develop and retain a more diverse workforce but that it takes time for initiatives to show progress.

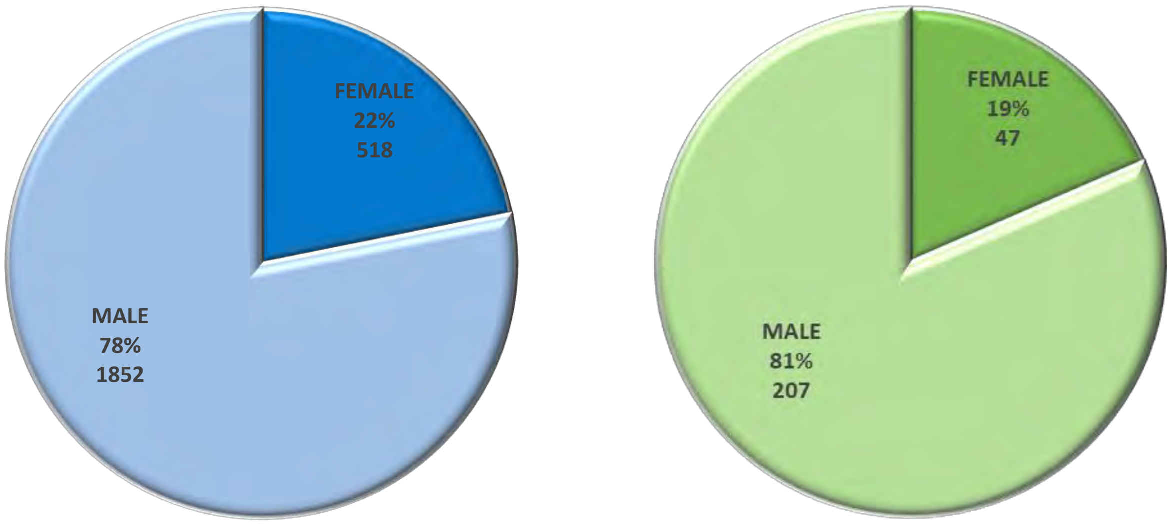
The Committee reviewed a number of reports throughout the year including the use of the Corporate Hospitality Register, charitable giving and health and safety. Health and safety and Employee Wellbeing have been key themes throughout the year and progress against the current five-year health and safety strategy and the current health and wellbeing action plan. The Committee has reviewed progress in relation to occupational health and employee assistance service provision.

The Committee has reviewed the Company's Sustainability Vision, environmental accounting approaches and catchment reporting. It has also reviewed the Company's whistleblowing policy and reviewed the Company staff survey questionnaire prior to the staff survey held during the year.

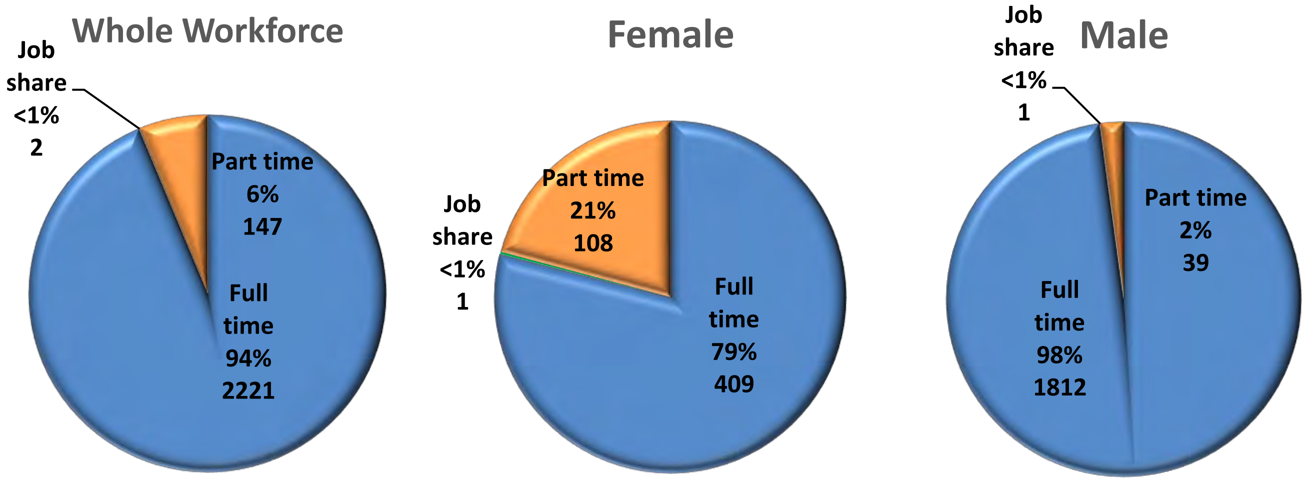
Corporate responsibility committee attendance	
Gillian Camm	2/2
Fiona Reynolds	2/2
Richard Keys	2/2

Gender Diversity as of March 2018

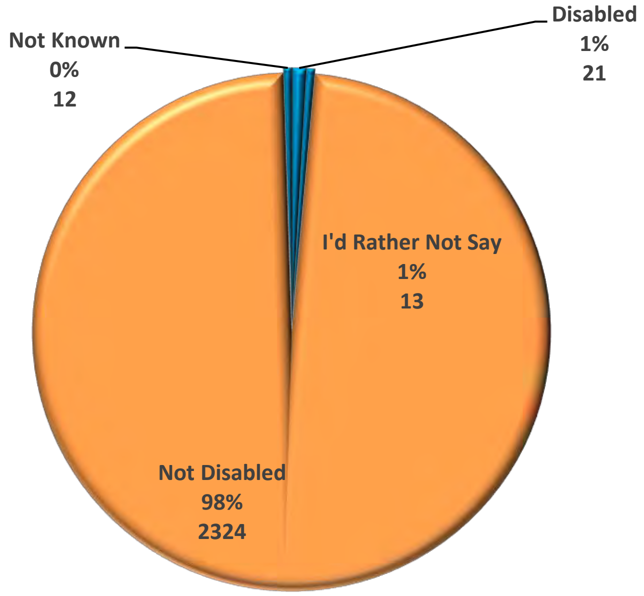
Whole Workforce | **Leadership Grades (M)**



Part time / Full time Diversity



Employees with a Disability



Remuneration Committee Report

Members:

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

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

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 and the committee complies with this provision. 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. 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 2018. The policy also applies to the remuneration of the Company's senior managers.

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

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

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

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

Recruitment of Executive Directors

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

Individual Executive Directors participate in a senior manager bonus scheme, governed by the Remuneration Committee. Executive Directors have their target bonus set at 50% of base salary and their maximum bonus at 100% of which a proportion is withheld until 2020 under LTIP arrangements.

During the year, the Remuneration Committee took advice from their independent advisers, Korn Ferry Hay Group. Korn Ferry Hay Group provided detailed market analysis and advice to the Committee for the senior management group, including Executive Directors and Non-Executive Directors. Korn Ferry Hay Group's fee for providing such advice was £17,850 for the year ended 31 March 2018.

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

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

No new Directors were appointed during the year.

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

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

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

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

Policy for loss of office

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

Early termination payments made in the year

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

Relative importance of spend on pay

Note 5 to the accounts shows the total employment costs of the Company, and the movement between 2016-17 and 2017-18.

	2017-18 £m	**2016-17 £m**	**Movement £m**	**Movement %**
Wages and salaries	88.5	79.1	+9.4	+11.9%
Social security costs	9.2	8.3	+0.9	+10.8%
Other pension costs *	12.4	11.1	+1.3	+11.7%
Total employment costs *	**110.1**	**98.5**	**+11.6**	**+11.8%**
Charged to:				
Capital schemes	40.6	39.2	+1.4	+3.6%
Operating costs *	69.5	59.3	+10.2	+17.2%

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

Percentage of	**2017-18 %**	**2016-17 %**	**Source**
Turnover	20.4%	18.8%	Income statement
Profit before tax *	72.8%	64.6%	Income statement
Profit after tax *	89.7%	67.4%	Income statement
Dividends	119.7%	104.8%	Note 9
Capital expenditure	50.0%	51.1%	Cash flow statement

* Excluding exceptional pension credit of £32.9m

Remuneration Arrangements for Executive Directors 2017-18

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

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

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

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

Annual Bonus and Long Term Incentive Plan	The Board of Directors sets annual performance targets for the Company prior to the commencement of each new financial year. Company and individual performance against those targets is measured at the end of the financial year and the level of bonus payable is calculated at that point. Bonuses are paid in April. From 1 April 2015 the remuneration Committee established a Long Term Incentive Plan for Executive Directors whereby 20% of any above target bonus element earned will be held back for payment at the end of AMP6 in 2020. The Company will match the value of the retained bonus payment, up to 100%. The long term incentive payment will be paid to Directors in April 2020. The Committee has the discretion to, and does consider the effect of corporate performance on environmental and governance risks when reviewing Executive Director and senior management bonuses to ensure variable remuneration incentivises and rewards appropriate behaviour. Part of the bonus may be forfeited for under performance in respect of customer service, environmental, regulation and employee related performance targets. Annual bonus is not pensionable.
Maximum opportunity	
Base Salary	There is no prescribed maximum increase. However, Executive Director salary increases are aligned to the increases provided to all Company employees. Such increases are negotiated by the joint staff council involving management and trade union representatives.
Taxable Benefits	N/A
Pension	18.2% of base salary (21.7% from 1 April 2018)
Annual Bonus	Maximum bonus opportunity is 100% of base salary.
Description of performance metrics	
Base Salary	N/A
Taxable Benefits	N/A
Pension	N/A
Annual Bonus	A combination of 29 key performance indicators relating to financial, customer, environment & assets and employee related measures and targets. An equal weighting is applied to each of the four categories. The committee has absolute discretion in making bonus payments.
Change to policy	
Base Salary	No change
Taxable Benefits	No change
Pension	No change
Annual Bonus	No change

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

Component 2017/18	**Colin Skellett Group Chief Executive**	**Mark Watts FD**	**Andy Pymer MD**	**James Rider COO**
Target bonus (% of salary)	50	50	50	50
Maximum bonus (% of salary)	100	100	100	100
Actual bonus paid (% of salary)	59	65	51	51
Actual bonus held as LTIP (% of salary)	2	4	1	-
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
Pension arrangement	Defined benefit - Pension in payment	Defined benefit	Defined benefit - Pension deferred	Defined benefit
Benefits	See below	See below	See below	See below

Benefits were company car based on list price and CO_2 emissions, fuel £4,310, and private medical insurance £1,813 (family).

Base Salaries and Benefits

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

Differences between Executive Directors' and Employees' Remuneration

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

- Executive Directors pay is benchmarked against the upper quartile position of the South West Utilities market whilst we benchmark median pay and benefits against the South West Industrial and Service market for all fully qualified and experienced employees
- Executive Directors (and senior managers) participate in a bonus scheme that is not available to other employees to motivate and reward them for achievement of demanding financial objectives and key strategic measures.

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

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

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

The Remuneration Committee has reviewed 2017-18 salaries and has determined that salaries for Executive Directors will be increased from 1 April 2018 by 2% which is below the RPI increase of 3.9% awarded to employees across the Company.

Executive Directors' Bonuses

2017-18 Scheme

The annual bonus of Executive Directors is performance-related and designed to promote the long-term success of the Company. It is dependent on the achievement of Company and individual targets.

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

The Company targets are 29 key performance indicators covering customer service, environmental and asset measures, employee matters and financial measures as shown below.

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

Environment and Assets – EA's Environmental Performance Assessment / bathing waters passing EU standards / Biodiversity Action Plan landholding assessed and managed / greenhouse gas emissions / proportion of electricity self-generated / all regulatory outputs met / compliance with abstraction licences / monitoring of CSO's presenting a risk to the environment / river water quality improved.

Employees – H&S plan and accident statistics progress as assessed by the Corporate Responsibility Committee / employee rating company as a good employer / compliance with training plan / staff turnover / diversity plan progress as assessed by Corporate Responsibility Committee.

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

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

Target Bonus 2017-18	Colin Skellett CEO	Mark Watts FD	Andy Pymer MD	James Rider COO
Customer				
% of salary	10.0%	10.0%	10.0%	10.0%
Amount £	29,290	20,372	30,600	21,700
Environment and Assets				
% of salary	10.0%	10.0%	10.0%	10.0%
Amount £	29,290	20,372	30,600	21,700
Employees				
% of salary	10.0%	10.0%	10.0%	10.0%
Amount £	29,289	20,373	30,600	21,700
Financial				
% of salary	10.0%	10.0%	10.0%	10.0%
Amount £	29,290	20,372	30,600	21,700
Individual				
% of salary	10.0%	10.0%	10.0%	10.0%
Amount £	29,289	20,373	30,600	21,700
Total				
% of salary	**50%**	**50%**	**50%**	**50%**
Amount £	**146,448**	**101,862**	**153,000**	**108,500**

In the financial year under review, 27 of the 29 Company targets were achieved or bettered.

There were two marginal target failures, two bathing waters did not pass EU standards and minutes lost through supply interruptions was 13.3 minutes compared with the target of 12.0 minutes. One of the bathing water failures was due to agricultural run-off rather than a Company process failure. Initiatives are being implemented to improve the minutes lost through supply interruptions.

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

Actual Bonus 2017/18	Colin Skellett CEO	Mark Watts FD	Andy Pymer MD	James Rider COO
Customer				
% of salary	13.7%	13.0%	10.9%	11.0%
Amount £	36,807	25,326	33,400	23,940
Environment and Assets				
% of salary	4.5%	13.0%	7.7%	6.4%
Amount £	11,807	25,326	23,400	13,940
Employees				
% of salary	13.7%	13.1%	10.9%	11.0%
Amount £	36,807	25,326	33,400	23,940
Financial				
% of salary	13.7%	13.0%	10.9%	11.1%
Amount £	36,808	25,326	33,400	23,940
Individual				
% of salary	13.7%	13.1%	10.9%	11.1%
Amount £	36,808	25,326	33,400	23,940
Total				
% of salary	**59.3%**	**65.2%**	**51.3%**	**50.6%**
Amount £	**159,037**	**126,630**	**157,000**	**109,700**

Annual bonus payments to Executive Directors are not pensionable.

Pensions

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

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

Members' contributions are payable at the rate of 8% of basic salary, with the Company making a further 18.2% contribution (21.7% from 1 April 2018). Early payment of pension is available from age 55 with the consent of the Company. Any pension would be subject to a reduction, based on rates the trustees consider appropriate, acting on actuarial advice, to reflect the expected longer payment of the pension. No additional pension will become receivable by a Director if that Director retires early.

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

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

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

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

Executive Directors' Service Contracts

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

Executive Directors	Date of current agreement	Date of appointment as Executive Director	Notice Period
Colin Skellett	01/04/2014	01/09/1989	12 months
Mark Watts	01/04/2014	16/03/2010	12 months
Andy Pymer	21/07/2016	01/08/2016	12 months
James Rider	21/07/2016	01/08/2016	12 months

Executive Directors' service contracts are available for inspection during normal office hours at the registered office, Wessex Water, Claverton Down Road, Bath BA2 7WW. The Remuneration Committee will continue to review the contractual terms for Executive Directors to ensure they reflect best practice and are compliant with employment law.

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

Non-Executive Directors

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

The breakdown of the Independent Non-Executive Directors' fees from 1 April 2017 is shown in the Directors' Emoluments table below. Independent Non-Executive Directors do not participate in share or bonus schemes or any other performance-related scheme, nor is any pension provision made.

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

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

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

Directors' Emoluments

The table below shows the emoluments for the current year (information in the table below is subject to audit).

2017-18	**Salary £000**	**Bonus £000**	**LTIP £000**	**Benefits £000**	**Pension contributions £000**	**Total £000**
David Barclay	85	-	-	-	-	85
Gillian Camm	88	-	-	-	-	88
Huw Davies	82	-	-	-	-	82
Richard Keys	68	-	-	-	-	68
Andy Pymer	313	157	1	17	57	545
Fiona Reynolds	70	-	-	-	-	70
James Rider	217	110	-	23	39	389
Colin Skellett	270	159	6	20	-	455
Mark Watts	194	127	7	19	1	348
Total £000	**1,387**	**553**	**14**	**79**	**97**	**2,130**

1. No emoluments earned by Francis Yeoh, Hann Yeoh, Hong Yeoh or Mark Yeoh.
2. Benefits comprise private medical insurance, company car and fuel benefits.
3. Three Directors received emoluments for services to other Group Companies, Colin Skellett £473k, Mark Watts £461k and David Barclay £15k. The Audit Committee was satisfied that services provided to other Group Companies do not reduce the effectiveness of the Directors' provision of services to the Company.

The table below shows the emoluments for the prior year.

2016-17	Salary £000	Bonus £000	LTIP £000	Benefits £000	Pension contributions £000	Total £000
David Barclay	85	-	-	-	-	85
Gillian Camm	80	-	-	-	-	80
Huw Davies	77	-	-	-	-	77
Richard Keys	59[1]	-	-	-	-	59
Andy Pymer*	180	90	3	12	33	318
Fiona Reynolds	67	-	-	-	-	67
James Rider*	140	78	2	14	26	260
Colin Skellett	287	182	10	20	-	499
Mark Watts	197	132	8	18	36	391
Total £000	**1,172**	**482**	**23**	**64**	**95**	**1,836**

*Part-year emoluments for the period August 2016 to March 2017

Chief Executive

No remuneration was paid to the Chairman (2017 – £nil). The total remuneration for the Chief Executive (Colin Skellett) was:
(information in the table below is subject to audit)

	Remuneration 2017-18 £000	Remuneration 2016-17 £000	% change
WWSL			
Salary	270	287	(5.9)%
Bonus	159	182	(12.6)%
LTIP	6	10	(40.0)%
Benefits	20	20	-
Other group companies			
Salary	180	155	+16.1%
Bonus	276	238	+16.0%
LTIP	4	5	(20.0)%
Benefits	13	11	+18.2%
Total	**928**	**908**	**+2.2%**
All employees WWSL			
Wages and salaries	88,500	79,100	+11.9%
Social security costs	9,200	8,300	+10.8%
Other pension costs (17-18 excluding exceptional credit of £32.9m)	12,400	11,100	+11.7%
Total	**110,100**	**98,500**	**+11.8%**

Comparison with remuneration increase for all employees:

The pay increase awarded to the employees of the Company on 1 April 2017, for the year 2017-18, was a 2.0% increase over the preceding year.

[1] For 11 months

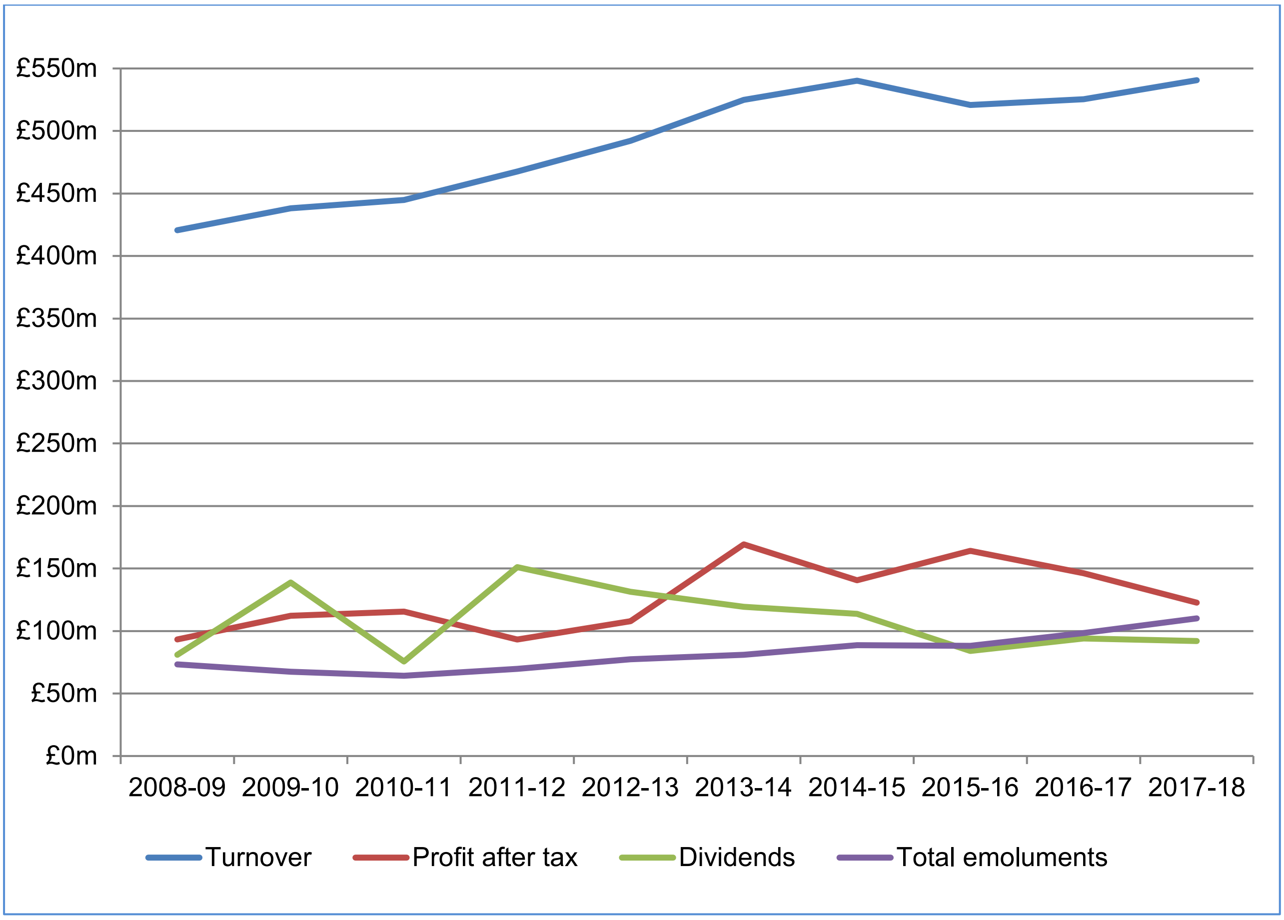
Executive Directors' Defined Benefit Pension Provision
(information in the table below is subject to audit)

	Pension service completed in years (1)	Normal retirement date at 65	Accrued pension at 31/3/2017 £pa	Increase in accrued pension during the year £pa	Accrued pension at 31/3/2018 £pa
Colin Skellett (2)	41	(2)	171,252	4,224	175,476
Mark Watts (3)	28	19/9/2026	129,964	(59,964)	70,000
Andy Pymer	23	(4)	61,861	1,557	63,418
James Rider	33	7/4/2030	68,313	5,235	73,548

(1) Including transfers in and bonus years
(2) Pension is currently in payment
(3) Opted out and pension into payment April 2017
(4) Deferred pension

Remuneration Link to Performance

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



Dividends are as declared in the year. Total emoluments include Directors' emoluments.

Profit after tax and total emoluments in 2017-18 exclude exceptional items.

Executive Directors' Share Interests

Share Options

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

The majority of options are issued under terms approved by HMRC (the "Approved" scheme) but some are issued to senior employees under an "Unapproved" scheme. The options are for ordinary shares in YTL Power International Berhad of Malaysian Ringgit RM0.50 each.

The Executive Directors have been granted ordinary share options of Malaysian Ringgit RM0.50 each in YTL Power International Berhad under the 2011 UK Plan. The exercise of share options granted is not subject to any performance criteria, other than continued employment within the group.

Share options held by Executive Directors at the start and end of the financial year, and the exercise price of those share options are shown in the table below:
(information in the table below is subject to audit)

	Opening number 31/3/2017	Exercise price RM	Date of grant	Exercise date	Expiry date	Closing number 31/3/2018
Colin Skellett	87,000	1.65	1/6/2012	1/6/2015	31/3/2021	87,000
Colin Skellett	1,913,000	1.38	1/6/2012	1/6/2015	31/3/2021	1,913,000
Mark Watts	87,000	1.65	1/6/2012	1/6/2015	31/3/2021	87,000
Mark Watts	913,000	1.38	1/6/2012	1/6/2015	31/3/2021	913,000
Andy Pymer	87,000	1.65	1/6/2012	1/6/2015	31/3/2021	87,000
Andy Pymer	913,000	1.38	1/6/2012	1/6/2015	31/3/2021	913,000
James Rider	87,000	1.65	1/6/2012	1/6/2015	31/3/2021	87,000
James Rider	213,000	1.38	1/6/2012	1/6/2015	31/3/2021	213,000

Approved options were granted at an exercise price of RM1.65. Unapproved options were granted at an exercise price of RM1.49, which was adjusted to RM1.41 following the distribution to all shareholders of one share for every 20 ordinary shares held in 2014, and to RM1.38 following the distribution to all shareholders of one share for every 50 ordinary shares held in 2017.

The share price at 31 March 2018 was RM1.02 or £0.19.

Shares Held

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

	Opening number 31/3/2017	Closing number 31/3/2018
Mark Watts	388,030	395,790
Andy Pymer	53,815	54,891

The share price at 31 March 2018 was RM1.02 or £0.19.

Remuneration Arrangements for Executive Directors 2018-19

Component	Colin Skellett CEO	Mark Watts FD	Andy Pymer MD	James Rider COO
Target bonus (% of salary)	50	50	50	50
Maximum bonus (1) (% of salary)	100	100	100	100
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 213,000
Pension arrangement	Defined benefit - Pension in payment	Defined benefit - Pension in payment	Defined benefit - Pension deferred	Defined benefit
Taxable Benefits	Company car, fuel and private medical insurance			

(1) Of which a proportion is withheld until 2020 under LTIP arrangements

Bonus scheme 2018-19

For 2018-19 there are 30 performance indicators set to reflect the corporate targets in the current regulatory period, as shown below:

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

Environment and Assets – EA's Environmental Performance Assessment / bathing waters passing EU standards / Biodiversity Action Plan landholding assessed and managed / greenhouse gas emissions / proportion of electricity self-generated / all regulatory outputs met / compliance with abstraction licences / monitoring of CSO's presenting a risk to the environment / river water quality improved.

Employees – H&S plan and accident statistics progress as assessed by Corporate Responsibility Committee / employee rating company as a good employer / compliance with training plan / staff turnover / diversity plan progress as assessed by Corporate Responsibility Committee.

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

Target Bonus 2018-19	**Colin Skellett CEO**	**Mark Watts FD**	**Andy Pymer MD**	**James Rider COO**
Customer				
% of salary	10.0%	10.0%	10.0%	10.0%
Amount £	27,600	19,832	31,200	22,100
Environment and Assets				
% of salary	10.0%	10.0%	10.0%	10.0%
Amount £	27,600	19,832	31,200	22,100
Employees				
% of salary	10.0%	10.0%	10.0%	10.0%
Amount £	27,600	19,832	31,200	22,100
Financial				
% of salary	10.0%	10.0%	10.0%	10.0%
Amount £	27,600	19,832	31,200	22,100
Individual				
% of salary	10.0%	10.0%	10.0%	10.0%
Amount £	27,600	19,832	31,200	22,100
Total				
% of salary	**50%**	**50%**	**50%**	**50%**
Amount £	**138,000**	**99,160**	**156,000**	**110,500**

Long term incentive scheme from 1 April 2015

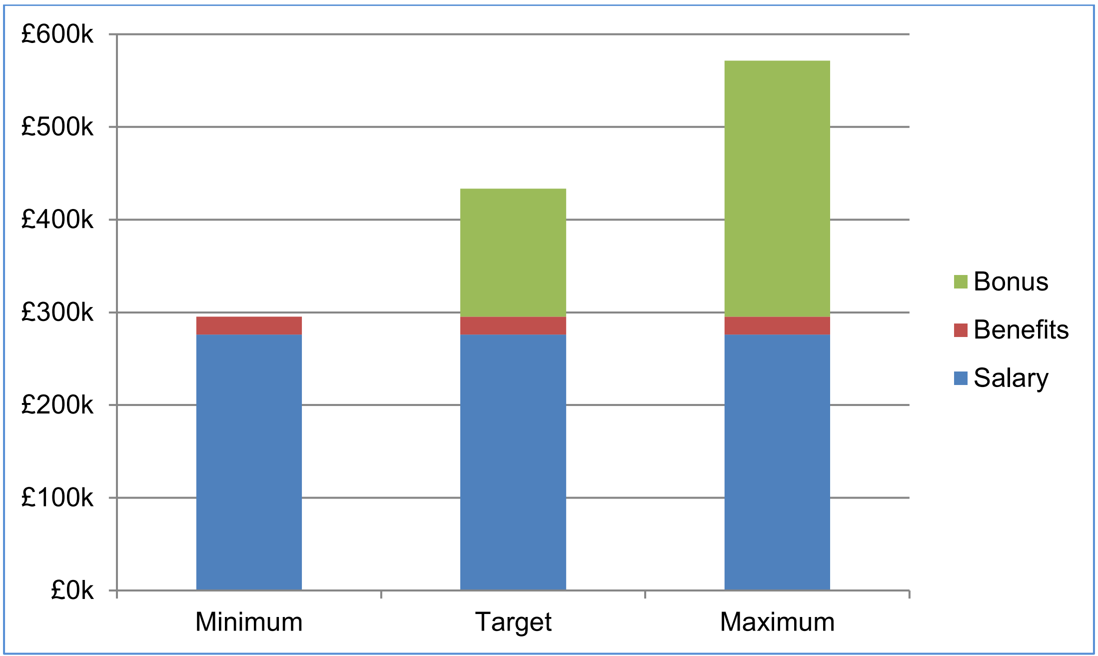
The Remuneration Committee approved the establishment of a long term incentive plan (LTIP) for Directors in 2015 whereby 20% of any above target bonus element earned, will be held back for payment at the end of AMP6 in 2020. The Company will match the value of the retained bonus payment, up to 100%. The LTIP will be paid to Directors in April 2020.

Amounts of bonus held back from Executive Directors under the LTIP scheme were as follows:

Bonus held back as LTIP	Colin Skellett CEO	Mark Watts FD	Andy Pymer MD	James Rider COO
2015/16	£10,608	£8,000	-	-
2016/17	£9,634	£8,430	£2,667	£2,445
2017/18	£5,963	£7,370	£1,000	£300
Total	£26,205	£23,800	£3,667	£2,745

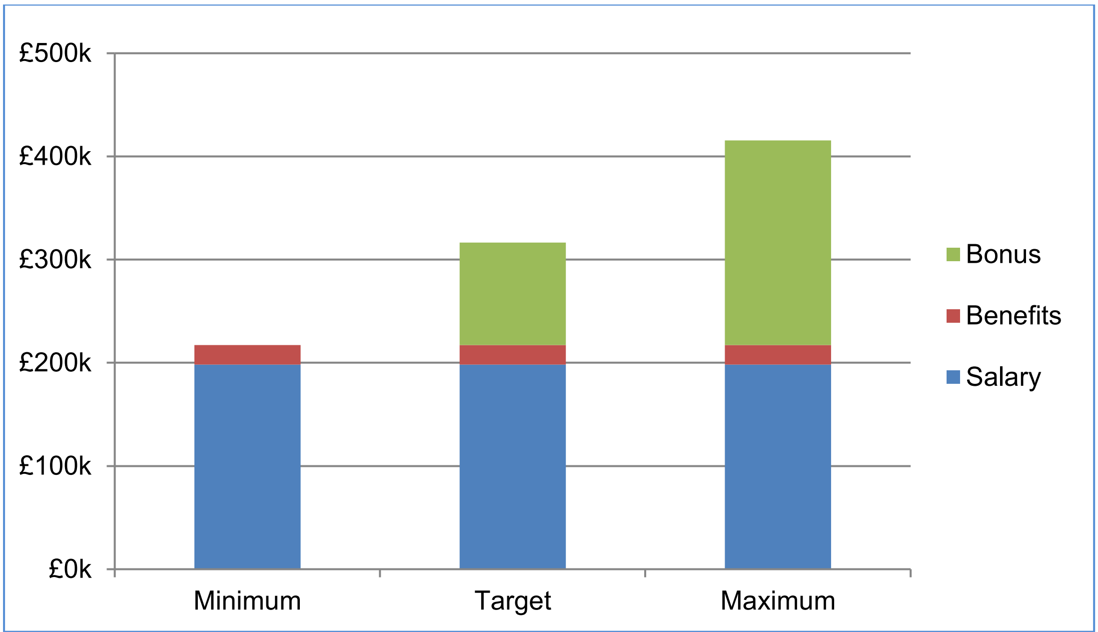
Illustrations of Remuneration Policy

A) Colin Skellett - CEO (using estimated 2018-19 data)



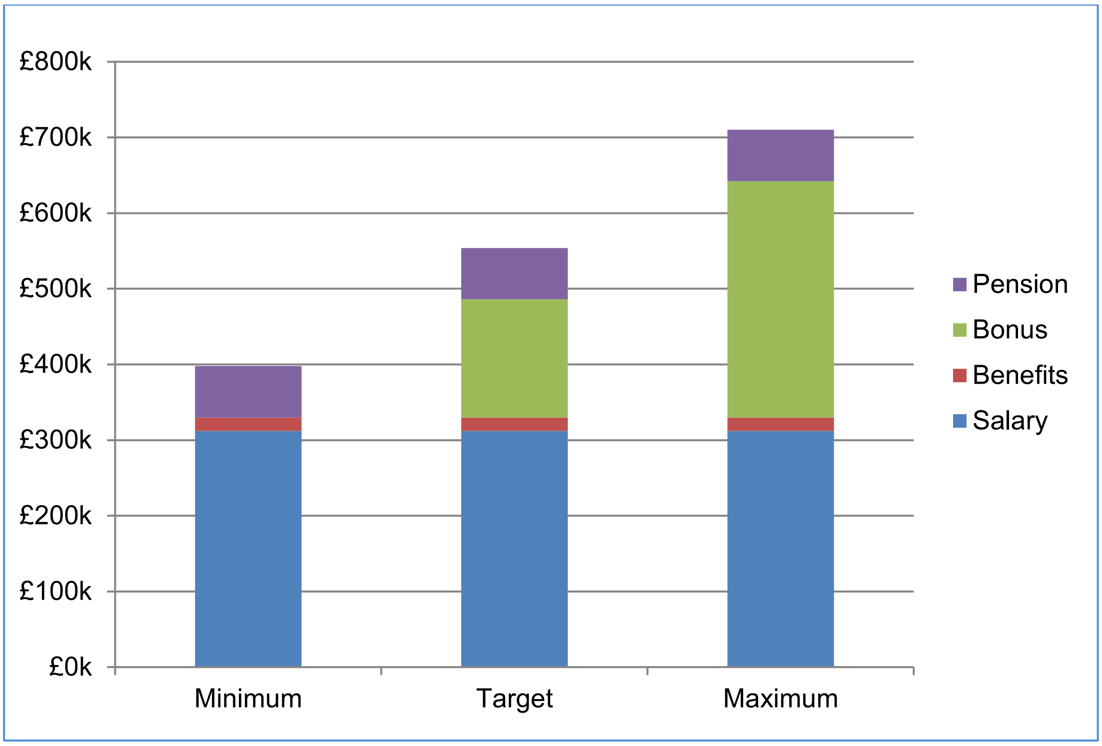
Minimum assumes no bonus earned, target assumes 50% bonus earned and maximum assumes 100% bonus earned. No employer pension contributions.

B) Mark Watts – FD (using estimated 2018-19 data)



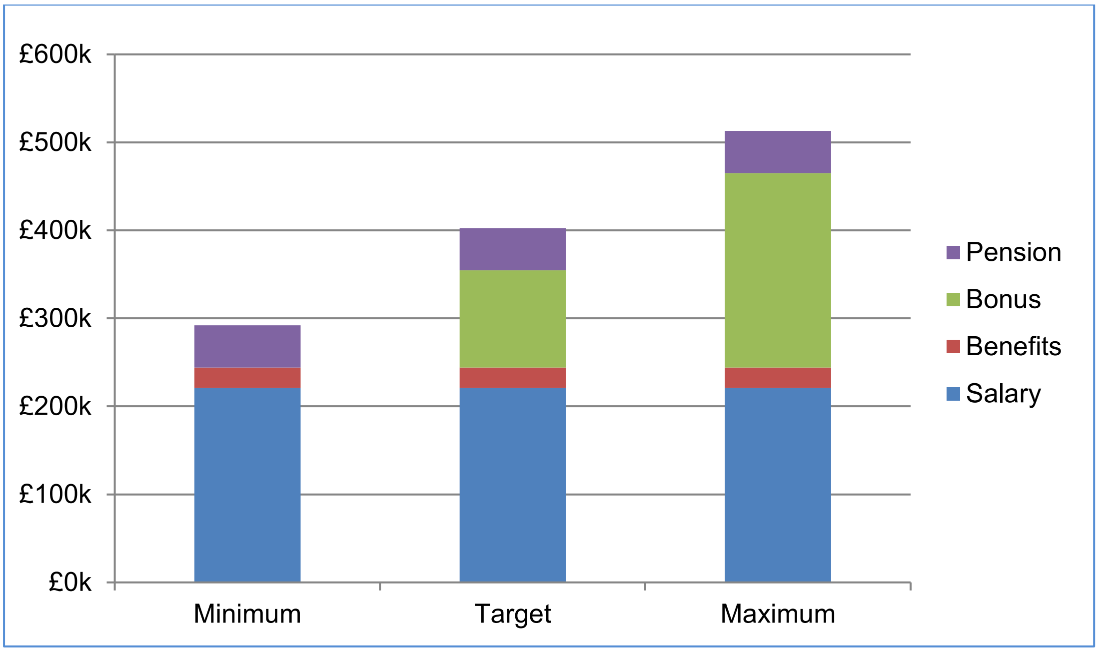
Minimum assumes no bonus earned, target assumes 50% bonus earned and maximum assumes 100% bonus earned. No employer pension contributions.

C) Andy Pymer – MD (using estimated 2018-19 data)



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

D) James Rider – COO (using estimated 2018-19 data)



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

Viability Statement

The Directors are required to assess the viability of the Company over a longer period than the 12 months required by a Going Concern statement.

The Directors have determined that currently a seven-year period to 31 March 2025 is an appropriate period over which to provide its Viability Statement. During the course of this year the Directors have been considering in detail a business plan and associated financial projections up to the end of March 2025. This plan will be submitted to the Water Services Regulation Authority (Ofwat) in September 2018.

The Directors have reviewed the principal risks contained in the Annual Review Summary. They have taken into account the current financial position of the Company, its cash deposits and available funds.

The regulatory model under which the Company operates gives a level of certainty over turnover up to March 2020 subject to assumption on RPI in November 2018. There is a large capital expenditure programme over the next two years, of a similar nature to that delivered in previous regulatory control periods, allowing the Directors to be able to predict the cost of construction with some certainty. The borrowing facilities in place are long term and maturing after 31 March 2020 with the exception of one £140m loan. The mix of borrowings is spread between fixed, floating and index linked. Interest rates are at a historically low and stable level and predictions of future increases are moderate.

The key areas considered by the Directors were:

- the liquidity of the Company over the next two years, and the probability that the Company will be able to replace the £140m loan with another borrowing facility
- compliance with financial covenants in respect of gearing and interest cover
- the impact of a higher than expected accounting pension deficit

Taking the Company risk register into account, plus the regulatory environment, the impact of the wider Group and the wider economic situation and outlook, the Directors considered the impact of individual risks. They also considered a series of scenarios linking back to one or more risks that would place financial stress on the company. These are:

Scenario considered	Link to Principal risk
The potential immediate and follow-on consequences of extreme weather conditions, such as higher expenditure, lower revenues and regulatory fines	Regulatory action, severe pollution incident
The potential immediate and follow-on consequences of a catastrophic service failure	Outcome delivery incentive failure, unfit water, information management
Macroeconomic shock (including lower productivity, lower demand, lower inflation, higher energy and construction costs, higher finance costs)	Availability of new finance

The scenarios above are hypothetical and severe for the purpose of creating outcomes that have the ability to threaten the viability of the Company; however, multiple control measures are in place to mitigate or prevent any impacts. If these scenarios arise various options are available to the Company in order to maintain liquidity so as to continue in operation. These include reducing any non-essential capital expenditure on projects, as well as not paying dividends. The results of the above stress testing showed that the Company would be able to withstand the impact of these scenarios occurring up to March 2020.

The Directors therefore confirm that they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due up to 31 March 2020.

The Directors have also considered the subsequent period from April 2020 to March 2025.

Ofwat has a statutory duty to finance the proper carrying out of the Company's functions, in particular by enabling the Company to secure a reasonable return on its capital. The Directors have assumed in this further analysis that Ofwat performs its statutory duty appropriately, and understand that were that not to be the case an appeal could be made to the Competition and Markets Authority in early 2020.

The regulatory model also allows for turnover to be adjusted upwards in the event of a substantial adverse effect on the financial position of the Company, where this effect would not have been avoided by prudent management action. It also allows for turnover to be adjusted where a new legal obligation imposed on the Company as a water and sewerage undertaker has led to a material increase in the costs incurred.

In addition to the scenarios run above, the Directors have considered some additional scenarios that take into account longer term risks against the regulatory framework that will be in place as published in Ofwat's price review methodology.

Scenario	**Details**
Inflation sustained at a low level for five years	Inflation 2% lower than the Bank of England central forecast
Sustained high costs of new debt finance for five years	2% higher than central forecast
Sustained overspend	Sustained 15% overspend
A sustained increase in bad debt	20% increase
Regulatory enforcement action	Fines of 3% of turnover in one year
Combined service failures and overspend	Sustained overspends of 10%, sustained service failure penalties of 1.5% regulated equity and a regulatory fine of 1% of turnover

Again the scenarios above are hypothetical and severe for the purpose of creating outcomes that have the ability to threaten the viability of the Company; however, multiple control measures are in place to mitigate or prevent any impacts.

In making its assessment of financial viability over this extended time period the Directors primarily considered the ability of the company to retain credit metrics consistent with an investment grade credit rating and found that in almost all cases this was possible post mitigation.

The Directors noted that in a small number of instances not all metrics are held above a level that is required to maintain an investment grade rating, even with the most available mitigating actions having been taken.

Where this is the case the Directors considered the circumstances that would give rise to these modelled scenarios more deeply.

Having done so the Directors considered that in some scenarios the impact can be shown to be short-lived and would not reflect the underlying viability of the Company.

In scenarios where the strain on ratings has more longevity the Directors consider it would be highly probable that a significant proportion of the adverse impact would have been caused by an unforeseen circumstance that could not have been avoided by prudent management action. The Directors would in these circumstances seek an adjustment to allowed turnover, and Ofwat would be required to allow this through the regulatory framework.

In making this statement the Directors also considered a report on the analysis undertaken by the Company from a third party with longstanding expertise in regulatory economics and finance.

Following these assessments, and subject to the appropriate performance of Ofwat's statutory duties, the Directors confirm that they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due up to 31 March 2025.

Strategic Report

Introduction

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

We retain a strong sense of public service across our organisation, which is run by local employees who are customers themselves and members of the communities we serve.
We are pleased, therefore, that we have had another strong year, exceeding most of our targets and improving our service. The investment and performance that we have delivered in the past 12 months demonstrates that we take our responsibilities seriously.

We aim to be the best and our performance this year continues to lead the industry. We have had another great year for customer service and expect to be one of the top water and sewerage companies for customer service in Ofwat's service incentive measure, and to continue to have the fewest complaints of any company in the industry. We also remain industry-leading for environmental performance according to the Environment Agency, and are top of the Drinking Water Inspectorate's new league table for drinking water compliance.

We have met or exceeded most of our targets for the year, including those of most importance to customers such as minimising internal sewer flooding, for which we have achieved a provisional incentive payment.

Our results include two exceptional items identified in the year, a pension credit of £32.9m resulting from the agreement of the pension scheme to change the measurement of inflation from RPI to CPI and a deferred taxation charge of £22.2m arising from the pension credit (£5.6m) and an alignment with group methodology in relation to industrial building allowances (£16.6m).

Financial Performance

The UK group structure has remained the same since 2002 with the company wholly owned by Wessex Water Limited, which in turn is wholly owned by YTL Utilities (UK) Limited.
Neither of these entities provide any intragroup funding to the company with virtually all the debt raised for the UK group sitting within the company and all borrowings at market rates provided by financial third parties.

Gearing, as measured by net debt to RCV, stands at 64%. On a pensions-adjusted basis, this figure rises to 68%, which the board still finds an acceptable level. During the year the board has continued to pay particular attention to the projected level of the company's gearing ratio with a view, when declaring dividends, to protect the company's existing credit ratings. The board remains committed to maintaining good investment grade credit ratings for the company at all times.

The latest actuarial valuation of the company's pension scheme took place on 30 September 2016, showing a deficit of £160.9m. The company has agreed with the scheme's trustees a payment recovery plan in respect of the deficit comprising employer contributions of 21.7%
and special contributions to reduce the deficit. The special contributions are £11.0m on 31 March 2018 and £11.0m plus inflation annually through to 31 March 2024. The company is committed to honouring the special contribution obligations it signed up to.

The company has an adequate liquidity position comprising cash and cash equivalents held on the balance sheet along with undrawn bank facilities, giving the company instant access to funding if needed. The company is also in negotiation to secure a new £140m bank loan to replace an existing one that matures in December 2018.

Highlights include:

- Operating profit (excluding exceptional items) increased by £8.4m from £226.3m to £234.7m.
- Turnover increased by £15.3m or 2.9% while underlying operating costs increased by £6.9m or 2.3%.

- There was also an exceptional increase in operating profit of £32.9m in respect of a change in the measurement of inflation in the pension scheme.
- The cost of debt increased from 3.7% to 4.2%. We maintained a balanced mix of financial instruments, but the increase in interest rates was primarily on index linked instruments this year.
- Capital expenditure delivered in the third year of AMP6 was £250.5m, an increase of £36.5m over £214.0m last year.
- Profit before tax (excluding exceptional items) fell by £1.1m from £152.4m last year to £151.3m, although including the exceptional credit profit before tax increased by £31.8m.
- Gearing, as measured by net debt to regulatory capital value, has fallen from 64.7% last year end to 63.9% this year end.
- We achieved all of our key financial targets in the year (profit after corporation tax, operational costs, net capital expenditure, cash flow before dividends and dividends declared).

Further details on the company's performance for the year are included within the Annual Review Summary which is available on the company website.

The Future

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

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

Principal Risks

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

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

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

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

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

- The Audit Committee has been re-named the Audit & Risk Committee.

- The WWSL Services Management Team now has a standing item on risk at each monthly meeting.
-
- Clearer lines of responsibility from the Board, through Executive Directors to the Risk and Resilience Management Group.

- Detailed assessments of the effectiveness of each risk mitigation action have been developed.

- A process of reviewing of whether the risks are currently in or out of tolerance has been introduced.

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

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

- Major pollution incident. Significant effort is made to prevent such an incident occurring through staff adherence to company processes and procedures. Local emergency plans are in place to protect the local environment at key installations and monitors are being installed to mitigate the risk at critical locations.

- Digital resilience. Most activities undertaken by the business are reliant on the availability of IT services and facilities and the company continues to examine ways in which IT resilience can be maintained and, where appropriate, improved. While regular improvements continue to be made, the threat persists with an increase in attacks being experienced. The quarterly Information Security Forum maintains the focus on mitigating this risk.

- Health and safety incident. Serious injury or death of a staff member or third party could expose the company to prosecution under health and safety legislation and the Corporate Manslaughter Act. Health and safety is of paramount importance to us with processes and procedures implemented through staff training and regularly monitored to maintain compliance and to protect people from harm. Our 'Take 5 to Check 5' initiative has been successful in maintaining the focus on health and safety and our approach continues to be recognised through national awards.

- Resourcing and skills. There is already a recognised short-fall in STEM skills (Science, Technology, Engineering and Maths), which is compounded by the uncertainty from the Brexit vote and heightened in our region by the impact of the Hinkley Point C programme. As expected this situation is becoming more challenging and we our People Programme is helping to mitigate this risk.

- Insider threat. Considerable damage could be done to the company's reputation by a rogue or radicalised employee or contractor. References are obtained for all new starters, whether permanent or contract. DBS checks are undertaken for all new permanent and fixed-term staff and for agency staff working in sensitive areas of the business. Further mitigation plans are being developed to counter what is one of the most significant risks on the national risk register.

- Information management (GDPR). The programme plan will achieve compliance with the regulations. Further cultural, process and systems improvements will continue to be made to improve our resilience.

- Anti-competitive behaviour. We remain vigilant after the opening of the non-household market. Our competition team meets monthly to consider emergent issues and risks and appropriate actions to ensure we continue to comply with the Competition Act.

- Availability of new finance. The bond markets are used extensively to fund new investment. The current economic climate post Brexit vote has shown the volatility of these markets. The relationship with bond markets and rating agencies will be maintained and the board will continue to ensure that the company operates within prudent financial parameters. This annual review includes our long-term viability statement which includes modelling the main financial risks.

- Outcome delivery incentive failure. The business is focused on achieving the targets. While processes, data and culture are all embedded, risks remain following another year of generally benign conditions. As well as reputational risk there are also financial penalties which can be incurred if we do not remain vigilant and continue to stretch ourselves to improve the service to our customers.

- Widespread unfit water. The completion of our integrated water supply grid and the removal of standalone sources for most of our customers means we have improved our resilience against the risk of a major failure of process or contamination of the water supply. Nevertheless, we continue to challenge ourselves to improve and risk assessments are formally reviewed at the monthly risk meetings and where appropriate mitigation action are implemented throughout the year.

While the corporate risk register holds 80-100 risks at any time, the principal risks are those that the board consider could have a material impact on the capability of the business to perform its functions. All these risks are subject to active mitigation strategies and the board considers that the company is taking appropriate action to mitigate the severity and likelihood of those risks to an acceptable level.

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 2018. 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 a regulatory Annual Performance Report 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 Annual Performance Report to reconcile those results to the Company accounts. Under the terms of its Licence as a water and sewerage undertaker the Company is required to prepare a statement of corporate governance as if it were a listed company.

The Directors consider the annual report and non-statutory accounts taken as a whole, to be fair, balanced and understandable and it provides the information necessary for shareholders to assess the Company’s position and performance, business model and strategy.

Principal Activities

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

In December 2014 the industry regulator Ofwat announced the final price control determination for the five- year period to March 2020. The price control for this period has been extended from one price control to four price controls covering wholesale water, wholesale waste water, household retail and non-household retail. The Directors accepted the price review for the next five years.

On 1 April 2017 all non-household customers were able to choose their retailer for water services. From that date the Company continued to offer wholesale services to those customers, but retail services were offered through Water2Business Ltd a joint venture between Wessex Water Ltd and Bristol Water Holdings Ltd.

Going concern

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

Sustainability

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.

Ethical Policy

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

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

Our People

It takes great people and great teamwork to provide water and sewerage services to nearly three million customers, 24 hours a day, seven days a week. That's why we encourage and reward our employees for their contribution to achieving our aims. We seek their ideas and put them into practice, celebrate success at our annual awards and encourage them to go the extra mile with our GEM scheme. This year we launched our People Programme, a dedicated programme of initiatives to address current and future strategic people priorities in areas including resourcing, talent management, reward and recognition, future working, diversity and employee wellbeing.

Our apprenticeship strategy is proving successful for both the Company and the local community, offering secure employment opportunities across our region.

Employment

Wessex Water Services Ltd is an equal opportunities employer. No person or group of persons applying for a job with the Company is treated less favourably than any other person or groups of persons because of their gender, race, class, colour, nationality, ethnic origin, marital status, sexual orientation, age, trade union membership or activity, religious belief or physical or mental disability.

Selection procedures and criteria ensure that individuals are selected and promoted on the basis of their relevant merits and abilities. These procedures are monitored and regularly reviewed.

Where necessary, the Company provides staff with ongoing professional development to enable them to compete or qualify for positions, or to progress, within the Company.

The Modern Slavery Act 2015

Wessex Water is committed to meeting the aims of the Modern Slavery Act 2015. We strongly oppose slavery and human trafficking in our supply chains and in any part of our business. To be trusted to do the right thing is one of our core values. We would never knowingly engage with suppliers or contractors involved in slavery or human trafficking. In accordance with the requirements of the Act we have published on our website a Slavery and human trafficking statement 2018.

Environmental Policy

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

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 2018.

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 2018 trade creditors represented approximately 26 days trade purchases (2017 – 29 days).

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

Charitable Donations

During the year £334,780 was donated to UK charities (2017 – £398,750) of which £224,690 (2017 –
£245,230) was donated to local debt advice agencies to help provide debt and financial advice to customers in our area who are struggling to pay their water bills.

Disclosure of Information to Auditor

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

Auditor

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

By order of the Board
Leigh Fisher-Hoyle – General Counsel
Claverton Down
Bath
BA2 7WW
6 July 2018

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the non-statutory accounts in accordance with applicable regulations.

The Company's licence conditions, as set by the Water Services Regulation Authority, require the Directors to prepare Company accounts for each financial year to 31 March.

The Directors have elected to prepare the non-statutory accounts in accordance with IFRSs as adopted by the EU and as if the requirements of the Companies Act 2006 were to apply to them.

The Directors are required to prepare accounts that give a true and fair view of the revenues, costs, assets and liabilities of the Company.

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

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that are reasonable and prudent;
- stated whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepared the non-statutory accounts on the going concern basis.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its non-statutory accounts comply with the Companies Act 2006, as if those requirements were to apply to the Company. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The Directors have decided to prepare voluntarily a Directors' Remuneration Report in accordance with Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 made under the Companies Act 2006, as if those requirements were to apply to the Company. The Directors have also prepared a Corporate Governance Statement as if the Company were required to comply with the Listing Rules and the Disclosure Rules and Transparency Rules of the Financial Conduct Authority in relation to those matters.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

We consider the annual report and non-statutory accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

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

Opinion

We have audited the financial statements of Wessex Water Services Limited for the year ended 13 March 2018 which comprise the Income Statement, Statement of Other Comprehensive Income, Balance Sheet, Statement of Changes in Equity, Cash Flow Statements and the related notes 1 to 29, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is the International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion the financial statements:

- give a true and fair view of the company's affairs as at 31 March 2018 and of its profit for the year then ended; and

- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs(UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report set out on page 44-46 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation set out on page 47 in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement set out on page 50 in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements
- whether the directors' statement in relation to going concern required under provisions C.1.3 and C.2.2 is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation set out on page 40-42 in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Overview of our audit approach

Key audit matters	• Revenue recognition • Valuation of bad debt provision • Classification of costs between operating and capital expenditure • Defined Benefit Pension Liability

Materiality	• Overall materiality of £7.1m which represents 4.7% of profit before tax before exceptional items.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	**Our response to the risk**	**Key observations communicated to the Audit Committee**
Revenue Recognition (Revenue £540.6m, PY comparative £525.3m & Accrued Income £61.6m, PY comparative £73.2m) *Refer to the Audit Committee Report (page 19); Accounting policies (page 68); and Note 2 of the Consolidated Financial Statements (page 71)* Revenue relates to the provision of water and sewerage services. ISAs (UK & Ireland) presume there is a risk of fraud relating to revenue recognition. This risk over revenue recognition arises in relation to the unbilled income accrual from metered water services. This income accrual requires an estimation of the amount of unbilled charges at the period end. This is calculated using system generated information based on previous customer volume usage.	Our procedures include: • We obtained an understanding of the process for the supply of measured services, meter reading and related billing in order to assess the completeness of adjustments to reflect the accrual or deferral of revenue • We tested key controls linked to system generated information and around the estimation process for measured revenue • We compared the accrued income to bills raised post year end for a sample of customers, and compared management's history of estimating the accrued income balance to bills raised in the subsequent year to assess the accuracy of the accrued income balance • For a selected sample we recalculated the accrued income based on customers' historical usage data • We performed analytical procedures by comparing revenue balances for the year against expectation and obtaining support for significant variances	We concluded that the estimation process undertaken by management to calculate the measured income accrual reflects latest operational factors in the key assumptions and results in an acceptable income accrual.

	• We corroborated the key assumptions and estimates made by management in recognising revenue, by obtaining internal and external data on factors that influence demand from customers. • We tested whether contract terms and conditions were met and revenue recognised at the correct time in accordance with IFRS • We tested a sample of transactions to underlying bills • We performed journal testing with increased attention on entries impacting revenue, particularly those raised close to the balance sheet date.	
Valuation of bad debt provision (£42.4 million, PY comparative £39.1 million) *Refer to the Audit Committee Report (page 19); Accounting policies (page 66); and included within Note 22 of the Financial Statements (page 88)* The provision is calculated using a combination of system generated information on historic debt recovery rates and management's judgement of the future likely recovery rates. There is a risk that the assumptions, used by management in calculating the bad debt provision, may be susceptible to management bias or that data used / calculation may contain errors and the valuation of the provision against trade receivables may be therefore be misstated	Our procedures include: • We obtained an understanding of the Company's process for calculating the bad debt provision as at 31 March 2018, with a specific focus on the assumptions made by management in performing the calculation. • We analysed and assessed the controls testing performed by the service auditors in relation to controls over the integrity of data used by the Company in calculating the provision. We also performed our own substantive testing to ensure the completeness and accuracy of this data. • We challenged the assumptions used by management in determining the amounts provided against the different payment profiles and considered indicators of management bias. • We compared assumptions	We concluded that the method used by the Company to calculate the bad debt provision results in an acceptable valuation of the provision.

	to historic collection rates and confirmed that these were being correctly used in the calculation. • We utilised collection information over the past five years, to determine an alternative assessment of the likely ultimate collection of debts existing at the balance sheet date and compared this to the provision recorded by management • Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.	
Classification of costs between operating and capital expenditure (Capital expenditure £234.2 million, PY comparative £191.5 million) *Refer to the Audit Committee Report (page 19); Accounting policies (page 65); and included within Note 10 of the Financial Statements (page 76)* The magnitude of Wessex Water's capital spend, and the level of subjectivity in allocating costs between operating and capital expenditure result in there being a potential for error in the accounting for fixed assets.	Our procedures include: • We tested controls over the approval of the capital budget and the classification of expenditure for individual projects. • We sampled capital expenditure costs in the year and agreed the costs to underlying support, including timesheets, invoices and journal postings. • We made enquiries of project managers for a sample of projects to understand the nature of the work being undertaken, length of the construction period and any key risks which were present on the project. • We challenged management's assumptions used in allocating certain costs between capital and operating expenditure. Specifically this has included assessing the appropriate capitalisation of the following types of costs; overheads, interest, & infrastructure maintenance.	We concluded that operating and capital expenditure had been correctly accounted for in the financial statements.

Defined benefit pension liability (£153.7 million, PY comparative £194.7 million) *Refer to the Audit Committee Report (page 19); Accounting policies (page 67); and included within Note 17 of the Financial Statements (page 80)* Wessex Water Services Limited operates a retirement benefits scheme for its employees which is classified as a defined benefit scheme. The valuation of the defined benefit pension liability requires the use of a number of actuarial and other assumptions in deriving the final values. Given the inherent subjectivity in setting these assumptions there is a risk that the use of inappropriate assumptions may result in a material misstatement.	• With the assistance of our EY pension actuarial specialists we assessed the reasonableness of key assumptions, comparing these with external data. • We understood any key events / changes in the pension scheme during the current year. • Evaluated the Company's assessment of the accounting implications of the change in future pension increases • Assessed the Company's financial statement disclosures in relation to the defined benefit pension scheme.	We concluded that the assumptions selected by the Company to determine the defined benefit pension liability were all within

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the company and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed. All audit work was performed directly by the audit engagement team.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality
The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the company to be £7.1 million, which is 4.7% of profit before tax before exceptional items. We believe that profit before tax before exceptional items provides us with an appropriate and generally accepted benchmark for materiality.

In the prior year audit, KPMG adopted a materiality of £7.1 million based on 5% of revenues.

Performance materiality
The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the company's overall control environment, our judgement was that performance materiality was 75% of our planning materiality, namely £5.3m. We have set performance materiality at this percentage due to a past history of few misstatements indicating a lower risk of misstatement in the financial statements.

Reporting threshold
An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £357,000 (2017: £357,000), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report set out on pages 1 - 50, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable set out on page 47 –** the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting set out on page 17 - 19 –** the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code set out on page 7 –** the parts of the directors' statement relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor (specifically C.1.1, C.2.1 and C.2.3 and C3.1 to C.3.8) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions on other matters as agreed in our Engagement Letter:

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared with the basis of preparation described therein.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 50, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's directors, as a body, in accordance with our engagement letter dated 26 June 2018. Our audit work has been undertaken so that we might state to the company's directors those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's directors as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP
Bristol
6 July 2018

Notes:
1. The maintenance and integrity of the Wessex Water Services Limited web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Income Statement

For the year ended 31 March 2018

	Note	**2018 £m** Before exceptional items	**2018 £m** Exceptional items Note 4	**2018 £m** Total	2017 £m
Revenue	*2*	**540.6**	**-**	**540.6**	525.3
Raw materials and consumables used		**(33.7)**	**-**	**(33.7)**	(30.2)
Staff costs		**(69.5)**	**32.9**	**(36.6)**	(59.3)
Depreciation and amortisation		**(101.2)**	**-**	**(101.2)**	(103.7)
Other expenses		**(101.5)**	**-**	**(101.5)**	(105.8)
Total expenses	*3*	**(305.9)**	**32.9**	**(273.0)**	(299.0)
Operating profit	*2*	**234.7**	**32.9**	**267.6**	226.3
Financial income	*7*	**0.4**	**-**	**0.4**	1.0
Financial expenses	*7*	**(83.8)**	**-**	**(83.8)**	(74.9)
Net financing expense		**(83.4)**	**-**	**(83.4)**	(73.9)
Profit before tax		**151.3**	**32.9**	**184.2**	152.4
Taxation	*8*	**(28.5)**	**(22.2)**	**(50.7)**	(6.3)
Profit for the year		**122.8**	**10.7**	**133.5**	146.1

As there are no non-controlling interests, the profit for the year is wholly attributable to the owners of the parent company.

Statement of Other Comprehensive Income

For the year ended 31 March 2018

	2018 **£m**	2017 £m
Profit for the year	**133.5**	146.1
Other comprehensive income		
Items that will not be reclassified to profit or loss:		
Remeasurements of defined benefit liability	**7.0**	(53.2)
Income tax on items that will not be reclassified to profit or loss	**(1.2)**	7.6
Other comprehensive gain/(loss) for the year, net of income tax	**5.8**	(45.6)
Total comprehensive income for the year	**139.3**	100.5

As there are no non-controlling interests, the comprehensive income for the year is wholly attributable to the owners of the parent company.

Balance Sheet

At 31 March 2018

	Note	**2018 £m**	2017 £m
Non-current assets			
Property, plant and equipment	*10*	**3,555.5**	3,427.9
Investments in subsidiaries	*11*	**-**	-
		3,555.5	3,427.9
Current assets			
Inventories	*12*	**5.7**	7.2
Trade and other receivables	*13*	**185.0**	175.3
Cash and cash equivalents	*14*	**35.8**	103.5
		226.5	286.0
Total assets		**3,782.0**	3,713.9
Current liabilities			
Other interest-bearing loans and borrowings	*15*	**(145.4)**	(5.1)
Trade and other payables	*16*	**(196.1)**	(188.2)
		(341.5)	(193.3)
Non-current liabilities			
Other interest-bearing loans and borrowings	*15*	**(1,875.9)**	(2,002.0)
Other payables	*16*	**(0.4)**	(0.4)
Employee benefits	*17*	**(153.7)**	(194.7)
Deferred income	*18*	**(259.7)**	(249.7)
Provisions	*19*	**(0.1)**	(0.1)
Deferred tax liabilities	*20*	**(348.9)**	(319.2)
		(2,638.7)	(2,766.1)
Total liabilities		**(2,980.2)**	(2,959.4)
Net assets	*2*	**801.8**	754.5
Equity			
Share capital	*21*	**-**	-
Retained earnings		**801.8**	754.5
Total equity		**801.8**	754.5

The notes on pages 63 to 93 form an integral part of these non-statutory financial statements.

These financial statements were approved by the Board of Directors on 6 July 2018 and were signed on its behalf by:

Colin Skellett – Chief Executive

Mark Watts – Director

Company registered number: 2366648

Statement of Changes in Equity

For the year ended 31 March 2018

	Note	**Share capital £m**	**Retained earnings £m**	**Total equity £m**
Balance at 1 April 2016		-	748.0	748.0
Total comprehensive income for the year				
Profit for the year		-	146.1	146.1
Other comprehensive income		-	(45.6)	(45.6)
Total comprehensive income for the year		-	100.5	100.5
Transactions with owners, recorded directly in equity				
Dividends	*9*	-	(94.0)	(94.0)
Total contributions by and distributions to owners		-	(94.0)	(94.0)
Balance at 31 March 2017		-	754.5	754.5
Balance at 1 April 2017		-	754.5	754.5
Total comprehensive income for the year				
Profit for the year		-	133.5	133.5
Other comprehensive income		-	5.8	5.8
Total comprehensive income for the year		-	139.3	139.3
Transactions with owners, recorded directly in equity				
Dividends	*9*	-	(92.0)	(92.0)
Total contributions by and distributions to owners		-	(92.0)	(92.0)
Balance at 31 March 2018		-	801.8	801.8

Included in retained earnings are £558.5m of un-distributable reserves (2017 - £563.8m) created on first time adoption of IFRS when restating infrastructure assets to fair value.

Cash Flow Statement

For the year ended 31 March 2018

	Note	2018 £m	2017 £m
Cash flows from operating activities			
Profit for the year		**133.5**	146.1
Adjustments for:			
Depreciation, amortisation and impairment		**101.2**	103.7
Financial income		**(0.4)**	(1.0)
Financial expense		**83.8**	74.9
Taxation		**50.7**	6.3
		368.8	330.0
(Increase) in trade and other receivables		**(9.1)**	(4.3)
Decrease / (increase) in inventories		**1.5**	(0.1)
(Decrease) in trade and other payables		**(7.2)**	(0.6)
(Decrease) in provisions and employee benefits		**(38.7)**	(4.4)
		(53.5)	(9.4)
Tax paid		**(21.4)**	(24.4)
Net cash from operating activities		**293.9**	296.2
Cash flows used in investing activities			
Proceeds from sale of property, plant and equipment		**2.9**	1.5
Proceeds from sale of intangible assets		**4.4**	-
Interest received		**0.4**	1.0
Acquisition of property, plant and equipment		**(220.3)**	(192.9)
Proceeds from infrastructure charges and capital contributions		**9.5**	8.9
Net cash from investing activities		**(203.1)**	(181.5)
Cash flows from financing activities			
Proceeds from new loan		**-**	50.0
Interest paid		**(61.5)**	(61.5)
Payment of finance lease liabilities		**(5.0)**	(4.5)
Dividends paid		**(92.0)**	(90.5)
Net cash from financing activities		**(158.5)**	(106.5)
(Decrease)/increase in cash and cash equivalents		**(67.7)**	8.2
Cash and cash equivalents at 1 April		**103.5**	95.3
Cash and cash equivalents at 31 March	*14*	**35.8**	103.5

Notes to the Financial Statements

1. Accounting Policies

1.1 Basis of preparation

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

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

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

Judgements made by the Directors, in the application of these accounting policies, that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 29.

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 27).

The non-statutory accounts do not constitute the Company's statutory accounts for the years ended 31 March 2018 or 2017. 31 March 2018 is not the accounting reference date for the Company. The latest statutory accounts of the Company were for the years ended 30 June 2017 and 30 June 2016. 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 2018.

As explained on page 47, these non-statutory accounts have been prepared by the Directors for the same period as the regulatory Annual Performance Report which have to be prepared for the 12-month period ending 31 March each year in order to allow a user of the regulatory Annual Performance Report to reconcile them to historical cost accounts of the Company.

1.2 Measurement convention

The financial statements are prepared on the historical cost basis.

1.3 Going concern

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

1 Accounting policies (continued)

1.4 Foreign currency

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

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

1.5 Financial instruments

Investments

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

Cash and cash equivalents

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

Interest-bearing borrowings

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

1.6 Property, plant and equipment

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

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

Leases in which the Company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Where land and buildings are held under leases the accounting treatment of the land is considered separately from that of the buildings.

Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and less accumulated impairment losses.

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

1 Accounting policies (continued)

1.6 Property, plant and equipment (continued)

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

- Buildings and operational assets 15 to 80 years
- Infrastructure assets 60 to 150 years
- Plant, machinery and vehicles 3 to 30 years
- Office and IT equipment 3 to 10 years

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

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

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

1.7 Research and development

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

1.8 Inventories

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

1.9 Impairment excluding inventories and deferred tax assets

Financial assets (including receivables)

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

1 Accounting policies (continued)

1.9 Impairment (continued)

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

Non-financial assets

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

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

1.10 Employee benefits

Defined benefit plans

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

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

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

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

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

1 Accounting policies (continued)

1.10 Employee benefits (continued)

The Company's recognises a cost equal to its contribution payable for the period. The scheme has been closed to new members since 2009.

Defined contribution plans

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

Short-term benefits

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

Share-based payment transactions

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

1.11 Provisions

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

1.12 Revenue

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

1.13 Deferred income

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

1 Accounting policies (continued)

1.13 Deferred income (continued)

Grants and contributions relating to infrastructure assets are amortised over an average of 108 years (see 1.6).

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

1.14 Bad Debt policy

Debt is written off for one of four reasons;

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

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

1.15 Expenses

Operating lease payments

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

Finance lease payments

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

Financing income and expenses

Financing expenses comprise interest payable, finance charges on shares classified as liabilities and finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the income statement (see foreign currency accounting policy).

1 *Accounting policies (continued)*

1.15 Expenses (continued)

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use, are capitalised as part of the cost of that asset. Financing income comprises interest receivable on funds invested, dividend income, and net foreign exchange gains.

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

1.16 Taxation

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

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

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

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

1.17 Dividends

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

1.18 Adopted EU IFRS not yet applied

The following Adopted IFRS's have been issued but have not been applied in these financial statements:

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

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

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

1 *Accounting policies (continued)*

1.18 Adopted IFRS not yet applied (continued)

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

<u>Ongoing supply of water and sewerage services</u>

Under the license granted by the Government the Company has the right to supply water and sewerage services and an obligation to maintain and develop the network and ensure its continued availability to customers.

Under IFRS 15: B16 revenue to be recognised is the amount to which the company has a right to receive. For metered customers this is determined by the meter reading, hence no change to the IAS 18 revenue recognition pattern. For unmetered customers, the amount to which the Company has a right to receive is determined by the passage of time during which the customer occupies a property within the Company's licenced region. Again, no change to the IAS 18 revenue recognition pattern.

<u>Developer Services</u>

These are services related to the obligation under statute to allow property developers to establish an authorised connection to the water and/or sewerage network. In obtaining the connection the developer may require the Company to undertake one or more of the following:

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

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

<u>Period over which performance obligations are satisfied</u>

From the perspective of the Company these activities are not separable nor distinct and instead form a bundle of activities necessary to establish an authorised connection from which the network access can be obtained. Also, the Company has an additional obligation under statute to keep the connection in place for all current and future occupiers and facilitate ongoing access to the network for as long as the property requires service provision (which could be in perpetuity). Consequently, revenue from Developer Services will be deferred over the shorter of expected period of service provision or the need to replace the assets at the end of their useful life (typically in the range 60 to 125 years). Deferment periods are likely to be comparable to those currently used.

<u>Financing Component</u>

Normally under IFRS 15 the transaction price needs to be adjusted if the timing of payments provides the customer or supplier with a significant benefit of financing the transfer of goods or services. We do not consider this to the case for Developer Services as the timing difference does not arise as a result of the provision of finance, but rather comes as a consequence of the nature of the regulatory environment.

<u>Transition approach</u>

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

- Where a transaction under IFRIC18 / IAS18 had been completed (fully recognised within income statement) the practical expedient on adoption of IFRS 15 allows for no restatement of these transactions.

1 Accounting policies (continued)

1.18 Adopted IFRS not yet applied (continued)

- Where transactions under IFRIC18 / IAS18 are not fully complete at the transition date and therefore an element of revenue remains deferred on the balance sheet the deferred balance will be reassessed and amended to bring it in line with IFRS15 with a corresponding adjustment to opening reserves.

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

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

Other new Standards

- IFRS 16 Leases (Mandatory for years commencing on or after 1 January 2019)
- Classification and Measurement of Share-Based Payment Transactions – Amendments to IFRS 2
- Annual Improvements to IFRSs – 2014-2016 Cycle
- Annual Improvements to IFRSs – 2015-2017 Cycle

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

2. Segmental Analysis

	2018 **£m**	2017 £m
Turnover		
Regulated	**529.3**	517.0
Unregulated	**11.3**	8.3
	540.6	525.3
Operating profit		
Regulated	**267.6**	226.3
Unregulated	**-**	-
	267.6	226.3
Net assets		
Regulated	**801.8**	754.5
Unregulated	**-**	-
	801.8	754.5

3. Expenses and Auditor's Remuneration

Included in profit are the following:

	2018	2017
	£m	£m
Impairment loss on other trade receivables and prepayments	**10.7**	11.9
Research and development expensed as incurred	**0.1**	0.1

	2018	2017
	£000	£000
Auditor's remuneration:		
Fees payable to the Company's auditor for the audit of the Company's non-statutory accounts	**83**	156
Taxation compliance services	**-**	36
Other work for OFWAT reporting	**16**	-
	99	192

4. Exceptional Items

Following the latest actuarial valuation of the pension scheme a consultation was held with members to discuss the future funding of the scheme. As part of that consultation the Company, trustees and members agreed that the measurement of inflation for future pension increases would change. From 2020 pension increases for active members will be measured using Consumer Price Index (CPI) rather than Retail Price Index (RPI) which is currently used. The impact of that change is a £32.9m reduction in the IAS19 measurement of retirement benefit obligations, which has been shown in the Income Statement as a reduction in staff costs within total expenses.

The £32.9m reduction in expenses generates a £5.6m deferred tax charge, a net exceptional credit of £27.3m, which on the balance sheet increases retained earnings, although the increased retained earnings are not distributed as dividends.

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

5. Staff Numbers and Costs

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

	Number of employees 2018	2017
Average number of employees	**2,244**	2,110

The aggregate payroll costs of these employees was:

	2018 £m	2017 £m
Wages and salaries	**88.5**	79.1
Social security costs	**9.2**	8.3
Pension costs - normal	**12.4**	11.1
Pension costs – exceptional	**(32.9)**	-
	77.2	98.5

These costs were allocated as follows:

	2018 £m	2017 £m
Capital schemes	**40.6**	39.2
Operating expenses - normal	**69.5**	59.3
Operating expenses - exceptional	**(32.9)**	-
	77.2	98.5

6. Directors' Remuneration

	2018 £000	2017 £000
Total Directors' remuneration including benefits in kind	**2,130**	1,836
Remuneration of highest paid Director	**545**	499

Details of Directors' remuneration can be found in the Remuneration Committee Report (see page 25). Directors' remuneration is in respect of four Executive Directors, four Non-Executive Directors and six YTL appointed Directors (2017 - four Executive Directors, five Non-Executive Directors and five YTL appointed Directors).

7. Finance Income and Expense

Recognised in the income statement	**2018 £m**	2017 £m
Finance income		
Interest receivable on short-term bank deposits	**0.4**	**1.0**
Total finance income	**0.4**	**1.0**
Finance expense		
To fellow subsidiary undertakings	**(73.4)**	**(65.8)**
Net interest on net defined benefit pension plan liability	**(5.1)**	**(4.9)**
On bank loans and leases	**(5.3)**	**(4.2)**
	(83.8)	**(74.9)**
Net interest payable	**(83.4)**	(73.9)

In accordance with IAS 23 borrowing costs of £2.4m (2017 - £1.4m) associated with the funding of eligible capital projects have been capitalised at an interest rate of 4.1% (2017 – 3.75%).

8. Taxation

Recognised in the income statement	**2018 £m**	2017 £m
Current tax expense		
Current year	**22.9**	25.3
Adjustments for prior years	**(0.7)**	(2.1)
Current tax expense	**22.2**	23.2
Deferred tax expense		
Origination and reversal of temporary differences	**10.6**	5.0
Reduction in tax rate	**-**	(20.7)
Adjustments for prior years	**17.9**	(1.2)
Deferred tax charge / (credit)	**28.5**	(16.9)
Tax expense in income statement	**50.7**	6.3

Income tax recognised in other comprehensive income	**2018 £m**	2017 £m
Re-measurements of defined liability	**(1.2)**	9.6
Change in tax rate	**-**	(2.0)
Tax (charge) / credit	**(1.2)**	7.6

8. Taxation (continued)

Reconciliation of effective tax rate

	2018	2017
	£m	£m
Profit for the year	**133.5**	146.1
Total tax expense	**50.7**	6.3
Profit excluding taxation:	**184.2**	152.4
Tax using the UK corporation tax rate of 19% (2017 - 20%)	**35.0**	30.5
Reduction of tax rate on deferred tax balances	**(1.3)**	(20.7)
Non-deductible expenses	**0.6**	1.1
Under / (over) provided in prior years	**17.2**	(3.3)
Group relief for nil consideration	**-**	(0.5)
Other	**(0.8)**	(0.8)
Total tax expense	**50.7**	6.3

A reduction in the UK corporation tax rate from 19% to 18% (effective from 1 April 2020) was substantively enacted in October 2015. A further reduction to the UK corporation tax rate to 17% (effective from 1 April 2020) was substantively enacted in September 2016. Consequently, the deferred tax balances at the balance sheet date have been remeasured at that date.

9. Dividends

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

	2018	2017
	£m	£m
Final dividend for the previous year	**8.0**	**10.0**
Dividends for the current year	**84.0**	**84.0**
	92.0	**94.0**

In May 2018 a final dividend of £3.0m was declared and paid in respect of the financial year just ended.

10. Property, Plant and Equipment

	Land & buildings	Infra-structure assets	Plant, equipment & vehicles	Office & IT equipment	Company total
	£m	£m	£m	£m	£m
Cost					
Balance at 1 April 2016	852.5	2,000.6	1,566.2	36.0	4,455.3
Additions	16.2	48.7	126.0	0.6	191.5
Disposals	(0.4)	(1.5)	(9.0)	-	(10.9)
Balance at 31 March 2017	868.3	2,047.8	1,683.2	36.6	4,635.9
Balance at 1 April 2017	868.3	2,047.8	1,683.2	36.6	4,635.9
Additions	4.6	74.4	150.6	4.6	234.2
Disposals	(0.6)	(1.7)	(9.8)	(0.1)	(12.2)
Balance at 31 March 2018	**872.3**	**2,120.5**	**1,824.0**	**41.1**	**4,857.9**
Depreciation and impairment					
Balance at 1 April 2016	(267.0)	(49.2)	(779.0)	(16.0)	(1,111.2)
Depreciation charge for the year	(15.4)	(17.9)	(68.6)	(2.7)	(104.6)
Disposals	0.1	-	7.7	-	7.8
Balance at 31 March 2017	(282.3)	(67.1)	(839.9)	(18.7)	(1,208.0)
Balance at 1 April 2017	(282.3)	(67.1)	(839.9)	(18.7)	(1,208.0)
Depreciation charge for the year	(13.3)	(14.9)	(72.5)	(1.4)	(102.1)
Disposals	0.3	-	7.4	-	7.7
Balance at 31 March 2018	**(295.3)**	**(82.0)**	**(905.0)**	**(20.1)**	**(1,302.4)**
Net Book Value					
At 1 April 2016	585.5	1,951.4	787.2	20.0	3,344.1
At 31 March 2017	586.0	1,980.7	843.3	17.9	3,427.9
At 31 March 2018	**577.0**	**2,038.5**	**919.0**	**21.0**	**3,555.5**

Assets under construction included in the values above were £373.5m (2017 - £217.0m).

10. Property, Plant and Equipment (continued)

Infrastructure assets comprise a network of systems of mains and sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines, sea outfalls and infrastructure investigations and studies.

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

There is no impairment loss recognised in these financial statements (2017 - £nil).

At 31 March 2018 the net carrying amount of leased plant and equipment was £8.3m (2017 - £10.8m). The leased equipment secures lease obligations (see note 15).

Cumulative borrowing costs capitalised and included above were £8.5m (2017 - £6.1m).

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

11. Investments in Subsidiaries

The Company has an investment of £13,000 (2017 – £13,000) in 100% of the ordinary share capital of a subsidiary company Wessex Water Services Finance Plc, whose registered address is Wessex Water Operations Centre, Claverton Down, Bath, BA2 7WW.

12. Inventories

	2018	2017
	£m	£m
Raw materials and consumables	**3.2**	3.2
Work in progress	**2.5**	4.0
	5.7	7.2

Raw materials, consumables and work in progress recognised as cost of sales in the year amounted to £4.5m (2017 - £4.6m). There was no write-down of inventories to net realisable value in either year.

13. Trade and Other Receivables

	2018	2017
	£m	£m
Trade receivables (note 22b)	**53.1**	60.7
Owed by fellow subsidiary company	**54.0**	33.7
Owed by other group companies	**0.1**	0.1
Owed by associate companies	**1.8**	-
Prepayments and accrued income	**67.2**	75.7
Other debtors	**8.8**	5.1
	185.0	175.3

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

14. Cash and Cash Equivalents

	2018 **£m**	2017 £m
Short-term bank deposits	**32.0**	**-**
Cash at bank	**3.8**	**103.5**
	35.8	**103.5**

15. Other Interest-bearing Loans and Borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Company's exposure to interest rate and foreign currency risk, see note 22.

	2018 **£m**	2017 £m
Non-current liabilities		
Bank loans	**275.0**	415.0
Finance lease liabilities	**1.5**	6.9
Inter-company loans	**1,599.4**	1,580.1
	1,875.9	2,002.0
Current liabilities		
Bank loans	**140.0**	-
Current portion of finance lease liabilities	**5.4**	5.1
	145.4	5.1

Terms and debt repayment schedule

	Currency	**Nominal interest rate**	**Year of maturity**	**Face value 2018 £m**	**Carrying amount 2018 £m**	Face value 2017 £m	Carrying amount 2017 £m
Bank loans	Sterling		2018-2024	**415.0**	**415.0**	415.0	415.0
Inter-company loans							
Bond	Sterling	5.375%	2028	**198.9**	**198.5**	198.8	198.4
Bond	Sterling	5.75%	2033	**347.2**	**346.1**	347.1	346.1
Bond	Sterling	4.00%	2021	**199.1**	**199.1**	198.8	198.8
Bond	Sterling	4.00%	2021	**103.2**	**103.2**	104.1	104.1
Index Linked Bond	Sterling	3.52%	2023	**77.0**	**77.0**	75.1	75.1
Index Linked Bond	Sterling	2.186%	2039	**64.8**	**64.8**	62.5	62.5
Index Linked Bond	Sterling	1.75%	2046	**103.5**	**103.5**	101.0	101.0
Index Linked Bond	Sterling	1.75%	2051	**103.5**	**103.5**	101.0	101.0
Index Linked Bond	Sterling	1.369%	2057	**103.5**	**103.5**	101.0	101.0
Index Linked Bond	Sterling	1.374%	2057	**103.6**	**103.6**	101.0	101.0
Index Linked Bond	Sterling	1.489%	2058	**65.5**	**65.5**	63.7	63.7
Index Linked Bond	Sterling	1.495%	2058	**65.5**	**65.5**	63.7	63.7
Index Linked Bond	Sterling	1.499%	2058	**65.6**	**65.6**	63.7	63.7
				2,015.9	**2,014.4**	1,996.5	1,995.1

15 Other interest-bearing Loans and Borrowings (continued)

Finance lease liabilities

Finance lease liabilities are payable as follows:

	Minimum lease payments 2018 £m	**Interest 2018 £m**	**Principal 2018 £m**	Minimum lease payments 2017 £m	Interest 2017 £m	Principal 2017 £m
Less than one year	**5.8**	**(0.4)**	**5.4**	5.5	(0.4)	5.1
Between one and five years	**1.5**	**-**	**1.5**	7.3	(0.4)	6.9
	7.3	**(0.4)**	**6.9**	12.8	(0.8)	12.0

16. Trade and Other Payables

	2018 £m	2017 £m
Current		
Amounts payable to subsidiary company	**19.2**	19.1
Amounts payable to other group companies	**0.8**	6.9
Amounts owed to associate companies	**-**	1.0
Trade payables	**21.9**	17.3
Dividend	**21.0**	21.0
Other creditors	**3.4**	3.0
Corporation tax	**16.5**	15.1
Taxation and social security	**2.6**	2.3
Accruals and deferred income	**110.7**	102.5
	196.1	188.2
Non-current		
Other payables	**0.4**	0.4
	196.5	188.6

17. Employee Benefits

Pension plans

	2018 **£m**	2017 £m
Fair value of scheme assets	**616.0**	595.4
Present value of defined benefit obligations	**(768.5)**	(788.9)
Net (liability) for defined benefit obligations	**(152.5)**	(193.5)
Unfunded and compensatory added years pension	**(1.2)**	(1.2)
Total employee benefits	**(153.7)**	(194.7)

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

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

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

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

b. Profile of the Scheme

The defined benefit obligation includes benefits for current employees, former employees and current pensioners. Broadly, about 34% of the liabilities are attributable to current employees, 17% to former employees and 49% to current pensioners.

The scheme duration is an indicator of the weighted-average time until benefit payments are made. For the scheme as a whole, the duration is around 20 years reflecting the approximate split of the defined benefit obligation between current employees (duration of 25 years), deferred members (duration of 25 years) and current pensioners (duration of 15 years).

17. *Employee Benefits (continued)*

c. Funding requirements

UK legislation requires that pension schemes are funded prudently. The previous funding valuation of the scheme was carried out by a qualified actuary as at 30 September 2016 and showed a deficit of £160.9m. The Company is paying deficit contributions of:

- £11.0m by 31 March 2018, £11.38m by March 2019, £11.77m by March 2020;
- £12.04m by 31 March 2021, £12.32m by March 2022, £12.60m by March 2023;
- £12.90m by 31 March 2024, £13.19m by March 2025 and £13.50m by March 2026;

which, along with investment returns from return-seeking assets, is expected to make good this shortfall by 31 March 2026.

The next funding valuation is due no later than 30 September 2019 at which progress towards full funding is being reviewed.

The Company also pays contributions of 21.7% of pensionable salaries in respect of current accrual and non-investment related expenses, with active members paying a further 7.3% of pensionable salaries on average.

d. Risks associated with the scheme

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

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

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

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

The Trustees insure certain benefits payable on death before retirement.

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

17. Employee Benefits (continued)

e. Reporting at 31 March 2018

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

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

	31.03.18	31.03.17
Rate of increase in salaries – year 1	**3.2%**	2.0%
Rate of increase in salaries – year 2	**3.2%**	3.2%
Rate of increase in salaries – years 2 and 3	**n/a**	3.2%
Rate of increase in salaries – long term	**1.7%**	3.7%
Rate of increase in pensions in payment	**2.2% or 3.1%**	2.2% or 3.1%
Rate of increase in pensions in payment - reduced members	**2.2%**	2.2%
Discount rate	**2.6%**	2.6%
Inflation assumption – RPI	**3.2%**	3.2%
Inflation assumption – CPI	**2.2%**	2.2%

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

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

Members are assumed to take four times their pre-commutation pension as cash at retirement.

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

A reduction in the discount rate of 0.1% from 2.6% to 2.5% would increase the scheme liabilities by £15.7m from £768.5m to £784.2m, increasing the scheme deficit to £168.2m.
An increase in the inflation assumption of 0.1% (from 3.2% to 3.3% for CPI and 2.2% to 2.3% for RPI) would increase the scheme liabilities by £11.7m from £768.5m to £780.2m, increasing the scheme deficit to £164.2m.
An increase in life expectancy of 1 year would increase the scheme liabilities by £28.2m from £768.5m to £796.7m, increasing the scheme deficit to £180.7m.

17. *Employee Benefits (continued)*

The sensitivity information shown above has been prepared using the same method as adopted when adjusting the results of the latest funding valuation to the balance sheet date. This is the same approach as has been adopted in previous periods.

f. The value of the assets:

	2018	2017
	£m	£m
Equities	**251.8**	257.3
Property	**38.0**	38.6
Government Bonds	**164.1**	151.2
Corporate Bonds	**134.6**	123.2
Other	**27.5**	25.1
	616.0	595.4

g. The amounts recognised in comprehensive income:

	2018	2017
	£m	£m
Operating cost – service cost		
Current service cost	**12.4**	11.1
Administration expenses	**0.6**	0.6
Past service (credit)	**(32.9)**	-
Financing cost		
Interest on net benefit liability	**5.1**	4.9
Pension (credit) / expense recognised in profit and loss	**(14.8)**	16.6
Re-measurements in OCI		
Return on plan assets (in excess of) that recognised in net interest	**(13.5)**	(60.8)
Actuarial losses due to changes in financial assumptions	**-**	139.3
Actuarial (gains) due to changes in demographic assumptions	**-**	(6.5)
Actuarial losses / (gains) due to liability experience	**6.5**	(18.8)
(Gains) / losses recognised in OCI	**(7.0)**	53.2
(Gains) / losses recognised in profit and loss and OCI	**(21.8)**	69.8

17. *Employee Benefits (continued)*

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

	2018	2017
	£m	£m
Opening defined benefit obligation	**788.9**	660.9
Current service cost	**12.4**	11.1
Interest expense on defined benefit obligation	**20.6**	22.6
Contributions by scheme participants	**0.2**	0.2
Actuarial (gains) due to changes in demographic assumptions	**-**	(6.5)
Actuarial losses due to changes in financial assumptions	**-**	139.3
Actuarial losses / (gains) due to liability experience	**6.5**	(18.8)
Net benefits paid out	**(27.2)**	(19.9)
Past service (credit)	**(32.9)**	-
Closing defined benefit obligation	**768.5**	788.9

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

	2018	2017
	£m	£m
Opening fair value of scheme assets	**595.4**	**521.1**
Interest income on scheme assets	**15.5**	**17.7**
Re-measurement gains on scheme assets	**13.5**	**60.8**
Contributions by employer	**19.2**	**16.1**
Contributions by scheme participants	**0.2**	**0.2**
Net benefits paid out	**(27.2)**	**(19.9)**
Administration costs incurred	**(0.6)**	**(0.6)**
Closing fair value of scheme assets	**616.0**	**595.4**

Additional analysis:	**2018**	2017
	£m	£m
Actual return on scheme assets		
Interest income on scheme assets	**15.5**	17.7
Re-measurement gains on scheme assets	**13.5**	60.8
Actual return on scheme assets	**29.0**	78.5
Analysis of amounts recognised in Other Comprehensive		
Total re-measurement gains / (losses)	**7.0**	(53.2)
Total gain / (loss)	**7.0**	(53.2)

17. Employee Benefits (continued)

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

	31.03.18 £m	31.03.17 £m	31.03.16 £m	31.03.15 £m	31.03.14 £m
Fair value of scheme assets	**616.0**	595.4	521.1	528.3	459.1
Defined benefit obligation	**(768.5)**	(788.9)	(660.9)	(668.5)	(549.7)
(Deficit) in the scheme	**(152.5)**	(193.5)	(139.8)	(140.2)	(90.6)
Experience gains on scheme assets	**13.5**	60.8			
Experience (losses) / gains on scheme liabilities	**(6.5)**	18.8			

Defined contribution plans

The Group also operates a defined contribution pension plan. The total expense relating to this plan in the current year was £3.8m (2017 - £2.9m).

Share-based payments

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

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

<u>2011 UK Plan</u>

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

Scheme	Vesting date	Expiry date	Exercise price RM	Fair value RM
01/06/2012 Unapproved	01/06/2015	31/03/2021	1.38	0.22
01/06/2012 Approved	01/06/2015	31/03/2021	1.65	0.16

Under IFRS 2 equity settled share-based payments are measured at the fair value at the date of the grant, and the fair value is expensed on a straight line basis over the vesting period. There was no charge recognised in the profit and loss account for IFRS 2 as the share options have passed their vesting date. The key assumptions were as follows:

Scheme	Weighted avg. 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

17. Employee Benefits (continued)

The options outstanding were as follows:

Granted – Ordinary shares of RM0.50 each	Outstanding at 31/3/2017	Granted	Forfeited	Exercised	Outstanding at 31/3/2018
01/06/2012 Unapproved	7,856,000	-	(130,000)	-	7,726,000
01/06/2012 Approved	37,569,000	-	(743,000)	-	36,826,000
Total	45,425,000	-	(873,000)	-	44,552,000

The share price at 31 March 2018 was RM1.02 or £0.19.

18. Deferred Income

	Above ground grants £m	Below ground grants £m	Sewer adoptions £m	Total £m
Balance at 1 April 2016	10.2	158.4	75.2	243.8
Received during the year	0.1	8.7	(0.4)	8.4
Amortisation	(0.4)	(1.5)	(0.6)	(2.5)
Balance at 31 March 2017	9.9	165.6	74.2	249.7
Balance at 1 April 2017	9.9	165.6	74.2	249.7
Received during the year	0.5	9.2	3.2	12.9
Amortisation	(0.4)	(1.7)	(0.8)	(2.9)
Balance at 31 March 2018	**10.0**	**173.1**	**76.6**	**259.7**

19. Provisions

	Restructuring costs £m	Total £m
Balance at 1 April 2017	0.1	0.1
Provisions made during the year	0.3	0.3
Provisions used during the year	(0.3)	(0.3)
Balance at 31 March 2018	**0.1**	**0.1**
Non-current	-	-
Current	0.1	0.1
	0.1	**0.1**

20. Deferred Tax Assets and Liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Liabilities		**Assets**		**Net**	
	2018	2017	**2018**	2017	**2018**	2017
	£m	£m	**£m**	£m	**£m**	£m
Property, plant and equipment	**399.2**	528.0	**(24.1)**	(175.6)	**375.1**	352.4
Employee benefits	**-**	-	**(26.1)**	(33.1)	**(26.1)**	(33.1)
Provisions	**-**	-	**(0.1)**	(0.1)	**(0.1)**	(0.1)
Tax (assets) / liabilities	**399.2**	528.0	**(50.3)**	(208.8)	**348.9**	319.2
Net of tax (assets) / liabilities	**(50.3)**	(208.8)	**50.3**	208.8	**-**	-
Net tax (assets) / liabilities	**348.9**	319.2	**-**	-	**348.9**	319.2

Movement in deferred tax during the year

	1 April 2017 £m	Recognised in income £m	Recognised in equity £m	31 March 2018 £m
Property, plant and equipment	352.4	22.7	-	**375.1**
Employee benefits	(33.1)	5.8	1.2	**(26.1)**
Provisions	(0.1)	-	-	**(0.1)**
	319.2	28.5	1.2	**348.9**

Movement in deferred tax during the prior year

	1 April 2016 £m	Recognise d in income £m	Recognised in equity £m	31 March 2017 £m
Property, plant and equipment	369.2	(16.8)	-	352.4
Employee benefits	(25.4)	(0.1)	(7.6)	(33.1)
Provisions	(0.1)	-	-	(0.1)
	343.7	(16.9)	(7.6)	319.2

21. Capital and Reserves

	2018 £	2017 £
Issued, Allotted, Called Up and Fully Paid		
Ordinary shares of £1each	**1**	1
	1	1
Shares classified as liabilities	**-**	-
Shares classified in shareholders' funds	**1**	1
	1	1

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

22. Financial Instruments

(a) Fair values of financial instruments

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

The fair value of long term fixed rate borrowings are classified as level 1 in the IFRS 13 fair value hierarchy and have a carrying value of £1,599.4m and a fair value of £2,177.5m. Short term and floating rate borrowings have a carrying value and fair value of £421.9m.

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

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

22. Financial Instruments (continued)

(a) Fair values of financial instruments

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

	Carrying amount	**Fair Value**	**Level 1**	Carrying amount	Fair Value	Level 1
	2018	**2018**	**2018**	2017	2017	2017
	£m	**£m**	**£m**	£m	£m	£m
Loans and receivables						
Cash and cash equivalents (note 14)	**(35.8)**	(35.8)	(35.8)	(103.5)	(103.5)	(103.5)
Total financial assets	**(35.8)**	(35.8)	(35.8)	(103.5)	(103.5)	(103.5)
Other interest-bearing loans and borrowings (note 15)	**2,021.3**	2,597.9	2,597.9	2,007.1	2,692.4	2,692.4
Total financial liabilities	**2,021.3**	2,597.9	2,597.9	2,007.1	2,692.4	2,692.4
Total financial instruments	**1,985.5**	2,563.6	2,563.6	1,903.6	2,588.9	2,588.9

(b) Credit risk

Financial risk management;

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

Short term deposits with counterparties have a credit rating of A1+/P1 or A1/P1, and hence there would be no exposure to credit risk for these values.

	2018	2017
	£m	£m
Cash and cash equivalents	**35.8**	103.5
	35.8	103.5

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

South West England	**48.7**	60.7
	48.7	60.7

22. Financial Instruments (continued)

(b) Credit risk (continued)

Trade receivables are from domestic and business customers. No individual customer or industrial sector has a material balance outstanding at either year end. The aging of trade receivables at the balance sheet date was:

	Gross 2018 £m	**Impairment 2018 £m**	Gross 2017 £m	Impairment 2017 £m
Less than 1 year	**28.2**	**(3.2)**	34.9	(4.1)
1 to 2 years	**20.5**	**(6.8)**	20.9	(8.6)
2 to 3 years	**15.4**	**(9.3)**	16.5	(9.3)
3 to 4 years	**13.4**	**(10.3)**	14.0	(9.6)
More than 4 years	**18.0**	**(12.8)**	13.5	(7.5)
	95.5	**(42.4)**	99.8	(39.1)

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

	2018 £m	2017 £m
Balance at 1 April	**(39.1)**	(45.9)
Written off	**7.4**	18.7
Charge to profit and loss	**(10.7)**	(11.9)
Balance at 31 March	**(42.4)**	(39.1)

The bad debt policy is shown in the accounting policies (note 1.14).

(c) Cash flow hedges

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

(d) Liquidity risk

Financial risk management;

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

22. Financial Instruments (continued)

(d) Liquidity risk (continued)

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

	Carrying amount	**Contractual cash flows**	**Year 1**	**Years 2 to 5**	**Over 5 years**
	2018	**2018**	**2018**	**2018**	**2018**
	£m	**£m**	**£m**	**£m**	**£m**
Non derivative financial instruments					
Finance lease liabilities	**6.9**	**7.3**	**5.8**	**1.5**	**-**
Secured bank loans	**415.0**	**439.2**	**145.0**	**90.1**	**204.1**
Inter-company loans	**1,599.4**	**4,691.9**	**57.2**	**522.4**	**4,112.3**
Total financial instruments	**2,021.3**	**5,138.4**	**208.0**	**614.0**	**4,316.4**

	Carrying amount	Contractual cash flows	Year 1	Years 2 to 5	Over 5 years
	2017	2017	2017	2017	2017
	£m	£m	£m	£m	£m
Non derivative financial instruments					
Finance lease liabilities	12.0	12.8	5.5	7.3	-
Secured bank loans	415.0	443.0	5.0	230.9	207.1
Inter-company loans	1,580.1	3,388.7	56.5	528.8	2,803.4
Total financial instruments	2,007.1	3,844.5	67.0	767.0	3,010.5

(e) Market risk

There is no exposure to equity or foreign currency risk.

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

	2018	2017
	£m	£m
Fixed rate instruments	**946.9**	947.4
Floating rate instruments	**321.9**	327.0
Index linked instruments	**752.5**	732.7
	2,021.3	2,007.1

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

Sensitivity;
The floating rate instruments are sensitive to interest rate movements. If there was a 1% increase in interest rates on those floating rate instruments at the balance sheet date, there would be an additional interest charge to the income statement of £3.2m.

23. Operating Leases

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

During the year £2.6m was recognised as an expense in the income statement in respect of operating leases (2017 - £2.2m).

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

24. Commitments

Capital expenditure contracted but not provided at 31 March 2018 was £38.7m (2017 - £126.2m).

The Company has guaranteed Bonds of £1,599.4m (2017 - £1,580.1m) issued by its wholly owned subsidiary company Wessex Water Services Finance Plc.

25. Contingencies

There are no material contingent liabilities at 31 March 2018 for which provision has not been made in these accounts.

26. Related Parties

There were no transactions with key management personnel.

Directors' emoluments have been disclosed in the Remuneration Committee Report.
There have been no transactions with pre-penultimate, penultimate and ultimate holding companies described in note 27, with the exception of the share based payment charge disclosed in note 17.

Transactions with fellow UK subsidiary companies are disclosed in the Annual Performance Report published alongside the Non-Statutory Accounts.

27. Ultimate Parent Company and Parent Company of Larger Group

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

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

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

28. Subsequent Events

There are no subsequent events requiring disclosure in these financial statements, apart from the dividend declared in May 2018 (note 9).

29. Accounting Estimates and Judgements

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

a) Defined benefit pension scheme deficit

In recognising the deficit on the balance sheet there are a number of assumptions concerning inflation, rate of increase of salaries and pensions, mortality rates and interest rates that can have a significant effect on the deficit recorded. These assumptions are discussed with independent qualified actuaries and disclosed in note 17 to the financial statements.

b) Bad debt provision

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

c) Classification of capital expenditure

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