Annual Review and Accounts 2014

www.wessexwater.co.uk

Wessex Water
a YTL company

Contents

About Wessex Water

Wessex Water continues as the leading water and sewerage company and is committed to delivering the highest levels of customer service and environmental performance at a price that customers can afford.

We treat and supply:

270 million litres of water a day to 1.3 million customers (on average over a ton of water to every customer weekly)

We take away and treat:

460 million litres of sewage from 2.7 million customers every day

We have:

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

We have:

35,000 kilometres (22,000 miles) of sewers
407 sewage treatment works
1,600 sewage pumping stations

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

Chief Executive's introduction

Overall performance

It is 40 years since Wessex Water was formed as a regional water authority on 1 April 1974 and in October it will be 25 years since we were privatised.

It is sometimes difficult to remember the scale of the changes that have taken place: from a time when the River Avon, through Bristol, had to be chlorinated in the summer to kill the smell and some rural customers often went days without proper water supplies during very dry weather, to today, when our standards are among the highest in the world.

Much of the improvement has been due to privatisation which provided access to private capital for investment and gave incentives to deliver high levels of customer and environmental service as efficiently as possible.

Over the last year, Wessex Water has again been the best performing water and sewerage company, with more than 96% customer satisfaction and the lowest level of complaints.

We consistently deliver around 100% compliance with environmental standards, have the lowest level of pollution incidents and have not imposed a hosepipe ban since 1976.

The improvements of the past 25 years have put us in a good position to meet the challenges of climate change, a growing population and increasing customer expectations.

Our commitment to embedding sustainability throughout the business was rewarded by the company retaining The Queen's Award for Enterprise in Sustainable Development.

Weather and compliance

Extremes of weather were very evident over the last year, most notably the exceptionally wet autumn and winter of 2013-2014. December to February were the wettest for almost 100 years.

Our staff were fully deployed dealing with problems and to minimise the impact on customers we introduced temporary tankering and pumping at 48 locations across the region.

Even so, we maintained very high compliance with drinking water quality at 99.97% and compliance with abstraction licences at 99.98%.

However, partly because of the extreme weather, the number of pollution incidents increased, so we are working hard to identify additional measures to reverse this position.

The weather was also one of the main reasons why operating costs rose by £13.9m to £162.3m. Other factors included the cost of new obligations, higher business rates and inflation. Operating profit rose by £10.8m to £234.8m.

Investment and bills

During the year we invested a total of £226m to improve existing infrastructure and build new assets. This investment included continuing work on the regional supply grid which will significantly improve resilience and quality of water supplies.

Other major work included mains refurbishment in and around Taunton, replacement of Ashford water treatment works, phosphorus removal schemes at three sewage treatment works and work to improve the treatment of sewage sludge and to generate more renewable energy at our Trowbridge plant.

In total, we completed 700 separate projects and are on target to deliver all our regulatory outputs by the end of 2015.

While continued investment is essential, we also need to keep bills affordable. The proportion of household income spent on water and sewerage services has increased by only 0.2% since privatisation, but we know that for some customers the bills are difficult to meet.

The Board decided not to apply the real terms increase in bills for 2014-2015 that had been agreed with the regulator at the last price review in 2009. We also extended our tailored assistance programme, **tap**, to help customers in financial difficulties. Currently, 15,000 households benefit and the latest changes should add another 10,000.

We have continued to work closely with the Citizens Advice Bureau and debt agencies and our Money Matters grants have helped 10 organisations that offer financial, literacy and money management help.

The quality of our overall customer services has again been demonstrated by retaining the Customer Service Excellence award.

Planning for the future

We have published *Water – a new direction*, our business plan for services, investment and bills for 2015-2020. This built on the need to continue investing in our infrastructure and the requirement to keep bills affordable.

We propose spending 20% more than the current five-year period, while bills will fall in real terms this year and every year until 2020 – reducing by more than 5% over the five years.

The plan focuses on reducing the burden for all customers, increasing support for those who have real difficulty in paying while at the same time meeting all regulatory outputs and continuing to raise service standards.

We propose to achieve this difficult balance by even greater innovation in delivering improvements and by phasing investment to reflect customers' ability to pay.

The plan has been subject to detailed review by our customer scrutiny group and has wide support from across the region. The plan is now subject to Ofwat scrutiny following which it will publish its determination.

Governance

Wessex Water operates to the highest standards of corporate governance and, as a privately owned company, our board meetings provide for the full engagement of Shareholder, Independent and Executive Directors. All decisions affecting the business are taken at these meetings. For example, the Board has been fully involved in every aspect of the development of our business plan.

Our governance is not static and we have made changes to comply with the UK Code, including separating the roles of Chairman and Chief Executive. We have also formed a Corporate Responsibility Committee.

Our employees

Our employees have again been outstanding in dealing with the challenges of extreme weather, alongside all the day to day demands of the business – they consistently go the extra mile for customers.

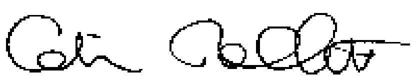
As economic growth takes off and major infrastructure projects, such as Hinkley Point C nuclear power station, begin construction, we need to ensure we retain and attract both existing skills and the new skills we will need in a competitive marketplace. So we have significantly increased apprenticeships and are working closely with universities, colleges and schools.

We also need to grow the diversity of our workforce, including attracting more women and ethnic minorities into the company and progressing the careers of those already in the business.

The future

Twenty five years on from privatisation, our commitments to the highest quality of customer service, to the environment and to innovation make us the leading UK water and sewerage company.

We will continue to deliver on those commitments, ensuring lower bills for customers, ongoing investment in our region and a fair return for our investors.



Colin Skellett, Chief Executive

Customers and Communities

Excellent customer service is fundamental to the success of our business so we put customers at the heart of everything we do. We aim for the highest levels of customer satisfaction, and we continue to build customer trust and loyalty.

We deliver what customers want; excellent water and sewerage services, a person to answer the telephone, resolving problems quickly and first time, checking they are happy with the outcome and compensating where we have things wrong. Our staff go the extra mile whenever they can.

We are consistently the top water and sewerage performer in Ofwat's measure of customer service and our standards of service and package of customer guarantees are industry leading.

Day to day feedback shows customers are generally very satisfied with our service and see it as good value for money. But we can always do more, so we continue to improve and to compare ourselves with the best service providers across all business sectors.

In brief

- Maintained high levels of customer satisfaction and retained our government Customer Service Excellence award.
- Once again reduced the number of complaints we received – the fewest of any water and sewerage company.
- Gave more choice in the way customers interact with us, including text surveys and Live Chat.
- Kept customers better informed of progress in resolving problems such as bursts by widening our use of text messaging and outbound calling.
- The first utility to sign up to the Keep Me Posted campaign.
- Provided more advice on reducing bills and becoming water efficient; expanded our range of free or subsidised water and energy saving products.
- Launched an online water quality tool to help customers diagnose problems.
- Used our online customer panels to test customers' views on key issues.
- Widened the eligibility for our low rate social tariff, Assist, and reduced the bills for metered customers on benefits who have unavoidably high water use, through WaterSure Plus.
- Launched an expert advisory group on affordability and an action plan to raise awareness and increase take-up of **tap** – our range of schemes and low rate tariffs to help customers who have difficulty paying.
- Awarded a grant from our Money Matters scheme to 10 organisations that help vulnerable people develop better financial knowledge and money management skills.

In detail

Drinking water quality

Compliance with drinking water quality standards continues to be very high.

Our overall performance in 2013 was 99.97%. Average compliance over the past three years is 99.98% and has not fallen below 99.95% since 2005. Of 29,000 tests there were only 14 failures, one more than last year.

We are approaching the end of a major programme of mains rehabilitation aimed at reducing the number of contacts we receive from consumers about the appearance of their water. Investment to address this issue in Taunton is due for completion in summer 2014.

There was a further 5% reduction in the number of customer contacts in 2013. In addition we ran a publicity campaign to raise awareness with customers and let them know where they can obtain advice about water quality issues related to their own plumbing or taps.

Our website now includes an interactive tool that helps customers answer questions on water quality related problems.

Customer service

Last year we were again the top scoring water and sewerage company on Ofwat's service incentive mechanism (SIM), a result supported by our own satisfaction and value for money surveys.

However, we continue to seek ways to improve our services further, to meet customers' growing and more diverse expectations.

We have improved how we do things and our speed of response to operational problems.

More use of text messaging and outbound calling keeps customers better informed during operational incidents such as burst water mains. We can let them know there is a problem, for how long services will be interrupted and when they will be back to normal.

We have also expanded the team who call customers after we have completed work affecting their property to check we have resolved their problem, that the site has been left clean and tidy and that they are satisfied.

Customers are contacted over the phone or via a text survey so if they do not believe their problem has been resolved we can rectify it quickly and we can learn from our mistakes.

This feedback has also identified additional information to help customers, and better ways of communicating.

Changes in technology enable us to give customers a wider choice of communication methods, introducing more self-service opportunities, including Live Chat, while retaining personal telephone answering because of its popularity.

We have added a smart agent water quality adviser to our website to help customers self-diagnose problems.

We were also the first utility signed up to the Keep Me Posted campaign, through which we promise to offer choice in the way customers communicate and interact with us and receive information, including bills.

Complaints fell again, this year by 16%; we resolved more complaints first time and there was a reduction of 10% in escalated complaints. We retained our government Customer Service Excellence award for our approach to customer services and continue to have the best overall package of customer guarantees in the industry.

Customer engagement

We have submitted our five-year business plan to our regulator, Ofwat. The plan was heavily influenced by customer and stakeholder engagement overseen by an independent customer scrutiny group.

The group ensured our customer research was robust and reflected the views of all customer groups across our region.

Our new online customer panel, Have your say, proved a great success, with four surveys this year on various topics and after each a newsletter sent to participants to explain the findings and what we are doing as a result.

These initiatives, together with regular surveys of customers' views on bills and services and our long established customer liaison panels, ensure we keep fully informed of customers' views and requirements.

Affordability, tariffs and debt recovery

For the great majority of customers our bills are affordable, representing only 1.6% of average household expenditure. However, for some customers on low incomes this is not the case.

Through our tailored assistance programme, **tap**, we are helping more than 15,000 customers; some through lower charges, some by relieving past debt and others through practical help to reduce water and energy bills.

Working closely with debt advisers we offer each customer a tailored solution to meet their own financial circumstances. In 2013-14 we also increased our work with organisations such as National Debtline and StepChange, that offer telephone and online advice.

We have set up an expert advisory group on affordability with whom we have developed an action plan to raise awareness of our work and increase take-up of our schemes and low rate tariffs. The action plan includes a growing number of partnerships with community based organisations and advice agencies.

Our Money Matters scheme made awards to 10 organisations running community based projects to improve financial knowledge and money management involving school age children or teenagers and vulnerable customers.

Retail competition

We are preparing for retail competition, scheduled to begin in April 2017 for business customers, and have formed a new company, Water2Business and applied for a retail licence so Water2Business can operate throughout England.

We are working with customers who will benefit from competition to identify added value services that will improve their business, help them save money and make their relationship with us as easy as possible.

Education and water saving

We encourage customers of all ages to use water wisely and we play our part by continuing to drive down leakage, halved over 10 years, and target fixing visible leaks within 24 hours.

The volume of water into supply is now the lowest it has been for 30 years. Our website has information about our work and how to save water, including an online water and energy calculator.

We also offer a free water home check service, water efficient products via our online shop, free WaterSave packs and two free apps for mobile devices, in addition to information in our customer magazine and a range of other leaflets.

One app enables customers who spot a leak to upload a picture so we can fix it quickly. Our Bag it and bin it app is a game that teaches players which items can cause sewer blockages and so should not be flushed down the drain.

We also have an extensive free education service for schools, colleges and community groups including three education advisers who deliver lessons from key stage 1 to A-level. These cover the water cycle, environmental topics, water saving and our water and sewerage operations.

Watermark awards

Our Watermark award scheme is in its 20th year and helps organisations with their environmental projects. For its 20th anniversary we launched a special award for water conservation projects in our region.

The Sustainable Watermark provided grants of up to £2,000 for groups working on water saving projects in community halls, schools or other community buildings. The winners included Rainbow Gardens in Weymouth who installed rainwater harvesting equipment to enable their community garden to be self-sufficient in water during the summer.

Financial Performance

The UK Group structure is straightforward with the regulated business owned by Wessex Water Limited, which in turn is owned by YTL Utilities (UK) Limited. Both these entities are holding companies for the regulated water and sewerage undertaker and other Wessex Water businesses. Almost all the debt raised in the UK sits within the regulated business.

Our gearing remains at 64% which is around average for the sector. When declaring dividends the Board pays particular attention to the projected level of our financial ratios and hence its future credit ratings. The Board is committed to maintaining existing credit ratings. Our credit ratings have not changed over the last 10 years.

We have an open and transparent relationship with HMRC which continues to view us as a low risk taxpayer. During the year we paid £29.5m in tax which represents just under 19% of profit on ordinary activities before taxation as reported in the profit and loss account. The £16.7m adjustment to taxation in respect of previous years is predominantly a result of an industry-wide agreement reached with HMRC on the treatment of certain capital allowances.

We have a strong relationship with the banking community including the European Investment Bank (EIB). In December 2013 we signed a new £200m facility agreement with EIB whereby half of the facility is immediately available to fund our capital programme and the other half is available to repay an existing EIB loan which matures in 2015.

In brief

- Operating profit increased by £10.8m to £234.8m despite extreme rainfall in the winter months which caused widespread flooding and resulting pressure on operating costs.
- Profit before tax increased by £18.5m to £157.0m as our cost of debt fell from 5.1% to 4.3%.
- Capital investment in the year at £226m was the second highest amount that we have ever undertaken in any one year.
- Gearing, as measured by net debt to regulatory capital value, remains at 64%, comfortably below the maximum 70% threshold agreed by the Board.
- Dividends fell by £12m due to a reduction in the final dividend in relation to the previous year.
- Liquidity at the year-end stood at a healthy £188m.

In detail

Financial performance

In the fourth year of the current price review period, against a background of poor weather conditions in the winter months, we have been able to show a good performance with operating profit increasing by £10.8m or 4.8% from £224.0m to £234.8m. The turnover increase was £32.8m through price increases and increased sales but there was a pressure on the cost base, which saw costs increasing by £22.0m.

Turnover

Turnover increased by £32.8m or 6.7% from £492.1m to £524.9m.

The price increase at 1 April 2013 was 5.4%, comprising November 2012 RPI of 3.0%, a K factor of 1.9% and an allowance for rebalancing the tariffs of 0.5%. There was a growth in turnover due to new customers in the housing market and improving economic conditions in the region. This growth was partially offset by the impact of customers switching from un-metered to metered supply.

Operating costs

Operating costs (excluding depreciation, amortisation and disposal of assets) increased by £13.9m from £148.4m to £162.3m due to a number of factors:

- the prolonged wet weather in the winter months caused extensive flooding which resulted in increased pumping and transportation costs
- an increase from the cost of meeting new obligations and installing additional meters
- business rates continued to increase through the central government valuation process
- inflation
- an additional cost for pension accounting under FRS17
- an increase in the costs of trading with other group companies.

Depreciation

Historical cost capital maintenance charges (depreciation and the infrastructure maintenance charge) increased by £8.1m from £119.7m to £127.8m. There was a £4.0m increase in the infrastructure maintenance charge, while depreciation increased by £4.1m. Base depreciation increased by £2.8m from the continuing capital investment programme, and there was a £1.3m increase in the cost of disposal of fixed assets.

Interest charges

Interest charges decreased from £85.5m last year to £77.8m this year. The £7.7m decrease was split between the base interest decrease of £7.2m and a £0.5m decrease in the interest costs associated with pension accounting under FRS 17, shown as other finance costs in the profit and loss account.

The £7.2m decrease in base interest costs arose because the impact of the fall in the cost of debt from 5.1% to 4.3% in respect of floating rate and index linked borrowings, was greater than the additional interest on the increase in net debt during the year from £1,738.3m to £1,841.6m.

There is a prudent mix of debt between fixed rate, index linked and floating rate instruments. At the year end the debt split was approximately 45% fixed, 35% index linked and 20% floating, with the index linked debt based on either November or March RPI.
The maturity of debt is generally long term with £1,620m of debt maturing after 2020.

Taxation

The total corporation tax charge was £12.5m, a reduction of £16.9m from £29.4m last year.
Corporation tax relating to the current year decreased by £2.5m from £31.7m to £29.2m, but the prior year credits increased by £14.4m from a credit of £2.3m last year to a credit of £16.7m this year.

Although profit before tax increased from £138.5m to £157.0m there was a benefit to the corporation tax charge from a reduction in the statutory tax rate from 24% last year to 23% this year.

The large prior year credit in 2013-14 was a result of an industry-wide agreement with HMRC for the re-categorisation of capital allowances from industrial buildings allowances (IBA) into long life plant. The agreement followed the government decision to reduce the IBA over a period from 4% in the year to March 2008 to zero in the year to March 2012.

Corporation tax is paid to HMRC quarterly. The company has a statutory year end of 30 June and the tax computation is prepared for the 12 months to 30 June each year. The first two payments are made in January and April before the tax year has ended, and the last two in July and October after the end of the year.

We use an external water industry expert to analyse our capital expenditure and ensure the correct capital allowances are claimed. We take a prudent approach to tax affairs, ensuring that we claim the tax relief to which we are entitled, but not submitting complicated tax schemes that could endanger our relationship with HMRC.

Deferred tax has also moved significantly, from a charge of £1.2m last year to a credit of £24.8m this year. The principal reason for the credit in 2013-14 is the increase in discount rates from March 2013 to March 2014 which has increased deferred tax discounting. Although the IBA agreement (that creates a credit to corporation tax) produces an equal and opposite charge to gross deferred tax that charge is reduced significantly by the deferred tax discounting.

Dividends

Wessex Water's dividend policy is to declare dividends consistent with the company's performance and prudent management of the economic risk of the business. The Board has agreed to ensure that gearing stays at or below 70% in order to maintain its current credit ratings and give the company continued access to the capital markets. Dividends declared in the year were £119.3m, down from £131.3m the previous year.

Cashflow and gearing

Net debt increased by £103.3m from £1,738.3m to £1,841.6m. This comprised:

- cash inflow from operating activities of £349.6m, less
- capital investment cash outlay of £226.6m, less
- interest payments of £77.5m, less
- tax payments of £29.5m, less
- dividend payments of £119.3m.

Liquidity at year end was £188m comprising £88m of cash deposits and a £100m term loan not yet drawn down.

The regulatory capital value increased by £153m, from £2,733m to £2,886m, of which £67m related to inflation and £107m to growth in assets, less a £21m outperformance adjustment. Gearing at 31 March 2014, calculated as net debt divided by regulatory capital value, was 63.8%, a slight increase from 63.6% last year and well below the 70% ceiling.

Key performance indicators

The financial key performance indicators set by Ofwat are post-tax return on capital, credit rating, gearing and interest cover. Ofwat set targets for the first two which were achieved at the year end.

There are five financial targets set internally to help measure performance in respect of profit after corporation tax, operational costs, net capital expenditure, cash flow before dividends and dividends declared. All of these were achieved in the year.

Environment

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

We are working more and more closely with others to improve management of the water cycle and are protecting the quality of water supplies by dealing with potential threats at their source.

We use various ways to raise public awareness of the need to use water wisely and to avoid doing things that cause sewer blockages. While improving effluent quality from sewage treatment works, we are also working on ways to address diffuse pollution of watercourses.

We actively contribute to the protection of wildlife in our region. This includes improved management of our landholding, measures to ensure that our construction programme respects local habitats and work with organisations on the frontline of improving biodiversity.

We are pursuing a range of options to reduce our carbon footprint and have an active energy efficiency programme with increasingly sophisticated data analysis that pinpoints locations requiring optimisation.

We are diversifying renewable energy generation and have recently added new small scale hydro power and food waste digestion.

Measures such as catchment management, leakage reduction and separation of surface water from foul sewers help to reduce our energy use and our carbon footprint.

In brief

- 99% compliance with sewage discharge consents and 99.98% compliance with abstraction licences.
- Zero prosecutions.
- Deterioration in total number of pollution incidents – but still at industry leading levels.
- The start of collaborative research with the University of Bath on the ability to remove phosphorus from effluent with algae and reedbeds; and methods to improve the production of biogas in anaerobic digesters.
- The first full operational year of our food waste digestion facility, providing a significant increase in the biogas produced at Bristol sewage treatment works.
- Rivers Frome and Piddle catchment initiative launched, a Defra sponsored collaborative project to test the catchment based approach.
- We are leading the development of a similar plan for the River Stour catchment, and supporting other plans for the Bristol and Hampshire Avon rivers.
- Sustainable phosphorus removal trial at Somerton sewage treatment works gained the Green Business award and Green Apple award.
- Completed 15 investigations to improve our understanding of our environmental impacts and target future investment based on sound science.
- Catchment management work has continued to reduce the level of pesticides in our source water, in particular levels of metaldehyde have been very low despite the very wet winter.

In detail

Environmental performance

Severe weather conditions contributed to deterioration in our environmental performance.

Whilst we had the lowest level of pollution incidents in the industry we had a poorer performance for serious pollution incidents (which rose from zero in 2012 to six in 2013). In response we developed a pollution action plan which focuses on awareness and culture, and proactive operational interventions to mitigate the risk of pollutions in the future.

We experienced numerical permit failures at three sewage treatment works – a reduction in performance from 2012, but still the second highest level of compliance in the industry.

Bathing waters

Good weather in the summer helped bathing water compliance during 2013, with all our region's bathing waters passing the EU's mandatory compliance standard.

Our £26m improvement scheme at Weston-super-Mare sewage treatment works was completed in April 2013, prior to the start of the bathing season. This provides improved treatment, greater ultraviolet disinfection and storage capacity for storm waters. Sampling results showed good improvement in effluent quality from the site.

A revised Bathing Water Directive comes into effect in 2015. In preparation, we have been working with the Environment Agency and others to identify sites that will need further improvement between 2015 and 2020.

We continued with our innovative communications about bathing water quality during 2013, including our Coastwatch overflow spill notification system and revisions to our Bag it and bin it app. Four sites have been added to Coastwatch for the 2014 bathing season – Chideock, Abbotsbury and Ferrybridge pumping stations, and Henleaze Lake.

Catchment services

Rather than relying solely on engineered solutions, we believe in working with the environment through natural methods and working with others in order to build resilience. Dealing with impacts on water quality at source is a more sustainable and economic approach than energy and chemical intensive end-of-pipe treatment.

Our catchment management work now covers 15 catchments where nitrate or pesticide pollution affects raw water quality. Where we work collaboratively with farmers we have seen significant reductions in nitrate concentrations in our drinking water sources, although nitrate levels during the winter in the last two years did rise because of the very wet weather.

The opposite has been true at the sites at risk of pollution from metaldehyde, an active ingredient in slug pellets. While other water companies have experienced an increase in the incidence of metaldehyde in surface water reservoirs, we have not. This is directly due to our collaborative work with farmers, our offer of non-metaldehyde alternatives and the advice we give on application rates, timings and frequency.

Water resources

Last year was one of extremes. Dry weather during the summer led to high water demand but we maintained a good water resources position throughout the year. This was followed by a much wetter than average autumn and winter.

Overall, 1,028 mm fell during the year, which is 23% more than the long-term average and January was the wettest on record in the UK – more than 200mm fell in our region – nearly 240% of average rainfall for the month.

To ensure compliance with drinking water standards we stopped using some sources that were affected by the heavy rain.

Our draft water resources management plan sets out how we will balance water supplies with water demands and protect the environment for the next 25 years. As part of the plan we propose increasing metering by installing meters when a household changes occupier, and enhanced water efficiency services.

These measures will help reduce household demand and leakage to create a surplus of water supplies over demand for the next 25 years. Following public consultation on the draft plan we published our statement of response to the representations received from individuals and organisations. The plan was generally well received by regulators and the public and we have received Defra's approval to publish it in a final version.

Environmental investigations

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

Our current environmental investigation programme is drawing to a close. Findings have been reported to the Environment Agency, Natural England and other interested stakeholders and were fed into our 2015-20 business plan. If agreed by Ofwat subsequent actions will include trials of:

- different compensation flow and operating regimes at some reservoirs to mimic more natural river flows in downstream watercourses
- a catchment permitting system in the Bristol Avon catchment that allows us to reduce phosphorus from sewage treatment works by optimising existing treatment systems, and using new technologies and more sustainable solutions
- novel technologies for the removal of priority substances and phosphorus.

We will also increase catchment management upstream of Poole Harbour to reduce nitrogen through land management rather than installing a multi-million pound nitrogen removal plant at Dorchester sewage treatment works.

Wildlife and conservation

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

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

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

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

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

Carbon management

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

Electricity use accounts for more than 70% of our carbon footprint and has been increasing since the early 1990s due to tighter sewage treatment standards. The last few years have also shown a close correlation between our energy use and the weather.

During 2011-12 dry conditions resulted in lower volumes of sewage for pumping and treatment, leading to our lowest electricity use since 2002. However, wet weather in 2012-13 and 2013-14 increased the amount of energy required for pumping and treating waste water.

We have continued to improve energy efficiency and identify unnecessary power use. Alongside the regulated business our food waste facility at Bristol sewage treatment works, operated by our subsidiary GENeco, completed its first full year of energy production. The site also saw the construction of four 2.05 MW wind turbines owned by Triodos Renewables.

Employees

We are very proud of the skills, expertise and goodwill of our employees whose exceptional commitment is central to our success.

We continue to focus on equipping our employees with the technical, leadership and management skills they require to be successful in the future and take pride in looking after their wellbeing and providing a variety of employee benefits.

Promoting diversity and opportunity across our workforce was a particular focus this year.

Our commitment to attracting skills and providing young people with opportunities to join our business has continued with the development of new apprenticeship programmes.

This year we launched programmes in our laboratory and customer contact centre and additional apprenticeship programmes are planned for next year.

The health and wellbeing of our employees has been a high priority this year. We provided free health checks for 400 employees with follow up advice on maintaining a healthy lifestyle.

In brief

- A very positive and engaging culture with 87% of staff rating Wessex Water as a good place to work. We continue to have a high level of staff engagement.
- Ongoing focus on continuously developing our suite of management and leadership training programmes. This year we achieved accreditation from the University of West of England for our Institute of Leadership and Management (ILM) level 5 management development programme.
- Further development of our integrated talent management and succession planning programmes.
- 79% of employees (1,813 employees) took part in a range of skill development programmes.
- Development of a diversity taskforce together with a range of diversity initiatives including a networking group for women in the business.
- Very good safety performance with an increased emphasis in the year on reporting near misses.
- The launch of a behavioural safety programme to further improve our health and safety culture.
- Employee wellbeing continues to be a priority and this year we provided free health checks to 400 staff.
- The launch of new apprentice schemes in our customer contact centre and scientific laboratory.
- More than 30 employees currently undertaking professional development towards chartered status in their chosen sector with eight attaining chartered status this year.

In detail

Training

Maintaining and developing skills for the future is a key priority for us. We pride ourselves on the number and standard of the technical training programmes we develop and run for employees.

We deliver training through a variety of courses including structured internal courses, tool box talks, seminars and specialist college courses. This year, a total of 1,813 staff (79% of our workforce) took part in more than 400 different types of training course, including advanced environmental and management programmes.

Excellent customer service is one of our key priorities and central to our training. This year we launched Going the Extra Mile, a programme which explores how we can exceed the excellent customer service we offer already. More than 230 members of our frontline staff have taken part so far.

As strong and effective leadership is a critical component in maintaining our status as a high performing water company, one of our key objectives this year has been identifying and developing talent.

We successfully achieved accreditation from the University of West of England for our Institute of Leadership and Management level 5 management development programme, which bridges the gap between our existing supervisory foundation and senior manager leadership programmes.

We continue to sponsor a number of managers to complete their level 7 strategic leadership programme and actively encourage our highest achievers to convert their qualifications into MBAs.

Apprenticeships provide young people with opportunities to join our business and develop their careers. We currently have 26 apprentices in our Operations division and this year we launched an apprentice programme for 16 – 18 year olds in our engineering and construction division and laboratory and customer contact centres.

We continue to actively support and encourage our staff to undertake professional development routes, and have achieved accreditation from the Institution of Engineering and Technology (IET) and the IET apprenticeship scheme, offering a further route for continued professional development for our employees.

Diversity

We have an ongoing commitment to develop and encourage diversity across our business. This year we launched a diversity taskforce of senior managers to develop policy and initiatives that encourage and promote equality and diversity.

The social enterprise, Women on Boards, ran development seminars for 60 female employees, focused on their personal and career development. We also launched a female networking group with regular external speakers in order to encourage a balanced gender profile.

The Company has 2,165 employees of whom 549 are women and 1,616 are men.

There are 13 Directors, of whom two are women and 11 are men and 42 senior managers, of whom five are women and 37 are men.

In total 2,220 people work for Wessex Water – 556 women and 1,664 men.

Culture

All companies have their own culture – the atmosphere at work, the way people behave and the way things are done. We have a strong, friendly and positive culture; staff enjoy working for the Company and with each other.

This year we ran two surveys giving staff the opportunity to feed back on topics including leadership, training, communication and career development. The results were very encouraging and show continued improvement in the culture of Wessex Water.

Our employees are extremely engaged in their work; 79% have strong loyalty to the Company, 87% of staff rated Wessex Water a good place to work and 82% feel encouraged to carry out work to the best of their abilities.

We are working together with employees to identify areas for improvement and ways to make Wessex Water an even better place to work.

Health and safety

Protecting the health, safety and welfare of our staff, contractors and customers is a duty that we take very seriously. No activity is truly without risk; our safety management systems and procedures aim to remove unnecessary risk and control and manage any residual risk to ensure injury or harm to individuals is prevented.

Central to our safety culture is that all staff, irrespective of their position, are empowered to ensure health and safety is "not an optional extra".

Managers, supervisors and staff all receive appropriate levels of training to ensure they can work safely without risk to themselves, colleagues or customers. A team of experienced health and safety professionals supports and advises staff, investigates accidents and where necessary enforces company safety standards.

In spite of increased awareness and changes to working arrangements and training, there are accidents: the principal causes are slips, trips and falls or manual handling. We will continue efforts to improve performance in these areas.

We monitor and investigate all reported safety incidents and dangerous occurrences to establish the cause and identify improvements that will prevent a recurrence. This year we increased emphasis on the reporting and investigation of near-misses, which is crucial to preventing future accidents.

We have provided automated external defibrillators at strategic locations and trained 40 first aiders in their use.

Our overall safety record remains good and we have received awards from recognised safety organisations; our Operations division received the British Safety Council international safety award (distinction) and Wessex Engineering and Construction Services received the Royal Society for the Prevention of Accidents gold safety award for a further year.

Infrastructure

We have an excellent record on the installation and management of infrastructure. The implementation of the regional supply grid will add resilience to our existing system. For the long-term we are extending catchment management measures to reduce raw water quality issues at source.

We manage and maintain our assets to ensure they operate efficiently and effectively, providing high quality treatment and service.

We fully integrate sustainability principles and practice into our capital programme and scheme options.

Our approach to risk and asset management is to ensure that risks are understood and managed throughout the business.

Our processes enable us to maintain an acceptable level of risk, balancing investment needs against improving service and environmental performance.

Modelling and analytical tools applying our risk and value approach help us to prioritise investment based on:

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

We believe it is unacceptable to have asset failures that compromise public health, affect customer services, lead to environmental damage or cause significant disruption.

We continue to drive innovation and stretch ourselves to improve our industry leading levels of performance.

In brief

- £226m invested to maintain and improve services to our customers and environment.
- Largest infrastructure investor in the region providing more than 1,000 jobs directly in constructing new assets and in the regional supply chain.
- Met all our regulatory outputs and met or exceeded all activity targets.
- Progressed our water supply grid, a key component of our 25-year water resource plan.
- Nearing completion of mains rehabilitation programme in Taunton to improve the appearance of the water.
- Exceptional 2013 weather affected the number of flooding incidents from our sewerage network and we invested more than £10m to reduce sewer flooding risk.
- We successfully achieved certification to the new international standard ISO55001:2014 for asset management.
- Achieved our third re-certification to PAS55:2008 asset management standard.
- Using Ofwat's toolkit we assessed our asset serviceability as stable for the seventh year running.

In detail

Leakage

We met our leakage target for the year despite the long hot summer of 2013 creating an additional challenge due to ground shrinkage. We employed additional leakage staff and spent £1m on extra leakage detection and repairs. We aim to fix all visible leaks within 24 hours.

Sewage flooding

The Met Office reported that the wet weather between December 2013 and February 2014 broke all records. Fully saturated ground for nearly half the year meant rainfall events that would otherwise not have caused incidents, resulted in flooding.

The high groundwater levels also infiltrated and inundated privately owned drains and some public sewers across the region. To protect properties from flooding and losing the ability to use their drainage facilities, we mobilised overpumping and tankering in 48 locations.

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

Work continues with local councils to develop surface water management plans and flood management strategies. We are currently working with both Somerset County Council and the Environment Agency on the Somerset Levels and Moors 20-year flood action plan.

We have invested more than £10m to reduce the likelihood of flooding at 127 properties and external areas in the past year and remain on track to meet our regulatory commitment of removing 527 properties and areas from the flooding risk registers by 2015.

Asset management

Our asset management framework has helped us develop a more integrated approach to risk and investment decision making which has been recognised by re-certification to PAS55:2008 and certification to the new international standard ISO55001:2014.

A key component of this framework has been the implementation of work and asset management systems and these are being extended to all parts of the business to enable us to continue improving our asset knowledge and operational efficiency. Ofwat's measures showed our serviceability was stable for the seventh consecutive year.

Infrastructure improvements

In Taunton our £16m investment to modernise ageing water mains is well advanced. The work, which will improve the appearance of the water and provide increased security of supply, is due for completion in summer 2014.

No dig techniques were also successfully used on a scheme to replace a water main through the centre of Abbotsbury in Dorset, so minimising the impact on customers and businesses during construction.

Our regional supply grid is well underway, with construction of three new service reservoirs in Dorset, pipe laying down the Wylye valley, near Shaftesbury and at Blandford, and the building of two pumping stations. Further construction sites will start in 2014 and the overall project is due to be completed by 2018.

We delivered two sewerage schemes in the year which enabled 354 properties to connect to the public sewer network for the first time, reducing pollution for the communities involved.

We completed schemes at three sewage treatment works in Somerset: Evercreech, Shepton Mallet and Yeovil, to reduce levels of phosphorus discharged into rivers on the Somerset Levels. At Puddletown sewage works in Dorset we completed a major scheme to improve the quality of the effluent discharged to the river.

We have completed the first of three schemes to increase the quantity of sludge treated through anaerobic digestion processes and increase the level of renewable electricity we generate. This work, at Trowbridge, cost £11m, and will produce an additional 8GWh of electricity each year.

Other schemes include:

- major refurbishment of Ashford water treatment works, near Bridgwater, to maintain water quality and capacity
- construction of a replacement grout curtain for Wimbleball dam, a 50 metre high concrete dam in Exmoor, in conjunction with South West Water
- construction work at Taunton, Mere and Iwerne Minster sewage treatment works to improve the quality of the effluent discharged into rivers.

Innovation

Innovation is a central theme across our business and in recent years we have been pursuing novel approaches to achieve environmental and social outcomes.

These include providing agronomic advice to farmers to protect drinking water sources, real-time reporting of sewer flooding incidents near bathing waters, a wide range of no-dig methods to refurbish water mains and sewers to reduce disruption and costs, and early adoption of enhanced anaerobic digestion of sewage sludge.

Innovation was also a prominent theme in the business plan we published for Ofwat's 2014 Periodic Review.

We encourage staff to promote better ways of working through our Eureka! programme, and carry out trials and investigations through our Innovation and Technology Forum.

In 2013-14 these included trials of multimedia filters for spring sources and ultrasonic devices to control algae in reservoirs.

We also took part in collaborative trials with other water companies. These included a comparison of the efficiency of advanced sewage aeration equipment and the effectiveness of different dissolved oxygen monitors, all of which have the potential to deliver energy efficiency savings.

In 2013-14 we devised an internal Dragons' Den to review ideas that offer the best potential cost savings. Successful projects included a timer device for ultraviolet disinfection and modification of flows at a sewage treatment works inlet to reduce energy use and repair costs.

It was also the first year of our joint research programme with the University of Bath.

This comprises five workstreams which cover low energy sewage treatment and nutrient recovery; methods for improving the biogas yield of sewage sludge digesters; emerging pollutants in waste water that pose potential risks to the environment; engaging customers to encourage responsible water use and to discourage sewer misuse; and improved techniques for assessing the whole life costs of physical assets.

Performance Indicators

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

Key performance indicators	Performance level			Performance vs five-year average	Status against 2013-14 target
	Five-year average	2012-13	2013-14		
CUSTOMER EXPERIENCE					
Service Incentive Mechanism (out of 100)	85	85	87	Better	●
WATER SUPPLY					
Water quality compliance	>99.9%	>99.9%	>99.9%	Same	●
Supply interruptions (hours per property)	0.6	0.4	0.4	Better	●
Total leakage (million litres per day)	71	69	69	Better	●
Security of supply index	100%	100%	100%	Same	●
Serviceability non-infrastructure	Stable	Stable	Stable	Same	●
Serviceability infrastructure	Stable	Stable	Stable	Same	●
SEWERAGE					
Repeat flooding incidents	73	109	64	Better	●
Serviceability non-infrastructure	Stable	Stable	Stable	Same	●
Serviceability infrastructure	Stable	Stable	Stable	Same	●
ENVIRONMENTAL STANDARDS					
Discharge permit consent	99.2%	99.7%	99.0%	Worse	●
Pollution incidents (sewerage) per 10,000km	39.2	35.4	48.2	Worse	●
Serious pollution incidents (sewerage) per 10,000km*	0.2	0.0	3.5	Worse	●
Satisfactory sludge disposal	100%	100%	100%	Same	●
Greenhouse gas emissions (000t CO_2 eq)	153	159	145	Better	●
FINANCIAL					
Post-tax return on capital	6.7%	6.0%	5.9%	Worse	●
Credit rating	A3/A-/BBB+	A3/A-/BBB+	A3/A-/BBB+	Same	●
Gearing	66%	64%	64%	Better	●
Interest cover	3.4	3.2	3.6	Better	●

* After several years of excellent performance, the exceptional rainfall in the year resulted in more pollutions. We take our performance extremely seriously and are making every effort to return to industry leading performance in 2014.

Principal Risks

The management of risk is of fundamental importance to the Company. Customers, regulators and the press have increasing expectations and are less willing to accept failure. The Company's policy on risk identification and management is subject to annual review by the Board.

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

Wherever possible a risk is measured by its potential financial and environmental impact in the next five years, whether direct or indirect, including any possible impact on the price review process in 2014.

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

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

The Board Chairman submits an annual risk review paper to the Board for its review and agreement. This paper details the risk review process, identifies the current principal risks to the business and the mitigation measures in place.

It also records the status of emergent risks that have been identified and provides details to the Board of any changes in the National Risk Register (NRR) and the National Resilience Planning Assumptions (NRPAs).

There are 10 principal risks identified and agreed by the Board.

1 Government/regulatory action. Changes to legislation or other regulatory action can adversely affect the way in which the business operates and its profitability. Relationships with politicians and regulators are maintained to ensure they hear the Company's views regarding the impact of any proposed legislative changes on the business and its customers.

2 Information management and digital security. The Company holds and processes large quantities of data considered sensitive within the meaning of the Data Protection Act. Failure to process and protect the data in the prescribed manner is an offence. Additionally the Information Commissioner can take enforcement action which would require the Company to take prescribed actions for improvements in the future. This year our Information Systems (IS) department has achieved best practice accreditation to the ISO27001 standard for digital security.

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

4 Major pollution incident. Control of the escape of polluting matter to the environment is central to the Company's business. Significant effort is made to prevent such an incident occurring through investment in assets and technology, and through staff adherence to company processes and procedures. New staff are trained in these processes and procedures and their importance.

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

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

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

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

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

10 Leakage. Failure to control leakage could breach a regulatory output and result in reputational damage with customers and stakeholders. The Company sets a tighter level of leakage than the official regulatory target.

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

We avoid complacency through regular reviews and challenges within the risk group and Risk Management Committee. The internal audit programme includes a rolling review of principal mitigation measures with regular reports to the Audit Committee.

Market Overview

In planning for the future we assess the main trends and factors likely to affect the future development of the business. There are currently three regulatory issues in the water industry that could significantly affect the Company.

The Board continues to monitor the potential impact of these issues to ensure we maintain our industry leading performance in the regulated business.

Price Review 2014

We have published *Water – a new direction*, our business plan for services, investment and bills for 2015-20. This built on the need to continue investing in our infrastructure and the requirement to keep bills affordable.

We are currently part way through the price review process which concludes with the final determination of bills for 2015-20 in December 2014. Ofwat has introduced a number of changes to the way it sets prices which are new to this price control and their impact on the business is uncertain at this time.

The Water Act 2014

The Water Act 2014 received Royal Assent on 14 May 2014. Its stated purpose is to:

- reform the water industry to make it more innovative and responsive to customers and to increase the resilience of water supplies to natural hazards such as drought and floods
- to bring forward measures to address the availability and affordability of insurance for those households at high flood risk and ensure a smooth transition to the free market over the longer term.

Some of the main measures of the Act that may have an impact on the business include:

- introducing retail competition for all non-household customers in England
- developing a national water supply network by making it easier for water companies to buy and sell water from each other
- enabling developers and new water or sewerage companies to connect new building developments to the water mains and sewerage system
- improving the regulations relating to the merger of water and sewerage undertakers
- providing Ofwat with a new over-arching duty to take greater account of long-term resilience and changes to improve its regulation of the water industry.

Retail market opening

One of the main measures of the Water Act is to enable all non-household customers in England to have the ability to switch their water and sewerage supplier. The retail market is due to open in April 2017.

The preparations for retail market opening are steered by Open Water, a company limited by guarantee and comprising all current market participants. In time it is envisaged that Open Water will become the market operator, akin to the Central Market Agency in Scotland.

The introduction of retail competition marks a fundamental change in the industry and is likely to lead to new entrants in the retail segment and potential consolidation, as happened in the energy sector.

Board endorsement of the Strategic Report

At the Board meeting in June 2014 the Directors were able to consider the Strategic Report together with an oral report from the Chairman of the Audit Committee, and to question the Executive Directors and relevant senior managers.

The Board was satisfied that it could approve the Strategic Report in the form appearing above.

Francis Yeoh
Chairman

Wessex Water Services Ltd
Board of Directors - Executive Directors

Colin Skellett – Chief Executive (and Chairman to 31 March 2014)
A chartered chemist and engineer by training, he has worked in the water industry for more than 40 years, holding a number of positions in the management and control of both water supply and sewage treatment.

He joined Wessex Water in 1974 and was appointed its Chief Executive in 1988. Colin oversaw the move from the public to the private sector and the transformation of Wessex Water into a highly rated UK plc. He is Chairman of the West of England Local Enterprise Partnership.

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

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

David Elliott – Director of Environment and Assets
David has over 30 years' experience in the water industry. He joined Wessex Water in 1985 working as a technician engineer in sewerage. He spent time in Argentina where he managed sewerage services to 2.5 million customers. On returning to the UK he became Southern Divisional Manager. In 2004 he became General Manager, Group Services, responsible for IT, FM, logistics and customer services. He was appointed to his current position on 11 June 2007. Retired from the Board on 31 March 2014 (see page 33).

Sean Cater – Director of Operations and Construction
Sean has more than 30 years' experience in the construction and engineering industry. He joined Wessex Water in 1992 as a resident engineer in the Somerset division. He subsequently worked as a construction manager and in 2000 he took on the role of Head of Capital Investment. In 2002 he became General Manager of Wessex Utilities Contracting. He was appointed to his current role on 11 June 2007. Retired from the Board on 31 March 2014 (see page 33).

Andy Pymer – Director of Customer and Retail Services
A chartered civil engineer turned economist, Andy has more than 20 years' experience in the water sector, holding roles both overseas and in the UK, including ten years as Head of Regulation and Policy at Wessex Water. He was appointed Director of Customer and Retail Services on 1 August 2012 and is also a Director of Wessex Water's joint venture billing company, BWBSL, and Chair of Wessex WaterAid, which has raised more than £1.5m for the charity since 2002. Retired from the Board on 31 March 2014 (see page 33).

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

Independent

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

Gillian Camm – Appointed in November 2011 and chair of Customer and Communities Panel. Chair of the board of governors – University of the West of England, Deputy Lieutenant Gloucestershire, vice president Quartet Community Foundation, member Society of Merchant Venturers.

Peter Costain – chartered accountant, former Chief Executive of Costain Group Plc from 1980 to 1995 and Deputy Chairman from 1995 to 1997. Non-Executive Director since 1999. Chair of Pensions Committee.

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

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

Shareholder

Francis Yeoh CBE – (Chairman from 1 April 2014) Managing Director of YTL Corporation Berhad, Malaysia since 1988. A founder member of the Malaysia Business Council, member of Malaysia's Capital Markets Advisory Council and Independent Non-Executive Director of The Hong Kong and Shanghai Banking Corporation Limited. Director since May 2002.

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

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

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

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

+ Alternate Director to Francis Yeoh until 31 March 2014 and shareholder appointed Director from 1 April 2014.

Risk and Compliance Statement for the regulatory year 2013-14

Introduction

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

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

Compliance Statement

The WSRA requires the Board to confirm in the Compliance Statement that:

- the Board has a full understanding of and is meeting, in all material respects, its statutory, licence and regulatory obligations
- the Company is meeting, in all material respects, relevant regulator and customer expectations as demonstrated by those outputs and service standards set out in its business plan and funded through the Final Determination
- the Board is satisfied that the Company has sufficient processes and internal systems of control to fully meet its obligations, or has disclosed any modification or failure to meet such obligations
- the Company has appropriate systems and processes in place to allow the Board to identify, manage and review risks. Major risks and the appropriate management of them are set out in the Strategic Report above
- the Company has sufficient financial and management resources for the whole year
- the Company has sufficient rights and assets available to enable a special administrator to run the business
- any trade with associate companies was at arm’s length and no cross subsidy arose
- Directors’ pay is linked to standards of performance as disclosed on page 57
- any failure to deliver outputs agreed at the Final Determination has been disclosed
- the Company is compliant with condition F6A.6 on credit ratings
- greenhouse gas reporting complies with Defra reporting requirements.

Output review

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

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

A report is made to each Board meeting showing progress against scheduled outputs. The Board reviews the report and proposed mitigations where difficulties have been experienced.

The Company is meeting, in all material respects, relevant regulator and customer expectations as demonstrated by those outputs and service standards set out in its business plan and funded through the Final Determination.

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

- feedback cards are left with all customers visited, upon departure
- our customer care team contacts customers within an hour or two of work being completed at their property to check the problem is resolved, the site has been left clean and tidy and the customer is satisfied
- each month an independent telephone satisfaction survey is undertaken of a random selection of customers whose billing or operational contact has been resolved. Four of these are commissioned by OFWAT as part of the SIM and the remaining eight are our own replica SIM surveys
- each year, an independent image tracking survey gauges customer views
- focus groups are used to analyse customer attitudes to the services provided by the Company and to guide future planning
- our online customer panel, Have Your Say, is used to gather customers' views on our service now and in the future including satisfaction, value for money and customer effort scoring, along with other topical issues
- our four customer liaison panels have been used as part of the PR14 price setting regime to consider various aspects of the business for the future. These panels report to the customer scrutiny group, which comprises an independent chairman, representatives of the regulators and representatives of the customer liaison panels. This group has this year considered the key issues to be addressed in the PR14 business plan.

Customer information

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

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

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

Risk review

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

The risk environment changes through time as some risks become less likely or less damaging while new ones emerge. The Company's processes are designed to respond flexibly to these changes and to ensure that the necessary controls and mitigation measures are put in place. The Audit Committee has oversight of the controls and mitigations put in place to ensure that the Company is only exposed to the degree of risk set by the Board.

Risk process

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

Asset and operational risks are reviewed, assessed and recorded monthly by operational staff. Risks are scored using a best practice process which assesses probability and impact on a five by five matrix. Risk mitigation plans are recorded and implemented where appropriate and pre and post mitigation scores are recorded. Results are reported to each meeting of the Group Management Team and the Board.

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

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

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

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

Assurance

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

The Compliance Statement was reviewed by the Audit Committee on 23 June 2014 and by the full Board one day later. The Audit Committee received presentations from senior managers involved in compiling the Compliance Statement, KPMG (the Auditor) and CH2M HILL (the Engineering Auditor).

Board endorsement of the Compliance Statement

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

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

Francis Yeoh
Chairman

Governance Report

Chairman's introduction

Wessex Water is committed to high standards of corporate governance. Under Condition F of its Instrument of Appointment as a water and sewerage undertaker (the "Licence") Wessex Water is required to conduct its water and sewerage business as if it were the Company's sole business as a public limited company. The Licence also requires Wessex Water to have particular regard to the UK Corporate Governance Code as approved for the purposes of the Listings Rules of the Financial Services Authority (the "Code"). The Code is not a rigid set of rules and provides general principles of best practice. The Code is made up of "Main Principles", "Supporting Principles" and "Code Provisions". The Code Provisions are subordinate to the Principles. Whilst the Code is generally regarded as embodying best practice in UK Corporate Governance, its main focus is the relationship between a listed company and its shareholders. Wessex Water has a single shareholder and, accordingly, it is able to address some issues more directly and completely than it could if it were a listed company.

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

The following parts of this Governance Report explain how good governance is at the heart of the Company's business and underpins the Company's relationships with its customers, shareholder, and other stakeholders. The Board regards it as fundamental to the long-term success of the Company to provide excellent customer service and satisfaction. Governance arrangements are kept under constant review. The Company has adopted the changes referred to below in the current financial year so that we continue to reflect best practice and maintain our position as the leading water and sewerage company for customer service and satisfaction.

From 1 April 2014 following OFWAT's initiative on water company Board Leadership, Transparency and Governance we have made further changes to our governance arrangements to meet the commitments set out in our Code of practice for corporate governance a copy of which is available on our website. These changes include separating the roles of Chairman and Chief Executive and reducing the number of Executive Directors to two, as well as changes to the memberships of the Nominations and Remuneration Committees. Details are set out in the relevant Committee reports.

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

Francis Yeoh - Chairman

Governance structures

The Board

All decisions which affect Wessex Water are ultimately the responsibility of the Board, which controls and directs the undertaking of the regulated water and sewerage business. During the reporting year the Board composition was as shown on page 33. The changes in Board composition referred to below have been made from the 1 April 2014 in response to OFWAT's initiative about water company corporate governance.

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

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

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

From 1 April 2014 there are two Executive Directors, both appointed on one-year rolling contracts. There are four Independent Non-Executive Directors, exceeding by one the requirements of Condition P of the Licence. Five further Non-Executive Directors are appointed by the Company's sole shareholder including the Chairman of the Board.

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

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

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

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

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

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

Wessex Water complied with the Code's Main Principles and Supporting Principles as to the composition of the Board. Moreover, Wessex Water exceeded the requirements of the Code (designed for listed rather than privately held companies) by having four Non-Executive Directors, during the reporting year (5 from 01/04/14) 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 Board considers its current composition ensures an appropriate balance of skills, experience, independence and knowledge so that no single group can dominate decision taking and that the Board does not become too unwieldy.

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

The following were Directors during the year under review:

Executive Directors	Independent Non-Executive Directors	Shareholder Non-Executive Directors
Colin Skellett OBE (Executive Chairman) ++	David Barclay	Francis Yeoh CBE + (alternative Kathleen Chew to 31 March 2014)
Sean Cater ++++	Gillian Camm	Hann Yeoh
David Elliott ++++	Peter Costain	Hong Yeoh
Andy Pymer ++++	Fiona Reynolds	Mark Yeoh
Mark Watts		Kathleen Chew +++

+ Francis Yeoh became Chairman on 01/04/14
++ Colin Skellett became CEO on 01/04/14
+++ Became a full shareholder director on 01/04/14
++++ Resigned as Executive Directors on 01/04/14

Note: The reduction of the number of executive directors to two was undertaken to meet OFWAT's best practice requirements for water company board leadership and governance.

Chairman

Throughout the financial year under review Colin Skellett was the Company's Chairman and Chief Executive. He brought more than 40 years' water industry experience to the Company including 25 years as Chief Executive covering privatisation of the industry and two changes of ownership. By agreement with the shareholder, Colin Skellett's dual role to 31 March 2014 as Chairman and Chief Executive was an exception to the relevant Code Provision which generally requires separation of the roles of running the Board and running the Company's business.

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

On 1 April 2014 as part of the changes made to our governance arrangements in response to OFWAT's governance initiative the role of Chairman and Chief Executive was separated, with Francis Yeoh becoming Chairman of the Company. Colin Skellett continues in his role as Chief Executive.

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

Any Director or the Company Secretary may request an item be included on the agenda. During the reporting year the Chairman met regularly with fellow representatives of the Company's shareholder and had separate group and individual meetings with the Independent Non-Executive Directors.

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

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

Senior Independent Director

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

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

Independent Non-Executive Directors

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

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

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

The Board has concluded that it was in the Company's interests due to the importance of its infrastructure construction programme that Peter Costain, with a background in major engineering projects, continues as an Independent Non-Executive Director beyond the period suggested in the Code and his current appointment has been extended to 30 September 2014. David Barclay's continued appointment brings to the Board his experience on other listed and private company boards as well as his knowledge of financial markets. The continued appointment of Peter Costain and David Barclay therefore promotes the long-term success of the Company and is in accordance with the spirit of the Code.

Independent Non-Executive Director	**Appointed**	**Current term expires**
David Barclay	1/11/2005	31/10/2014
Gillian Camm	1/11/2011	31/10/2014
Peter Costain	1/12/1999	30/09/2014
Fiona Reynolds	1/08/2012	31/07/2015

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

Visits are made to the Company's principal offices and representative operational sites. The training and development needs of the Executive Directors and Independent Non-Executive Directors are reviewed annually by the Chairman.

Company Secretary

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

The Company Secretary gives legal and regulatory advice as required by the Board or any Director and is responsible for advising the Board 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.

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

Board Meetings

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

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

Board Attendance 2013 – 14			
Colin Skellett	6/6	Fiona Reynolds	6/6
David Barclay	6/6	Mark Watts	6/6
Gillian Camm	5/6	Francis Yeoh (alternative Kathleen Chew)	4/6 1
Sean Cater	6/6	Hann Yeoh	5/6
Peter Costain	6/6	Hong Yeoh	4/6
David Elliott	6/6	Mark Yeoh	6/6
Andy Pymer	6/6		

Board Committees and Advisory Panels

Five formal Committees operated throughout the financial year under review:

- Audit Committee
- Risk Management 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 41 to 68.

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

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

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

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

Board, Committee and Director Performance

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

In accordance with the Code a Board effectiveness review was carried out in March 2014. Evaluation of the Board considers the Board's balance of skills, experience, independence and knowledge of the Company and how the Board works together as a unit, and other factors relevant to its effectiveness. A questionnaire was sent by the Company Secretary to all Directors. Individual responses were aggregated and analysed on an anonymized basis, and the results presented to and discussed by the Board at its meeting on 24 March 2014 with several improvements adopted as a result. These included adopting additional measures to monitor Company performance and improved reporting back to the Board by Committee Chairs about their proceedings. The performance of Board committees will be formally evaluated in the next year.

Colin Skellett's performance as Chairman in the reporting year was evaluated by the Independent Non- Executive Directors in June 2014.

Directors' Remuneration

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

Directors' Interests and Conflicts

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

Whistleblowing

The Company has adopted and publicised to all its employees a whistleblowing policy for reporting instances of malpractice or inappropriate activity across all areas of business, including water regulation, health and safety, bribery, corruption and fraud. All reports are treated on a strictly confidential basis. Reports on whistleblowing are made to the Audit Committee. Two reports were received during the financial year under review. They were duly investigated and found to be without substance.

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 2006 and for contracts below the relevant thresholds in accordance with clear internal rules. The rules promote fair competition for potential suppliers. All relevant staff are required to certify to internal audit through the year that they have complied with the rules or to disclose non-compliance. No material instances of non-compliance were recorded during the year.

Group Structure

In April 2014 OFWAT published its document Board Leadership, Transparency and Governance – Holding Company Principles setting 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 2014 was

51.34% owned by third party shareholders and 48.66% 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
57.77% YTL Power International Berhad	Investment holding and provision of administrative and technical support services	Incorporated in Malaysia and quoted on the Main Market of Bursa Malaysia Securities Berhad
YTL Power Generation Sdn Bhd	Development, constructing, completing, maintaining and operating power plants	Incorporated in Malaysia to create a tax efficient structure
YTL Utilities Limited	Investment holding company	Incorporated in Cayman Islands to look for global mergers & acquisitions in the utilities sector
YTL Utilities Holdings Limited	Investment holding company	Incorporated in Cayman Islands to look for global mergers & acquisitions in the utilities sector
YTL Utilities (UK) Limited	Investment holding company	Incorporated in United Kingdom, the acquisition vehicle for the purchase of the Wessex Water group of companies
Wessex Water Limited	Investment holding company	Incorporated in United Kingdom, also owns SC Technology AG, Wessex Water Enterprises Ltd and 50% of Bristol Wessex Billing Services Ltd
Wessex Water Services Limited	Water supply and waste water services	Incorporated in United Kingdom, granted a Licence as a water and sewerage undertaker under the Water Industry Act 1991

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

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

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

YTL Corporation Berhad's consolidated debt and equity are shown in its annual accounts available at its YTL Corporation website. The Company has no borrowings 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 undertakings 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 Committee Report

Members:

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

David Barclay (Chair)
Gillian Camm
Peter Costain FCA
Fiona Reynolds

The Board is satisfied that all members of the Audit Committee are independent and that, through David Barclay and Peter Costain, it has relevant financial experience as described on page 35.

Role and Report on Activities

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

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

The members of the Audit Committee receive updates on financial reporting, the regulatory framework and performance throughout each financial year. The Finance Director and Treasurer, Director of Customer and Retail Services, Director of Environment and Assets, Head of Internal Audit, Financial Controller and the Company's external auditors KPMG attend, by invitation, all meetings of the Audit Committee. Other Directors, members of senior management and the Company's engineering auditor are also invited to attend as appropriate.

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

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

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

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

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

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 20 and 21, the Risk and Compliance Statement on pages 26 to 29, and other financial disclosures prior to their release.

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

Internal Controls

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

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

The Audit Committee also reviews arrangements by which staff of the Company and others may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters.

The Audit Committee's objective is to ensure that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action. Two such reports were investigated in the year and reported to the Audit Committee.

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 26 to 29.

Financial Reporting

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

Bad Debt Provision

The Committee considered the key audit 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 audit risk that the assumptions made by the Company in association with the independent actuary, in arriving at the pension deficit under FRS 17, 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 audit 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 UK GAAP, 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 profit and loss account and balance sheet. They reviewed the split between current and prior year taxation, the overall tax reconciliation and current taxation issues as highlighted by the external auditors.

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 auditors reported to the Committee that in the course of their work no misstatements had been found. The Committee was satisfied that the external auditors have fulfilled their responsibilities to the Audit Committee and the Company.

Oversight of Internal Audit and External Audit

The Audit Committee oversees the work of the Company's internal audit function, monitoring and reviewing the effectiveness of the internal audit activities, and manages the relationship with its external auditors. The Audit Committee reviews the performance of the internal and external auditors annually to ensure that they are effective and recommends to the Board whether the external auditors should be reappointed.

In addition this year there was an external audit of the internal audit function with results reported to the Audit Committee and with some changes to internal processes and documentation implemented.

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

Internal Audit

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

At the request of Executive Directors or the Audit Committee, additional audits are undertaken throughout the financial year to address any issues that arise in the financial year.

The Head of Internal Audit reports back on reviews of performance and the effectiveness of the Company's internal controls and their adequacy in managing business risk and performance. This work is summarised and reported to the Audit Committee on a regular basis.

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

External Auditor

KPMG were appointed as the Company's auditor in 2002 and the audit contract has not been put out to tender since. Each year the Finance Director and Treasurer reports to the Audit Committee on the effectiveness of the external auditor throughout the year. The Audit Committee reviews that report and takes into account their own experience of the auditor's effectiveness in the year. They then make a recommendation to the Board as to whether they be reappointed. In June 2014 the Board again decided that KPMG be re-appointed for the following year. Although KPMG's appointment exceeds the normal 10 year period suggested in the Code, it is consistent with the transitional arrangements as published by the FRC, that re-tender can take place at the end of the current audit partner's term of office in 2017. The Committee intends to re-tender the Company's external audit services at that time.

KPMG was paid £145k for audit fees and £186k for non-audit services during the financial year under review. The fees for non-audit services were significant in the year because of specialist advice received from KPMG in the preparation of the PR14 Business Plan submission to Ofwat. Individual commissions for non-audit work were agreed by the chairman of the Audit Committee and were considered to have no impact on the auditor's objectivity and independence. As a matter of policy, fees paid to the external auditors for non-audit services will not normally exceed 50% of the annual audit fee.

KPMG reports to Ofwat in respect of the Company's regulatory accounts. The Audit Committee also receives reports from its engineering consultants, CH2M HILL, on non-financial regulatory outputs as part of the Company's Ofwat compliance process.

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

Risk Management Committee Report

Members:

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

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

Role and Report on Activities

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

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

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

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

Nominations Committee Report

Members:

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

Hong Yeoh (Chair)
David Barclay
Mark Yeoh
Colin Skellett

On 1 April 2014 Francis Yeoh replaced Hong Yeoh as Chair of the Committee. On the same date Mark Yeoh stood down and Gillian Camm, Peter Costain and Fiona Reynolds joined the Committee.

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 and for succession planning. It reviews Board structure, size, composition and succession planning.

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

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

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

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

As part of the process to replace Independent Non-Executive Directors at the end of their term the Committee has and will use external recruitment agencies to provide a shortlist of candidates, to which is added further names after consultation with the Executive and Non-Executive Directors and other stakeholders. The Committee is currently supervising the recruitment of a new Non-Executive Director to replace Peter Costain who retires from the Board on 30 September 2014.

Nominations Committee Attendance	
Hong Yeoh	1/1
Mark Yeoh	1/1
David Barclay	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)
David Elliott
Andy Pymer
Fiona Reynolds

Role and Report on Activities

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

During its first year of operation the Committee reviewed the Company's policies on charitable giving and support, and health and safety and oversaw the development of Company initiatives on diversity and female advancement.

Corporate Responsibility Committee Attendance	
Gillian Camm	1/1
David Elliott	1/1
Andy Pymer	1/1
Fiona Reynolds	1/1

Remuneration Committee Report

Members:

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

Hong Yeoh (Chair)
David Barclay
Gillian Camm
Peter Costain
Mark Yeoh

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

Role and Report on Activities

The Remuneration Committee's full terms of reference are available on the Company's website at www.wessexwater.co.uk.

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 2014. The policy also applies to the remuneration of the Company's senior managers.

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

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

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

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

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

Recruitment of Executive Directors

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

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

During the year, the Remuneration Committee took advice from their independent advisers, Hay Group. Hay Group provided detailed market analysis and advice to the Committee for the senior management group, including Executive Directors and Non-Executive Directors. Hay Group's fee for providing such advice was £13,500 for the year ended 31 March 2014. In line with best practice, the Committee assesses from time to time whether the appointment of its current independent remuneration advisers remains appropriate and whether the role should be put out to tender.

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

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

Remuneration Committee Attendance

David Barclay	2/2
Gillian Camm	2/2
Peter Costain	2/2
Hong Yeoh	2/2
Mark Yeoh	2/2

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'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 6 to the accounts shows the total employment costs of the company.

	2013-14 £m	2012-13 £m	Movement £m	Movement %
Wages and salaries	64.0	61.1	+2.9	4.7
Social security costs	5.9	5.5	+0.4	7.3
Other pension costs	11.0	10.7	+0.3	2.8
Total employment costs	**80.9**	**77.3**	**+3.6**	**4.7**
Charged to:				
Capital schemes	26.7	25.6	+1.1	4.3
Manpower costs	54.2	51.7	+2.5	4.8

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

Percentage of	2013-14 %	2012-13 %	Source
Turnover	15.4%	15.7%	Profit and loss account
Profit before tax	51.5%	55.8%	Profit and loss account
Profit after tax	47.8%	71.6%	Profit and loss account
Dividends	67.8%	58.9%	Note 7
Capital expenditure	35.7%	35.9%	Note 22

Remuneration Arrangements for Executive Directors 2013-14

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 health insurance and executive medical screening
- Share option scheme of a parent company YTL Power International Berhad.

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

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

Taxable Benefits	Benefits include: • Company car • Private medical insurance • Executive health screening • Private fuel allowance
Pension	All Executive Directors participate in the Company's defined benefit pension scheme. Executive Directors are also insured for a lump sum of up to four times their pensionable salary on death in service.
Annual Bonus	The Board of Directors sets annual performance targets for the Company prior to the commencement of each new financial year. Company and individual performance against those targets is measured at the end of the financial year and the level of bonus payable is calculated at that point. Bonuses are paid in April. The committee has the discretion to, and does consider the effect of corporate performance on environmental and governance risks when reviewing Executive Director and senior management bonuses to ensure variable remuneration incentivises and rewards appropriate behaviour. Part of the bonus may be forfeited for under performance in respect of customer service, environmental, regulation and employee related performance targets. Annual bonus is not pensionable.
	Maximum opportunity
Base Salary	There is no prescribed maximum increase. However, Executive Director salary increases are aligned to the increases provided to all Company employees. Such increases are negotiated by the joint staff council involving management and trade union representatives.
Taxable Benefits	N/A
Pension	18.2% of base salary
Annual Bonus	Maximum bonus opportunity is 80% of base salary.
	Description of performance metrics
Base Salary	N/A
Taxable Benefits	N/A
Pension	N/A
Annual Bonus	A combination of 26 key performance indicators relating to financial, customer, environmental and employee related measures and targets. An equal 20% weighting is applied to financial, customer, environmental and employee related measures (health and safety, training and engagement) together with individual performance. 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 for the 2013/14 year except that the bonuses for Executive Directors changed from a range of 25% to 100% to a range of 40% to 80%.

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

Component 2013/14	**Colin Skellett Executive Chairman**	**Sean Cater Director**	**David Elliott Director**	**Andy Pymer Director**	**Mark Watts Director**
Target bonus (% of salary)	40	40	40	40	40
Maximum bonus (% of salary)	80	80	80	80	80
Actual bonus paid (% of salary)	41	47	52	59	47
Share options (maximum)	Approved 87,000 Unapproved 1,913,000	Approved 87,000 Unapproved 913,000	Approved 87,000 Unapproved 913,000	Approved 87,000 Unapproved 913,000	Approved 87,000 Unapproved 913,000
Pension arrangement	Defined benefit [Pension in payment]	Defined benefit	Defined benefit	Defined benefit	Defined benefit
Benefits	Benefits: Company car based on list price and CO2 emissions, fuel £4,170, private medical insurance £1,800 (family)				

Base Salaries and Benefits

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

Differences between Executive Directors' and Employees' Remuneration

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

- Executive Directors pay is benchmarked against the upper quartile position of the South West Utilities market whilst we benchmark median pay and benefits against the South West Industrial and Service market for all fully qualified and experienced employees
- A lower level of target and maximum annual bonus opportunity applies to various employees when compared to Executive Directors. However, all employees,

including Executive Directors and Senior Managers were subject to the same negotiated pay award increase

- Executive Directors (and senior managers) participate in a bonus scheme that is not available to other employees to motivate and reward them for achievement of demanding financial objectives and key strategic measures.

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

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

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

The Remuneration Committee has reviewed salaries for 2013-14 and has determined that salaries for all Executive Directors will be increased by 3.35% from 1 April 2014. This increase is in line with the agreed increase across the rest of the Company.

Executive Directors' Bonuses

2013-14 Scheme

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

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

The Company targets are 26 key performance indicators covering financial measures, customer service and efficiency measures, asset performance, environmental measures and employee matters, as shown below.

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

Customer Service and Efficiency – Service Incentive Mechanism combined score / water supply interruptions / internal sewer flooding repeat incidents / drinking water quality / customer service rating / operating cost comparative performance.

Assets – regulatory outputs met / serviceability / security of supply / leakage.

Environmental – greenhouse gas emissions / electricity self-generation / electricity usage / sewage treatment compliance / discharge permit consent / satisfactory sludge disposal / bathing water quality / pollutions category 1, 2 and 3.

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

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

Target Bonus 2013/14	**Colin Skellett Executive Chairman**	**Sean Cater Director**	**David Elliott Director**	**Andy Pymer Director**	**Mark Watts Director**
Financial					
% of salary	4.8%	4.8%	4.8%	4.8%	4.8%
Amount £	16,051	9,024	8,352	7,368	9,024
Customer					
% of salary	4.8%	4.8%	4.8%	4.8%	4.8%
Amount £	16,051	9,024	8,352	7,368	9,024
Assets					
% of salary	4.8%	4.8%	4.8%	4.8%	4.8%
Amount £	16,051	9,024	8,352	7,368	9,024
Environmental					
% of salary	4.8%	4.8%	4.8%	4.8%	4.8%
Amount £	16,051	9,024	8,352	7,368	9,024
Employees					
% of salary	4.8%	4.8%	4.8%	4.8%	4.8%
Amount £	16,052	9,024	8,352	7,368	9,024
Team					
% of salary	8%	8%	8%	8%	8%
Amount £	26,752	15,040	13,920	12,280	15,040
Individual					
% of salary	8%	8%	8%	8%	8%
Amount £	26,752	15,040	13,920	12,280	15,040
Total					
% of salary	**40%**	**40%**	**40%**	**40%**	**40%**
Amount £	**133,760**	**75,200**	**69,600**	**61,400**	**75,200**

In the financial year under review, 22 of the 26 Company targets were achieved or bettered.

The four not achieved were internal sewer flooding repeat incidents / electricity usage / pollutions category 3 / electricity self-generation. The cause of the first three of these was the intense period of wet weather in the year increasing the number of repeat sewer floodings, requiring additional power for pumping and increasing blockages and pump failures. The failure to meet the electricity self-generation target was due to process problems at one of our sites.

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 2013/14	**Colin Skellett Executive Chairman**	**Sean Cater Director**	**David Elliott Director**	**Andy Pymer Director**	**Mark Watts Director**
Financial					
% of salary	5.1%	5.7%	6.4%	7.3%	5.8%
Amount £	17,088	10,832	11,180	11,180	10,928
Customer					
% of salary	5.1%	5.8%	6.4%	7.3%	5.8%
Amount £	17,088	10,832	11,180	11,180	10,928
Assets					
% of salary	5.1%	5.7%	6.4%	7.3%	5.8%
Amount £	17,088	10,832	11,180	11,180	10,928
Environmental					
% of salary	5.1%	5.8%	6.4%	7.3%	5.8%
Amount £	17,088	10,832	11,180	11,180	10,928
Employees					
% of salary	5.1%	5.8%	6.4%	7.3%	5.8%
Amount £	17,088	10,832	11,180	11,180	10,928
Team					
% of salary	8.5%	10.0%	10.7%	12.1%	9.7%
Amount £	28,480	18,800	18,600	18,600	18,160
Individual					
% of salary	7.1%	8.0%	8.9%	10.0%	8.1%
Amount £	23,680	15,040	15,500	15,500	15,200
Total					
% of salary	**41.1%**	**46.8%**	**51.6%**	**58.6%**	**46.8%**
Amount £	**137,600**	**88,000**	**90,000**	**90,000**	**88,000**

Annual bonus payments to Executive Directors are not pensionable.

Pensions

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

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

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

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

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

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

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

Of the current Executive Directors, Mark Watts and Sean Cater received a cash supplement of 18.2% of excess salary above the capped salary for pension purposes.

Executive Directors’ Service Contracts

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

Executive Directors	Date of current agreement	Date of appointment as Executive Director	Notice Period
Sean Cater	11/6/2007	11/6/2007	12 months
David Elliott	1/4/2014	11/6/2007	12 months
Andy Pymer	1/4/2014	1/8/2012	12 months
Colin Skellett	1/4/2014	1/9/1989	12 months
Mark Watts	1/4/2014	16/3/2010	12 months

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

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

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

Remuneration Arrangements for Executive Directors 2014-15

Component	**Colin Skellett CEO**	**Mark Watts Director**
Target bonus (% of salary)	40	40
Maximum bonus (% of salary)	80	80
Share options (maximum)	Approved 87,000 Unapproved 1,913,000	Approved 87,000 Unapproved 913,000
Pension arrangement	Defined Benefit [Pension in payment]	Defined benefit
Taxable Benefits	Company car, fuel and private medical insurance	

For 2014-15 the bonus calculation will be consistent with the 2013-14 scheme, based on the same 26 measures as last year, plus an additional employee measure on staff turnover.

Target Bonus	**Colin Skellett CEO**	**Mark Watts Director**
Financial		
% of salary	4.8%	4.8%
Amount £	16,589	9,331
Customer		
% of salary	4.8%	4.8%
Amount £	16,589	9,331
Environment		
% of salary	4.8%	4.8%
Amount £	16,589	9,331
Assets		
% of salary	4.8%	4.8%
Amount £	16,589	9,331
Employees		
% of salary	4.8%	4.8%
Amount £	16,588	9,332
Team		
% of salary	8.0%	8%
Amount £	27,648	15,552
Individual		
% of salary	8.0%	8%
Amount £	27,648	15,552
Total		
% of salary	**40%**	**40%**
Amount £	**138,240**	**77,760**

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 2013 is shown in the Directors' Emoluments table below. Independent Non-Executive Directors do not participate in share or bonus schemes or any other performance-related scheme, nor is any pension provision made.

Independent Non-Executive Directors are normally appointed for three-year terms (subject to statutory provisions relating to the removal of a Director) that may be renewed. They do not have service contracts but their terms of engagement are regulated by letters of appointment (copies of which are available on the Company's website). Any term beyond six years for an Independent Non-Executive Director is subject to particularly rigorous review and takes into account the need for progressive refreshing of the Board balanced against the requirement for skills, experience, independence and knowledge.

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

Directors' Emoluments

The table below shows the emoluments for the current year. The auditor is required to report on the information in this table.

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

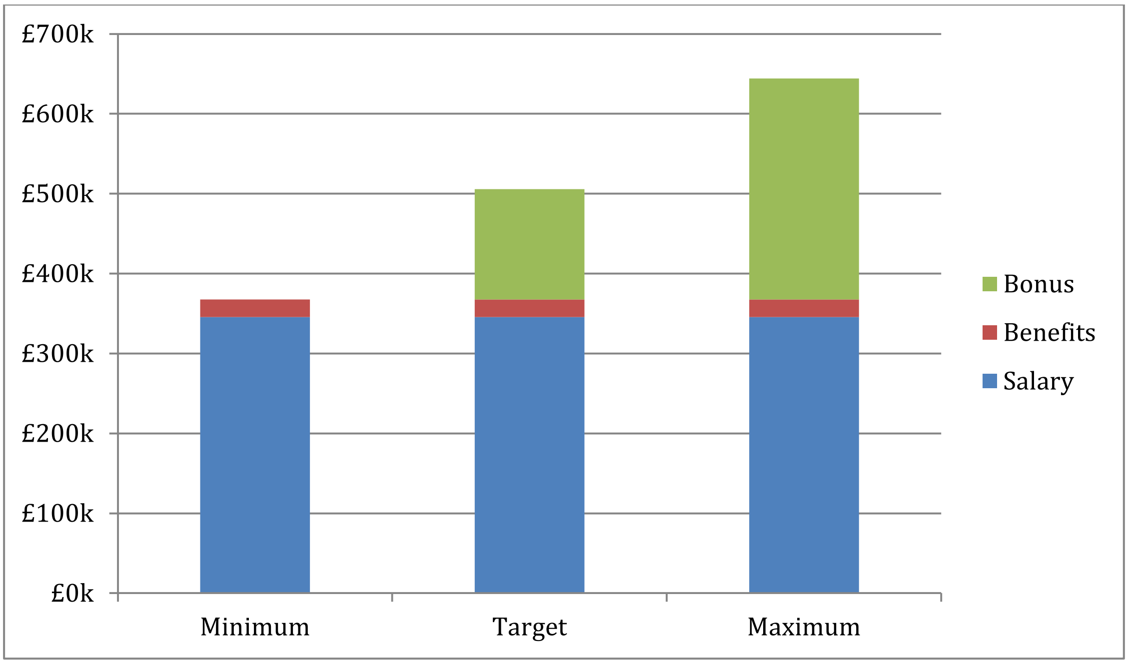
1. No emoluments are earned by Francis Yeoh, Hann Yeoh, Hong Yeoh or Mark Yeoh.
2. Andy Pymer and Fiona Reynolds part year in 2012-13.
3. Jonathan Porritt up to 31 July 2012 and Julian Dennis up to 28 November 2012.
4. Benefits comprise private medical insurance, company car and fuel benefits.
5. The following Directors received emoluments for services to other Group Companies, Colin Skellett £224,000, Mark Watts £201,000, Sean Cater £131,000.
6. 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. The auditor is required to report on the information in this table.

2012-13	Salary £000	Compensation for loss of office £000	Bonus £000	Benefits £000	Pension contributions £000	Total 2012-13 £000
Peter Costain	80	-	-	-	-	80
David Barclay	80	-	-	-	-	80
Gillian Camm	55	-	-	-	-	55
Fiona Reynolds	37	-	-	-	-	37
Jonathon Porritt	23	-	-	-	-	23
Colin Skellett	328	-	138	21	-	487
Sean Cater	173	-	88	13	31	305
David Elliott	170	-	85	15	31	301
Andy Pymer	96	-	56	8	18	178
Mark Watts	157	-	84	14	27	282
Julian Dennis	89	132	-	8	1	230
Total £000	**1,288**	**132**	**451**	**79**	**108**	**2,058**

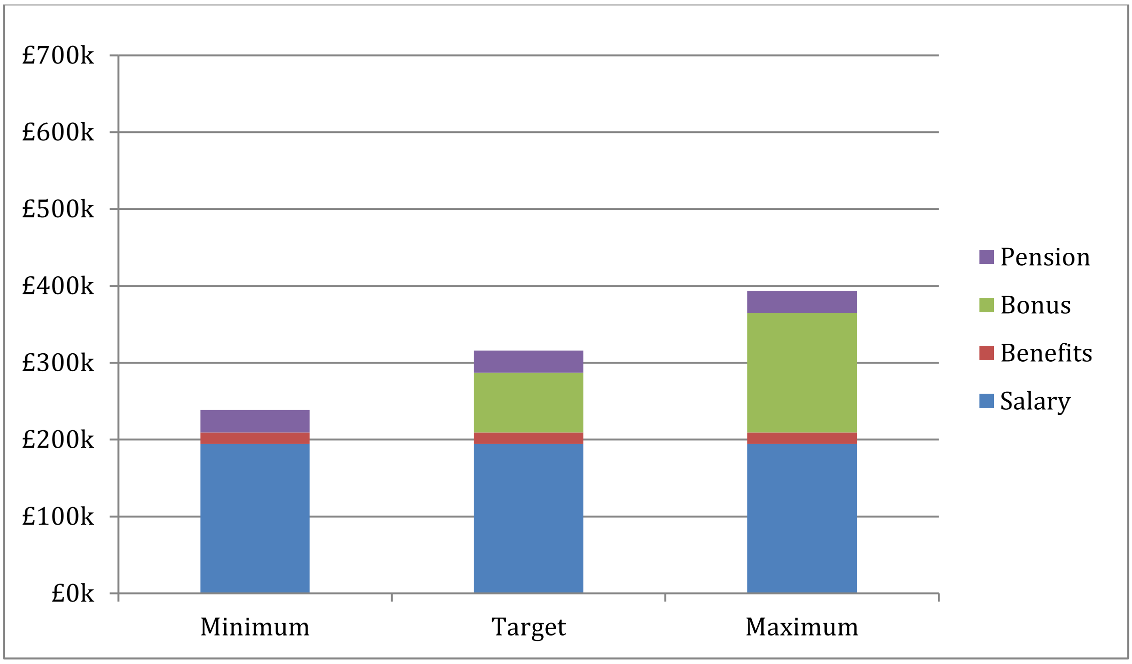
Illustrations of Remuneration Policy

A) Chief Executive Officer – Colin Skellett (using estimated 14-15 data)



Minimum assumes no bonus earned, target assumes 40% bonus earned and maximum assumes 80% bonus earned. No employer pension contributions.

B) Finance Director and Treasurer – Mark Watts (using estimated 14-15 data)



Minimum assumes no bonus earned, target assumes 40% bonus earned and maximum assumes 80% bonus earned.

Chairman

The total remuneration for the director performing the role of Chairman (Colin Skellett) was:

	Remuneration 2013-14 £000	Remuneration 2012-13 £000	% change
Chairman - WWSL			
Salary	335	328	2.1%
Bonus	138	138	-
Benefits	22	21	4.8%
Chairman - Other group companies			
Salary	84	82	2.4%
Bonus	134	134	-
Benefits	6	6	-
Total	719	709	1.4%
All employees WWSL			
Wages and salaries	64,000	61,100	4.7%
Social security costs	5,900	5,500	7.3%
Other pension costs	11,000	10,700	2.8%
Total	80,900	77,300	4.7%

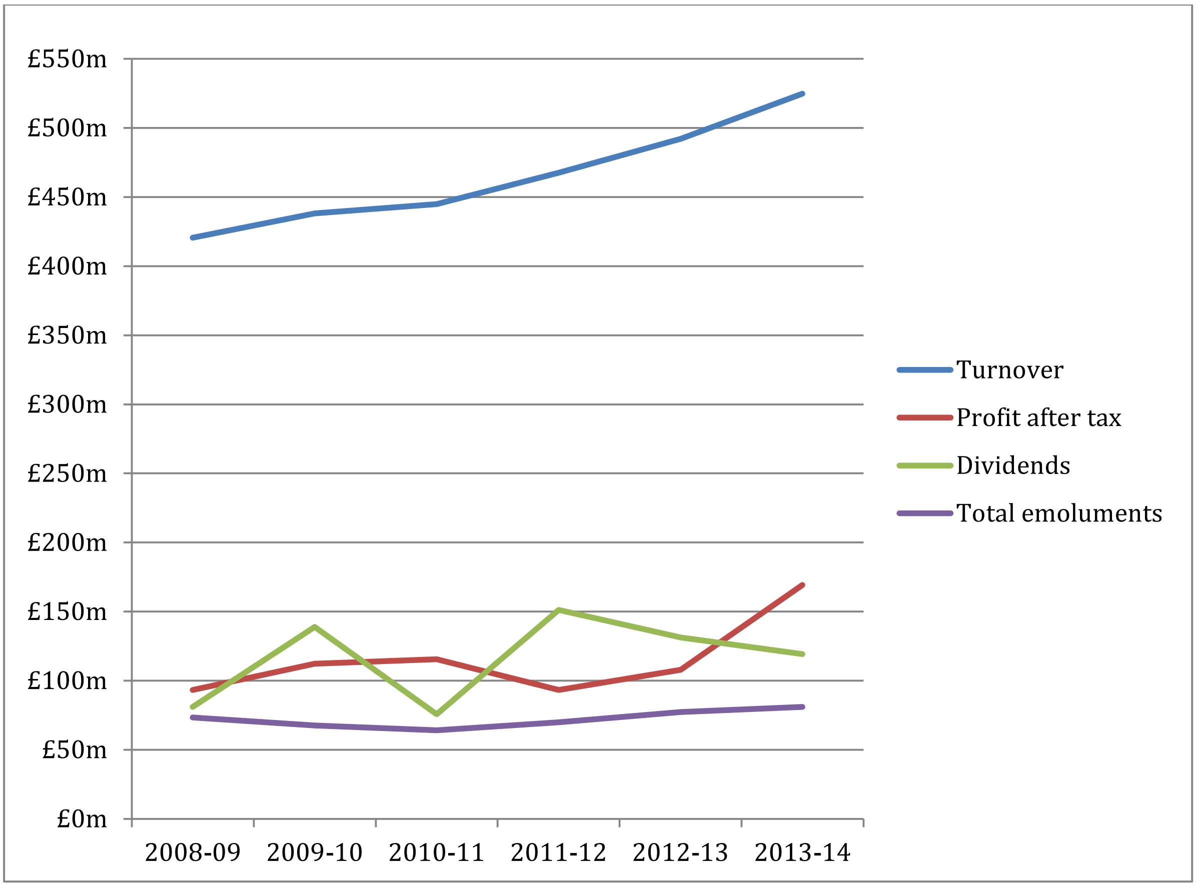
Included in the 2013-14 remuneration for the Chairman was a bonus of £138k representing 41% of salary, the target bonus being 40% of salary and the maximum 80% of salary.

Comparison with remuneration increase for all employees:

The pay increase awarded to the employees of the company on 1 April 2013, for the year 2013-14, was a 2.15% increase over the preceding year. This was based upon the average of November 2012 RPI of 3.0% and November 2012 Average Earnings increase of 1.3%.

Remuneration Link to Performance

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



Dividends are as declared in the year.

Total emoluments include Directors' emoluments.

Executive Directors' Defined Benefit Pension Provision

	Pension service completed in years (1)	Normal retirement date at 65	Accrued pension at 31/3/2013 £pa	Increase in accrued pension during the year £pa	Accrued pension at 31/3/2014 £pa
Colin Skellett (2)	41	n/a (2)	157,457	4,822	162,279
Sean Cater	23	n/a (3)	59,709	5,386	65,095
David Elliott	25	n/a (3)	89,121	5,077	94,198
Andy Pymer	23	n/a (3)	54,072	6,045	60,117
Mark Watts	25	19/9/2026	75,028	4,762	79,790

(1) Including transfers in and bonus years
(2) Pension in payment
(3) From 5 April 2014 no further benefits accrued.

Executive Directors' Share Interests

Share Options

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

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

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

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

	Opening number 31/3/2013	Exercise price RM	Date of grant	Exercise date	Expiry date	Closing number 31/3/2014
Colin Skellett	87,000	1.65	1/6/2012	1/6/2015	31/3/2021	87,000
Colin Skellett	1,913,000	1.41	1/6/2012	1/6/2015	31/3/2021	1,913,000
Sean Cater	87,000	1.65	1/6/2012	1/6/2015	31/3/2021	87,000
Sean Cater	913,000	1.41	1/6/2012	1/6/2015	31/3/2021	913,000
David Elliott	87,000	1.65	1/6/2012	1/6/2015	31/3/2021	87,000
David Elliott	913,000	1.41	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	1.41	1/6/2012	1/6/2015	31/3/2021	913,000
Mark Watts	87,000	1.65	1/6/2012	1/6/2015	31/3/2021	87,000
Mark Watts	913,000	1.41	1/6/2012	1/6/2015	31/3/2021	913,000

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

The share price at 31 March 2014 was RM1.57 or £0.29.

Share Warrants

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

Two Executive Directors held share warrants during the year.

	Exercise price RM	Date of grant	Expiry date	Opening number 31/3/2013	Closing number 31/3/2014
David Elliott	1.21	12/6/2008	11/6/2018	37,800	37,800
Mark Watts	1.21	12/6/2008	11/6/2018	37,800	37,800

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

Shares Held

There are no shares held by the Directors in the Company or the UK parent company.

The Executive Directors held the following ordinary shares of Malaysian Ringgit RM0.50 each in YTL Power International Berhad (a parent company), at the start and end of the accounting period.

YTL Power International Berhad announced a distribution of one share for every 20 ordinary shares held as at 13 March 2014, which are included in the closing number of shares held.

	Opening number 31/3/2013	**Closing number 31/3/2014**
David Elliott	81,253	85,315
Andy Pymer	51,253	53,815
Mark Watts	333,553	350,230

The share price at 31 March 2014 was RM1.57 or £0.29.

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 2014. The financial year end of all Group Companies is 30 June, but under the conditions of appointment of the Company (under the Water Industry Act 1991) the Company is required to prepare regulatory accounts for the 12 months ended 31 March each year.

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

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

Principal activities

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

In November 2009 the industry regulator Ofwat announced a limit of a 1.9% price increase for Wessex Water Services Ltd from 1 April 2013, before adjustment for inflation. The announcement also included a price limit of 1.5%, before adjustment for inflation, for the year commencing 1 April 2014.

The Company decided not to implement the 1.5% real price rise at 1 April 2014, with the result that prices rose only by inflation.

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.

Sustainability

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

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

Environmental policy

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

Ethical policy

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

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

Research and development

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

Market value of land and buildings

In the opinion of the Directors, the market value of land and buildings of the Company exceeds the book value of these assets at 31 March 2014.

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 2014 trade creditors represented approximately 33 days trade purchases (2013 - 30 days).

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

Charitable donations

During the year £494,000 was donated to UK charities (2013 - £320,000) of which £336,000 (2013 - £255,000) was donated to local debt advice agencies to help provide debt and financial advice to customers in our area who are struggling to pay their water bills.

Disclosure of information to auditor

The Directors who held office at the date of approval of this Directors' Report confirm that, 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

KPMG Audit Plc instigated a transition of its business to KPMG LLP in the year, at which point KPMG LLP were appointed as auditor. The Board has decided to put KPMG LLP forward to be re-appointed as auditor and a resolution concerning their re-appointment will be put to the forthcoming board meeting.

By order of the Board
Andrew Phillips - Company Secretary
Claverton Down
Bath BA2 7WW
24 June 2014

Statement of Directors' Responsibilities

The Directors of Wessex Water Services Ltd ('the Directors') have accepted responsibility for the preparation of these non-statutory accounts for the year ended 31 March 2014 which are intended by them to give a true and fair view of the state of affairs of the Company and of the profit for that period. They have decided to prepare the non-statutory accounts in accordance with UK Accounting Standards (UK Generally Accepted Accounting Practice).

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

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

The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

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

Independent Auditor's Report to the Directors of Wessex Water Services Ltd

Opinions and conclusions arising from our audit

1. Our opinion on the non-statutory accounts is unmodified

We have audited the non-statutory accounts of Wessex Water Services Ltd for the year ended 31 March 2014 set out on pages 78 to 97. In our opinion the non-statutory accounts:

- give a true and fair view of the state of the Company's affairs as at 31 March 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Accounting Standards, and;
- have been prepared in accordance with the requirements of the Companies Act 2006, as if those requirements were to apply.

2. Our assessment of risks of material misstatement

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

- **Classification of costs between operating expenditure and capital expenditure (£225.9 million):**

  Refer to page 43 (Report from the Audit Committee), page 82 (accounting policy), page 88 (financial disclosures).

  The risk – In determining whether expenditure should be capitalised, the Company has formal policies in place, which are reviewed on a regular basis by the Directors to check compliance with accounting standards. The Company's tangible fixed assets include both infrastructure and non-infrastructure assets. Both initial and subsequent expenditure, including employee and other internal expenditure, on non-infrastructure assets is capitalised if it is directly attributable to the asset, provides probable economic benefit and can be measured reliably.

  There is therefore a high degree of judgement involved in determining whether costs meet the relevant criteria for capitalisation, and therefore the recording of costs between operating expenses and capital expenses is one of the key judgemental areas in our audit because of the significant impact this decision has on both the Company's profit and the balance sheet.

  All expenditure incurred on infrastructure assets is initially capitalised. The maintenance element is expensed through the Infrastructure Renewals Charge ("IRC") based on the Company's expenditure plans for the period 2010 to 2025. The Directors use their experience and judgement to determine whether:

- the costs incurred on infrastructure assets represent expenditure required to maintain the operating capability of network within defined service standards, and therefore form part of the projected IRC expenditure; and
- the current level of that expenditure requires a change in the anticipated IRC charge over the period 2010 to 2025.

Our response – In this area our audit procedures included, among others, the assessment of both the Company's capitalisation policy, to check compliance with accounting standards, and the application of this policy to costs incurred in the year over both infrastructure and non-infrastructure assets. Our controls testing included selecting a sample of projects throughout the financial year to check that the classification of expenditure is subject to review and authorisation from the appropriate level within the business hierarchy. Our substantive testing checked that the judgements made over these projects were appropriate based on the nature of expenditure, and led to an appropriate classification being made under the Company's accounting policy. We compared the level of employee and other internal expenditure made against prior year balances and current year budget information to identify material changes in the nature or quantum of costs capitalised, with any significant movements corroborated and investigated where necessary. We also compared the IRC to the long-term average projected Infrastructure Renewals Expenditure over the period 2010 to 2025.

- **Provision for doubtful debtors (£39.6 million):**

  Refer to page 43 (Report from the Audit Committee), page 84 (accounting policy), page 89 (financial disclosures).

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

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

- **Accuracy of the pensions assumptions in relation to the defined benefit scheme and their impact on the pension liability – (£90.6million):**

  Refer to page 43 (Report from the Audit Committee), page 83 (accounting policy), page 91 (financial disclosures).

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

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

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

The materiality for the financial statements as a whole was set at £11 million. This has been determined with reference to a benchmark of the Company's profit before tax (of which it represents 7%), which we consider to be one of the principal considerations for members of the Company in assessing its financial performance.

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

We agreed with the Audit Committee to report to it all corrected and uncorrected misstatements we identified through our audit with a value in excess of £549,000, in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

4. Our opinion on the Directors' Remuneration Report is unmodified

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

In our opinion the parts of the Directors' Remuneration Report which we were engaged to audit have been properly prepared in accordance with SI 2008 No.410, as if those requirements were to apply to the Company.

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

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

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

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

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

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

Respective responsibilities of Directors and Auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 72, the Directors are responsible for the preparation of the non-statutory accounts, which are intended by them to give a true and fair view. Our responsibility is to audit, and express an opinion on, the non-statutory accounts in accordance with the terms of our engagement letter dated 5 June 2014 and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the UK Ethical Standards for Auditors.

Scope of an audit performed in accordance with ISAs (UK and Ireland)

A description of the scope of an audit of accounts is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeother2013, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinion.

The purpose of this report and restrictions on its use by persons other than the Company

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

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

24 June 2014

PROFIT AND LOSS ACCOUNT
For the year to 31 March 2014

	NOTE	2014 £m	2013 £m
Turnover	2	**524.9**	492.1
Operating costs	3	**(290.1)**	(268.1)
Operating profit	2	**234.8**	224.0
Interest payable and similar charges	4	**(77.7)**	(86.9)
Interest receivable	4	**0.9**	2.9
Other finance costs	16	**(1.0)**	(1.5)
Profit on ordinary activities before taxation		**157.0**	138.5
Taxation on profit on ordinary activities	5	**12.3**	(30.6)
Profit attributable to shareholders	19	**169.3**	107.9

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

The accompanying notes on pages 82 to 97 are an integral part of this profit and loss account.

BALANCE SHEET
At 31 March 2014

	NOTE	2014 £m	2013 £m
Fixed assets			
Tangible assets	8	**2,256.8**	2,167.1
Investments	9	**-**	-
		2,256.8	2,167.1
Current assets			
Stock and work in progress	10	**6.4**	7.0
Debtors	11	**173.6**	162.6
Cash at bank and in hand	12	**88.0**	181.0
		268.0	350.6
Creditors - amounts falling due within one year	13	**(177.6)**	(198.8)
Net current assets	31	**90.4**	151.8
Total assets less current liabilities		**2,347.2**	2,318.9
Creditors - amounts falling due after more than one year	14	**(1,901.5)**	(1,891.5)
Provisions for liabilities	15	**(88.6)**	(114.9)
Retirement benefit obligations	16	**(73.7)**	(93.1)
Deferred income	17	**(16.8)**	(17.2)
Net assets	2	**266.6**	202.2
Capital and reserves			
Called up equity share capital	18	**81.3**	81.3
Profit and loss account	19	**185.3**	120.9
Shareholders' funds		**266.6**	202.2

The accompanying notes on pages 82 to 97 are an integral part of this balance sheet.

The accounts were approved by the Board of Directors on 24 June 2014 and signed on its behalf by:

Colin Skellett
Chief Executive

Mark Watts
Director

Company Registration No. 2366648

CASH FLOW STATEMENT
For the year to 31 March 2014

	NOTE	2014 £m	2013 £m
Net cash inflow from operating activities	20	**349.6**	334.6
Returns on investments and servicing of finance	21	**(77.5)**	(80.0)
Taxation		**(29.5)**	(21.8)
Capital expenditure and financial investment	22	**(226.6)**	(215.4)
Dividends paid		**(119.3)**	(129.6)
Cash outflow before financing		**(103.3)**	(112.2)
Financing	23	**12.7**	79.0
(Decrease) in cash		**(90.6)**	(33.2)

Reconciliation of cash movement to the movement in net debt

	NOTE	2014 £m	2013 £m
(Decrease) in cash - above		**(90.6)**	(33.2)
Movement in loans and leases		**(12.7)**	(79.0)
Movement in net debt	24	**(103.3)**	(112.2)
Opening net debt	24	**(1,738.3)**	(1,626.1)
Closing net debt	24	**(1,841.6)**	(1,738.3)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
For the year to 31 March 2014

	2014 **£m**	2013 £m
Profit for the financial year	**169.3**	107.9
Total recognised gains relating to the financial year	**169.3**	107.9
Actuarial gain / (loss) recognised in the pension scheme	**22.3**	(18.2)
Deferred tax arising on actuarial gain / (loss) in the pension scheme	**(7.9)**	3.2
Total recognised gains and losses relating to the financial year	**183.7**	92.9

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS
For the year to 31 March 2014

	2014 **£m**	2013 £m
Opening shareholders' funds	**202.2**	240.6
Actuarial gain / (loss) recognised in the pension scheme	**22.3**	(18.2)
Deferred tax arising on actuarial gain / (loss) in the pension scheme	**(7.9)**	3.2
Profit attributable to shareholders	**169.3**	107.9
Dividends (note 7)	**(119.3)**	(131.3)
Closing shareholders' funds	**266.6**	202.2

NOTES TO THE ACCOUNTS
For the year to 31 March 2014

1 Accounting policies

a. Basis of preparation

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

Group accounts have not been prepared as under section 400 of the Companies Act 2006 the Company and its subsidiary are included in the consolidated financial statements of Wessex Water Ltd (see note 30).

The non-statutory accounts do not constitute the Company's statutory accounts for the years ended 31 March 2014 or 2013. 31 March 2014 is not the accounting reference date for the Company. The latest statutory accounts of the Company were for the years ended 30 June 2013 and 30 June 2012. 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 2014.

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

b. Turnover

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

c. Tangible fixed assets and depreciation

Tangible fixed assets comprise infrastructure assets and other assets.

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

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

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

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

d. **Leased assets**

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

e. **Grants and contributions**

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

f. **Investments**

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

g. **Stock**

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

h. **Foreign currency**

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

i. **Research and development**

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

j. **Taxation**

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

k. **Pensions**

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

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

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

l. **Finance costs**

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

m. **Debt**

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

n. **Interest rate instruments**

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

o. **Dividends on shares presented within shareholders' funds**

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

p. **Share-based payments**

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

q. **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 historic non collection rate for that payment category. The categories selected are direct debit, instalments, standing orders, DSS, bankruptcy and all other. The profile of provision differs between categories, but for all categories debt that is 4 years old is fully provided.

2 Segmental analysis

	2014 £m	2013 £m
Substantially all of the turnover, operating profit and net assets derive from activities within the United Kingdom. Unregulated activities arise from the use of regulated assets, but are outside the price controls of the regulator.		
a. Turnover		
Regulated	**516.9**	486.6
Unregulated	**8.0**	5.5
	524.9	492.1
b. Operating profit		
Regulated	**234.8**	224.0
Unregulated	**-**	-
	234.8	224.0
c. Net assets		
Regulated	**266.6**	202.2
Unregulated	**-**	-
	266.6	202.2

3 Operating costs

	2014 £m	2013 £m
Manpower costs (note 6b)	**54.2**	51.7
Materials and consumables	**33.9**	29.1
Other operational costs	**74.2**	67.6
Depreciation	**127.0**	120.3
Amortisation of grants and contributions	**(0.7)**	(0.8)
Loss on disposals of fixed assets	**1.5**	0.2
	290.1	268.1
Operating costs include:		
Operating leases for plant and machinery	**1.9**	1.5
Research and development	**0.1**	0.1
Directors' remuneration	**2.0**	2.1
Fees paid to the auditor	**0.3**	0.2

	2014 £000	2013 £000
Auditor's remuneration:		
Audit of these financial statements	**145**	141
AMP6 price review services	**114**	-
All other services	**72**	38
	331	179

	2014 £m	2013 £m
4 Net interest payable		
Interest payable:		
To fellow subsidiary undertakings	**75.5**	81.5
On bank loans	**2.9**	4.7
On finance leases	**(0.7)**	0.7
Total interest payable	**77.7**	86.9
Interest receivable on short-term bank deposits	**(0.9)**	(2.9)
Net interest payable	**76.8**	84.0

Interest payable to fellow subsidiary undertakings relates to the bonds listed in note 14.

5 Taxation

a. Taxation on profit on ordinary activities - analysis of (credit) / charge in the period

	2014 £m	2013 £m
Current year corporation tax:		
UK corporation tax at 23% (2013 - 24%)	**29.2**	31.7
Adjustments in respect of previous years *	**(16.7)**	(2.3)
Total corporation tax charge	**12.5**	29.4

* An industry-wide agreement with HMRC over the treatment of certain capital allowances.

	2014 £m	2013 £m
Deferred tax – current year:		
Origination and reversal of timing differences	**(28.8)**	(8.8)
Decrease in discount	**1.4**	9.9
	(27.4)	1.1
Deferred tax – prior year:		
Origination and reversal of timing differences	**18.9**	0.3
(Increase) in discount	**(16.3)**	(0.2)
	2.6	0.1
Total deferred tax (credit) / charge at 20% (2013 – 23%)	**(24.8)**	1.2
Taxation (credit) / charge on profit on ordinary activities	**(12.3)**	30.6

b. Current tax reconciliation

	2014 £m	2013 £m
Profit on ordinary activities before tax	**157.0**	138.5
Current tax at 23% (2013 - 24%)	**36.1**	33.2
Group relief for nil consideration	**(1.6)**	(1.8)
Capital allowances (in excess of) / less than depreciation	**(1.8)**	3.7
Payment of lease creditor capital	**(1.5)**	(1.6)
Other timing differences	**(2.0)**	(1.8)
Total corporation tax charge - as above	**29.2**	31.7

c. Reductions in the UK corporation tax rate from 26% to 24% (effective from 1 April 2012) and to 23% (effective 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively. Further reductions to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. This will reduce the company's future current tax charge accordingly. The deferred tax liability at 31 March 2014 has been calculated based on the 20% rate substantively enacted at the balance sheet date.

	2014 £m	2013 £m
6 Employees		
a. Total employment costs of the Company were:		
Wages and salaries	**64.0**	61.1
Social security costs	**5.9**	5.5
Other pension costs	**11.0**	10.7
	80.9	77.3
b. Total employment costs are charged as follows:		
Capital schemes	**26.7**	25.6
Manpower costs (note 3)	**54.2**	51.7
	80.9	77.3

	2014 £000	2013 £000
c. Directors' remuneration		
Total remuneration (including benefits in kind)	**2,015**	2,058
Highest paid director (including benefits in kind)	**495**	487

Details of directors' remuneration can be found in the Remuneration Committee Report (see page 50).

	2014 number	2013 number
d. Monthly average number of employees during the year	**1,860**	1,741

7 Dividends

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

	2014 £m	2013 £m
Final dividend for the previous year	**26.0**	38.0
Dividends for the current year	**93.3**	93.3
	119.3	131.3

In April 2014 a final dividend of £8.0m was declared in respect of the financial year just ended. This compares with a final dividend of £26.0m declared on the same basis in April 2013.

8 Tangible fixed assets

	Freehold land & buildings	Infra-structure assets	Plant machinery & vehicles	Other assets	Payments on account & assets in course of construction	Total
	£m	£m	£m	£m	£m	£m
Cost						
At 1 April 2013	699.3	1,303.7	1,282.8	109.6	119.5	3,514.9
Additions	1.0	75.9	50.0	3.4	95.6	225.9
Transfers on commissioning	3.3	12.8	55.4	3.3	(74.8)	-
Disposals	(1.0)	-	(13.5)	-	-	(14.5)
Grants and contributions	-	(7.0)	-	-	-	(7.0)
At 31 March 2014	**702.6**	**1,385.4**	**1,374.7**	**116.3**	**140.3**	**3,719.3**
Depreciation						
At 1 April 2013	224.9	478.7	604.1	40.1	-	1,347.8
Charge for the period	14.1	47.2	59.0	6.7	-	127.0
Disposals	(0.5)	-	(11.8)	-	-	(12.3)
At 31 March 2014	**238.5**	**525.9**	**651.3**	**46.8**	**-**	**1,462.5**
Net book value						
At 31 March 2014	**464.1**	**859.5**	**723.4**	**69.5**	**140.3**	**2,256.8**
At 1 April 2013	474.4	825.0	678.7	69.5	119.5	2,167.1

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

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

The net book value of assets held under finance leases is £36.3m (2013 - £40.4m).

The depreciation charge for the period on assets held under finance leases is £6.9m (2013 - £6.5m).

The net book value of infrastructure assets at 31 March 2014 is stated after the deduction of grants and contributions amounting to £138.8m (2013 - £131.8m) in order to give a true and fair view (note 1e).

Included in the cost of infrastructure assets is £538.2m (2013 - £491.6m) of expenditure on maintaining the network, and £525.9m (2013 - £478.7m) of depreciation included in the profit and loss account.

Included in freehold land and buildings above is an amount of £11.4m (2013 - £11.3m) in respect of land which is not depreciated.

9 Investments

The Company has an investment of £13,000 (2013 - £13,000) in 100% of the £1 ordinary shares of a subsidiary company, Wessex Water Services Finance Plc.

	2014 £m	2013 £m
10 Stock and work in progress		
Raw materials and consumables	**2.6**	2.8
Work in progress	**3.8**	4.2
	6.4	7.0

11 Debtors - amounts falling due within one year

	2014 £m	2013 £m
Trade debtors	**54.7**	48.9
Owed by fellow subsidiary undertakings	**33.0**	31.8
Amounts owed by associate company	**0.1**	-
Corporation tax	**0.2**	-
Prepayments and accrued income	**73.9**	70.3
Other debtors	**11.7**	11.6
	173.6	162.6

12 Cash at bank and in hand

	2014 £m	2013 £m
Short-term bank deposits	**88.0**	181.0
	88.0	181.0

All £88.0m of short-term bank deposits mature within 1 month. Interest receivable on short-term bank deposits is disclosed in note 4.

13 Creditors - amounts falling due within one year

	2014 £m	2013 £m
Bank overdraft	**19.4**	21.8
Obligations under finance leases	**9.2**	7.0
Trade creditors	**5.9**	4.3
Amounts owed to subsidiary company	**19.0**	18.9
Amounts owed to other group companies	**0.6**	0.6
Amounts owed to associate company	**-**	0.7
Dividend	**23.3**	23.3
Other creditors	**1.5**	2.4
Corporation tax	**-**	16.7
Taxation and social security	**1.8**	1.9
Accruals and deferred income	**96.9**	101.2
	177.6	198.8

14 Creditors - amounts falling due after more than one year

	2014 £m	2013 £m
Loans repayable - in more than 1 year, but not more than 2 years	**100.0**	-
- in more than 2 years, but not more than 5 years	**140.0**	100.0
- in more than 5 years	**75.0**	215.0
	315.0	315.0
Finance lease repayable - in more than 1 year, but not more than 2 years	**8.4**	7.8
- in more than 2 years, but not more than 5 years	**30.8**	29.1
- in more than 5 years	**2.8**	14.7
	42.0	51.6
Inter-company loans - in more than 5 years	**1,544.0**	1,523.9
Other	**0.5**	1.0
	1,901.5	1,891.5

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

	2014 £m	2013 £m
Bond at 5.375% repayable in March 2028	**198.5**	198.4
Bond at 5.75% repayable in October 2033	**346.5**	346.3
January 2012 Bond at 4.0% repayable in September 2021	**198.0**	197.8
August 2012 Bond at 4.0% repayable in September 2021	**106.9**	107.9
Index Linked Bonds		
At 3.52% plus inflation repayable in July 2023	**71.0**	69.0
At 2.186% plus inflation repayable in June 2039	**59.2**	57.4
At 1.75% plus inflation repayable in July 2046	**95.6**	92.9
At 1.75% plus inflation repayable in July 2051	**95.6**	92.8
At 1.369% plus inflation repayable in July 2057	**95.6**	92.9
At 1.374% plus inflation repayable in July 2057	**95.6**	92.8
At 1.489% plus inflation repayable in November 2058	**60.5**	58.5
At 1.495% plus inflation repayable in November 2058	**60.5**	58.6
At 1.499% plus inflation repayable in November 2058	**60.5**	58.6
	1,544.0	1,523.9

15 Provisions for liabilities

	Deferred tax £m	Restructuring costs £m	Total £m
At 1 April 2013	114.8	0.1	114.9
Provided in year	-	0.2	0.2
Utilised during year	-	(0.2)	(0.2)
Origination and reversal of timing differences	(11.4)	-	(11.4)
Increase in discount	(14.9)	-	(14.9)
At 31 March 2014	**88.5**	**0.1**	**88.6**

	2014 £m	2013 £m
Deferred tax is provided as follows:		
Accelerated capital allowances	**240.3**	251.6
Other timing differences	**(0.8)**	(0.7)
Undiscounted provision for deferred tax	**239.5**	250.9
Discount	**(151.0)**	(136.1)
Discounted provision for deferred tax	**88.5**	114.8

16 Pension liability

FRS 17 pension liability (note 16e)	**90.6**	119.3
FRS 17 deferred tax asset	**(18.1)**	(27.4)
Unfunded and compensatory added years pension	**1.2**	1.2
	73.7	93.1

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

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

b. The total pension cost of the Company under FRS 17, including amounts set aside for employees retiring early and other finance income, was £12.0m (2013 - £12.2m).

c. The latest actuarial valuation for WWPS was undertaken at 31 December 2010. The assumptions which have the most significant effect on the results of a valuation are those relating to the discount rate for scheme liabilities and the rate of increase in salaries and pensions. It was assumed that the pre retirement discount rate would be 6.3% and the post retirement discount rate 5.3%, that salary increases would be 3.5% per annum in year 1, 3.0% in years 2 and 3 and 4.3% thereafter and that present and future pensions would increase between 2.2% and 3.3% per annum. The market value of the WWPS assets as at 31 December 2010 was £345.3m which represented 81.2% of the actuarial value of the accrued benefits of £425.2m, a deficit of £79.9m. In response to this valuation the Company has agreed to pay additional contributions of £8.6m per annum at 31 March 2012, and at 31 March for a further 9 years. The next actuarial valuation was at 30 September 2013 for which the results have to be published by December 2014.

d. The actuarial valuation described above has been updated to 31 March 2014 by a qualified actuary using revised assumptions that are consistent with the requirements of FRS 17. Investments have been valued, for this purpose, at fair value. The major assumptions used by the actuary were:

	31.03.14	31.03.13
Rate of increase in salaries – year 1	**3.35%**	2.15%
Rate of increase in salaries – years 2 to 6	**2.25% and 2.5%**	3.4%
Rate of increase in salaries – long term	**3.9%**	4.2%
Rate of increase in pensions in payment	**2.4% or 3.1%**	2.4% or 3.2%
Rate of increase in pensions in payment (reduced level members)	**2.2%**	2.2%
Discount rate	**4.6%**	4.4%
Inflation assumption - RPI	**3.4%**	3.4%
Inflation assumption - CPI	**2.4%**	2.4%

The mortality assumptions are based upon the recent actual mortality experience of members within the scheme, and the assumptions also allow for expected future mortality improvements. The assumptions are that a member currently aged 60 will live, on average, for a further 27.0 years if they are male, and for a further 29.3 years if they are female. Members currently aged 40 are expected to live for a further 28.6 years from age 60 if they are male, and for a further 31.0 years after retirement if they are female.

Sensitivity analysis:

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

A reduction in the discount rate of 0.1% from 4.6% to 4.5% would increase the scheme liabilities by £9.6m from £549.7m to £559.3m, increasing the scheme deficit to £100.2m.

An increase in the inflation assumption of 0.1% (from 2.4% to 2.5% for CPI and 3.4% to 3.5% for RPI) would increase the scheme liabilities by £8.7m from £549.7m to £558.4m, increasing the scheme deficit to £99.3m.

e. The value of the assets and liabilities at 31 March 2014 and the previous year was as follows:

	31.03.14	31.03.13
	£m	£m
Equities	**226.1**	184.1
Property	**27.7**	44.7
Government Bonds	**113.5**	112.2
Corporate Bonds	**82.9**	82.5
Other	**8.9**	9.5
Total fair value of the assets	**459.1**	433.0
Present value of defined benefit obligations	**(549.7)**	(552.3)
Deficit in the scheme	**(90.6)**	(119.3)

The expected rates of return were as follows:

	31.03.14	31.03.13
	%	%
Equities	**7.6**	7.8
Property	**6.9**	7.1
Government Bonds	**3.4**	2.8
Corporate Bonds	**4.4**	3.8
Other	**0.8**	0.8
Total	**5.8**	5.5

Narrative description of the basis used to determine expected value:

Wessex Water Services Ltd employs a building block approach in determining the long-term rate of return on pension plan assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed long-term rate of return of each asset class is set out within this note. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the scheme as at 31 March 2014.

f. Additional analysis:

	31.03.14 £m	31.03.13 £m
Analysis of profit and loss charge		
Current service cost	**10.8**	10.5
Past service cost	**0.2**	0.2
Interest cost	**24.2**	23.8
Expected return on scheme assets	**(23.2)**	(22.3)
Expense recognised in profit and loss account	**12.0**	12.2

	31.03.14 £m	31.03.13 £m
Changes to the present value of defined benefit obligations during the year		
Opening present value of defined benefit obligations	**552.3**	498.4
Current service cost	**10.8**	10.5
Interest cost	**24.2**	23.8
Contributions by scheme participants	**0.2**	0.2
Actuarial (gains) / losses on scheme liabilities	**(21.4)**	35.8
Net benefits paid out	**(16.6)**	(16.6)
Past service cost	**0.2**	0.2
Closing present value of defined benefit obligations	**549.7**	552.3

	31.03.14 £m	31.03.13 £m
Changes to the fair value of scheme assets during the year		
Opening fair value of scheme assets	**433.0**	390.9
Expected return on scheme assets	**23.2**	22.3
Actuarial gains on scheme assets	**0.9**	17.6
Contributions by the employer	**18.4**	18.6
Contributions by scheme participants	**0.2**	0.2
Net benefits paid out	**(16.6)**	(16.6)
Closing fair value of scheme assets	**459.1**	433.0

	31.03.14 £m	31.03.13 £m
Actual return on scheme assets		
Expected return on scheme assets	**23.2**	22.3
Actuarial gains on scheme assets	**0.9**	17.6
Actual return on scheme assets	**24.1**	39.9

	31.03.14 £m	31.03.13 £m
Analysis of amounts recognised in Statement of Total Recognised Gains and Losses		
Total actuarial gains / (losses)	**22.3**	(18.2)
Cumulative amount of losses recognised	**(133.3)**	(155.6)

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

	31.03.14 £m	31.03.13 £m	31.03.12 £m	31.03.11 £m	31.03.10 £m
Fair value of scheme assets	**459.1**	433.0	390.9	355.2	325.9
Present value of scheme liabilities	**(549.7)**	(552.3)	(498.4)	(424.8)	(405.8)
(Deficit) in the scheme	**(90.6)**	(119.3)	(107.5)	(69.6)	(79.9)
Experience gains on scheme assets	**0.9**	17.6	8.7	3.6	44.2
Experience (losses) / gains on scheme liabilities	**(11.1)**	(5.0)	-	9.1	4.3

	2014 £m	2013 £m

17 Deferred income

Grants and contributions:		
At 1 April	**17.2**	17.9
Received in the year	**0.3**	0.1
Less amortisation	**(0.7)**	(0.8)
At 31 March	**16.8**	17.2

18 Called up equity share capital

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

19 Profit and loss account

At 1 April	**120.9**	159.3
Actuarial gains / (losses) net of taxation	**14.4**	(15.0)
Profit attributable to shareholders	**169.3**	107.9
Dividends (note 7)	**(119.3)**	(131.3)
At 31 March	**185.3**	120.9

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

Operating profit	**234.8**	224.0
Depreciation	**127.0**	120.3
Amortisation of grants and contributions	**(0.7)**	(0.8)
Provisions	**(8.1)**	(8.2)
Loss on disposal of fixed assets	**1.5**	0.2
Decrease / (increase) in stocks	**0.6**	(0.7)
(Increase) in debtors	**(10.0)**	(8.8)
Increase in creditors	**4.5**	8.6
	349.6	334.6

	2014 £m	2013 £m
21 Returns on investments and servicing of finance		
Interest received	**0.8**	2.9
Interest paid	**(77.7)**	(81.9)
Interest element of finance lease rentals	**(0.6)**	(1.0)
	(77.5)	(80.0)

22 Capital expenditure and financial investment

	2014 £m	2013 £m
Purchase of tangible fixed assets	**(234.6)**	(222.0)
Sale of tangible fixed assets	**0.7**	1.4
Connection charges, grants and deferred income	**7.3**	5.2
	(226.6)	(215.4)

23 Financing

	2014 £m	2013 £m
Loans and finance leases drawn down	**-**	108.5
Loans and finance leases repaid	**(7.4)**	(57.7)
Bond non cash movements	**20.1**	28.2
	12.7	79.0

24 Movement in net debt

	1 April 2013 £m	Cash Flow £m	Non cash items £m	**31 March 2014 £m**
Cash at bank and in hand	181.0	(93.0)	-	**88.0**
Bank overdraft	(21.8)	2.4	-	**(19.4)**
Loans repayable after one year	(315.0)	-	-	**(315.0)**
Finance leases repayable within one year	(7.0)	(2.2)	-	**(9.2)**
Finance leases repayable after one year	(51.6)	9.6	-	**(42.0)**
Bonds repayable after one year	(1,523.9)	-	(20.1)	**(1,544.0)**
	(1,738.3)	(83.2)	(20.1)	**(1,841.6)**

25 Financial instruments

Short term debtors and creditors have been excluded from the financial instruments disclosure other than £28.6m (2013 - £28.8m) of short term borrowings.

The Company has financed its activities through a combination of short term borrowings, long term loans and leases and Bonds issued by its subsidiary company Wessex Water Services Finance Plc. At 31 March 2014 there were £100.0m (2013 - £25.0m) of undrawn facilities. The Company may use derivative financial instruments to reduce the exposure to foreign currency fluctuations and to limit the exposure to floating interest rates.

a. Interest rate and currency exposure

	Fixed rate borrowings 2014 £m	**Floating rate borrowings 2014 £m**	**Total borrowings 2014 £m**	Fixed rate borrowings 2013 £m	Floating rate borrowings 2013 £m	Total borrowings 2013 £m
Sterling	**1,544.0**	**385.6**	**1,929.6**	1,523.9	395.4	1,919.3

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

	Interest rate % 2014	**Period years 2014**	Interest rate % 2013	Period years 2013
Sterling	**3.8**	**24.3**	3.8	25.1

£28.6m (2013 - £28.8m) of floating rate borrowings are short term, and £357.0m (2013 - £366.6m) are long term with interest rates moving in line with LIBOR.

b. Fair values

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

	Book value £m 2014	**Fair value £m 2014**	Book value £m 2013	Fair value £m 2013
Borrowings less than 1 year	**28.6**	**28.6**	28.8	28.8
Floating rate borrowings over 1 year	**357.0**	**357.0**	366.6	366.6
Fixed rate borrowings over 1 year	**1,544.0**	**1,816.3**	1,523.9	1,928.1
	1,929.6	**2,201.9**	1,919.3	2,323.5

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.

26 Share-based payments

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

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

Granted – Ordinary shares of RM0.50 each	Outstanding at 31 March 2013	Forfeited	Outstanding at 31 March 2014
01/06/2012 Unapproved	9,545,000	(91,000)	9,454,000
01/06/2012 Approved	41,299,000	(732,000)	40,567,000
TOTAL	50,844,000	(823,000)	50,021,000

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

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

Under FRS 20 equity settled share-based payments are measured at the fair value at the date of the grant, and the fair value is expensed on a straight line basis through to the exercise date. A charge of £0.6m was recognised in the profit and loss account for FRS 20. The key assumptions were as follows:

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

27 Commitments and guarantees

a. There were £0.1m (2013 - £0.1m) of operating leases under leases on land and buildings due within the next year, which expire in over 5 years. There were no other commitments under operating leases.

b. At 31 March 2014 the Company had no interest rate and currency instrument agreements outstanding with commercial banks (2013 - nil).

c. Capital expenditure contracted but not provided at 31 March 2014 was £172.8m (2013 - £101.2m).

d. The Company has guaranteed Bonds of £1,544.0m (2013 - £1,523.9m) issued by its wholly owned subsidiary company Wessex Water Services Finance Plc.

28 Contingent liabilities

There are no material contingent liabilities at 31 March 2014 for which provision has not been made in these accounts.

29 Related parties

There are no related party transactions requiring disclosure in these accounts. As the Company is a wholly owned subsidiary of Wessex Water Ltd (see note 30), the Company has taken advantage of the exemption contained in FRS 8 'Related Party Transactions' and has therefore not disclosed transactions or balances with entities which form part of the Group.

30 Ultimate parent company

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

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

31 Going concern

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

REGULATORY INFORMATION

INTRODUCTION

The Company was appointed by the Secretary of State for the Environment as a water and sewerage undertaker under the Water Act 1989 and is required to comply with the Conditions set out in the Instrument of Appointment (the Licence) issued thereunder.

REGULATION

Under the conditions of its Licence, granted to the Company by the Secretary of State for the Environment the Company is obliged to provide the Water Services Regulation Authority (WSRA) with additional information to that contained in the non-statutory accounts, in order to comply with Licence Condition F. This information is presented on pages 98 to 127.

RING FENCING

Under the conditions of its Licence, the Company is at all times required to ensure, so far as reasonably practicable, that if a special administration order were made the Company would have available to it sufficient rights and assets (other than financial resources) to enable the special administrator to manage the affairs, business and property of the Company.

The Company was in compliance with that requirement as at 31 March 2014. In the opinion of the Directors:

a. The Company will have available to it sufficient financial resources and facilities to enable it to carry out, for at least the next 12 months, the Regulated Activities (including the investment programme necessary to fulfil the Company's obligations under the Appointment);

b. the Company will for at least the next 12 months have available management resources which are sufficient to enable it to carry out those functions; and

c. all contracts entered into with any associated company include all necessary provisions and requirements concerning the standard of service to be supplied to the appointee, to ensure that it is able to meet all its obligations as a water and sewerage undertaker.

In making this statement the Directors made reference to the detailed budget produced for the year to March 2015 and the business plan model through to March 2020. The Directors also made reference to the legal ownership of assets, employment contracts, borrowing facilities, the joint venture billing arrangement and the in-house engineering and construction department set up to deliver the capital programme.

TRANSACTIONS WITH ASSOCIATES

In the opinion of the Directors the Company has complied with the objectives and principles of RAG 5.05, in that transactions with associated companies are at arms-length and that cross subsidy is not occurring.

DIRECTORSHIPS

Colin Skellett and Mark Watts are also Directors of Wessex Water Ltd, Wessex Water Enterprises Ltd, Wessex Water Services Finance Plc, Wessex Engineering & Construction Services Ltd, YTL Utilities (UK) Ltd and YTL Utilities Holdings Ltd. Colin Skellett is also a Director of Bristol Wessex Billing Services Ltd. Andy Pymer is also a Director of Bristol Wessex Billing Services Ltd. Sean Cater is also a Director of Wessex Water Enterprises Ltd.

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

DIRECTORS' RESPONSIBILITIES AND ACCOUNTING POLICIES

DIRECTORS' RESPONSIBILITIES

The Directors are responsible under Condition F of the Instrument of Appointment by the Secretary of State for the Environment of the Company as a water and sewerage undertaker under the Water Industry Act 1991, to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company as at the end of the financial year, and of the profit or loss of the Company for that year.

The Directors confirm that suitable accounting policies have been used and applied consistently, and reasonable, prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 March 2014.

The Directors also confirm that, except for the departure explained in note 1e on page 83 to the financial statements, and in respect of infrastructure renewals accounting as explained below, applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

The Directors are responsible for keeping proper accounting records as required by United Kingdom company law, for taking reasonable steps to safeguard the assets of the Company, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

ACCOUNTING POLICIES

These regulatory accounts on pages 110 to 127 do not constitute the Company's statutory accounts for the years ended 31 March 2014 or 2013. 31 March 2014 is not the accounting reference date for the Company. The latest statutory accounts of the Company were for the years ended 30 June 2013 and 2012. Both these statutory accounts have been delivered to the registrar of companies. The auditors have reported on both these statutory accounts; their 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 2014.

Historical cost statements

In accordance with Condition F of the Instrument of Appointment financial statements have been prepared for the appointed and non-appointed business to show the profit and loss account, balance sheet and cash flow statements.

The financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom, except for the treatment of certain grants and contributions (see note 1e on page 83). The principal accounting policies are described on pages 82 to 84.

Under FRS15, Tangible Fixed Assets, it is not permitted to recognise provisions or prepayments in respect of infrastructure renewals accounting. In accordance with instructions from the WSRA, set out in a letter RD 11/00 dated 6 April 2000 "Regulatory Accounts for 1999-2000 – Reporting Requirements RAG 3.04", the sections of FRS15 relevant to infrastructure renewals accounting are to be dis-applied. The effect of this on the balance sheet has been shown on page 112.

Turnover recognition

Turnover represents income receivable in the ordinary course of business, excluding VAT, for services provided. Turnover is recognised to the extent that the economic benefits will flow to the Company.

There are no differences in turnover recognition between the statutory and regulatory accounts. There are no adjustments between amounts billed (as adjusted by opening and closing accruals) and amounts recorded as turnover.

Income related to water and sewerage services is receivable from occupiers of the premises to which services are supplied except where a third party has agreed liability for the charges. Where premises are unoccupied or where no services are supplied charges are not raised, income is not receivable and no turnover is recognised.

Premises that are furnished are considered to be occupied except in exceptional circumstances such as death or long-term hospitalisation of the customer. We consider premises undergoing refurbishment or being used for storage to be occupied by the owners of the premises.

If details of the occupier of the premises are unknown, the premises are considered to be unoccupied, no charges are raised and no turnover is recognised except where a third party has agreed liability for the charges. We do not bill properties speculatively in the name of the occupier. We have processes that seek to determine whether properties are occupied that include, but are not limited to, written correspondence, data matching and visits.

Charges that do not represent income receivable in the ordinary course of business are not recognised as turnover. This includes charges for the recovery of costs related to court action to recover charges overdue.

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

Turnover versus Ofwat determination

The variance against the revenues Ofwat assumed in its 2009 Determination is £8.0m (2013 - £0.1m). This is due to the increased demand during the extended dry spell from February to September 2013, with high temperatures recorded throughout the summer months.

Retrospective review of the measured income accrual

At £59.6m the measured income accrual at March 2013 was £2.3m lower (2012 - £1.7m lower) than a retrospective calculation of billing suggests was actually due. The difference represents less than 0.5% of accounting revenue in the year.

Bad debt policy

Bad debt write-off policy

There have been no changes in bad debt write-off policy compared with the previous year. The value of debt written off in the year was £8.9m compared with £10.0m in the previous year.

Debt is written off for one of four reasons;

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

Bad and doubtful debt provision policy

There has been no change to the bad and doubtful debt provision policy compared with the previous year. The bad debt provision for tariff basket income at 31 March 2014 was £39.4m compared with £36.4m the previous year end. The provision is expected to increase due to the impact of inflation on bills raised each year. During the year £8.9m of debt was written off and the provision was increased by £11.9m.

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

Trade debtor balance

There has not been a significant increase in the trade debtor balance from the prior year, compared with the expected increase due to inflation on the bills raised in the last year.

The trade debtor at 31 March 2014 was £91.9m compared with £85.8m the previous year. The increase of £6.1m was comprised of metered customers £5.0m, unmetered customers £1.0m and trade effluent £0.1m.

Capitalisation policy

Our capitalisation policy is unchanged from previous years. The capitalisation policy document is owned and published internally by the Financial Controller and forms part of our governance process and procedures. It includes a significant level of detail and includes the following principals:

Assets are taken to be fixed assets if they are intended for use on a continuing basis over at least 3 years (or 2 years in the case of internal software developments). Any assets not intended for such use are to be charged to revenue budgets.

Capital expenditure shall be determined as follows:

- The price paid for the asset together with any costs incidental to the acquisition e.g. identification of options and appraisal costs. This may include site preparation, which could encompass demolition work

- The cost of raw materials, consumables, salaries and wages (together with other costs) directly attributable to the creation of that asset

- In addition, the cost of an asset may include a reasonable proportion of costs indirectly attributable to the creation of the asset

- Interest paid, for example on contractors' claims or delayed payment of certificates, may be capitalised. Notional interest on capital expenditure during the course of construction is not charged to capital.

Current cost statements

The principal accounting policies are described on pages 115 and 116.

The effect of not applying FRS15 in respect of infrastructure renewals accounting, has been to reduce fixed assets by £12.3m (2013 – £12.9m) and increase working capital by the same amount. Within fixed assets the impact has been to reduce cost by £538.2m (2013 - £491.6m) and reduce accumulated depreciation by £525.9m (2013 - £478.7m).

Reconciliation to the non-statutory accounts

In the non-statutory accounts the Company has continued to capitalise customer pipe leak repairs. The impact is to increase historic cost profit after tax and to increase historic cost net assets as shown on page 112.

ACCOUNTING SEPARATION METHODOLOGY STATEMENT

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

We have followed the general principles and order of priority as set out in RAG 4.04:

• Transparency: the attribution methods applied within the accounting separation system need to be transparent. This requires that the costs and revenues apportioned to each service and business unit should be clearly identifiable. The cost and revenue drivers used within the system should also be clearly explained to enable a review of their appropriateness.

• Causality: cost causality requires that costs (and revenues) are allocated to those activities and services that cause the cost (or revenue) to be incurred. This requires that the attribution of costs and revenues to activities and services should be performed at as granular a level as possible.

• Non-discrimination: the attribution of costs and revenues should not favour any business unit within the regulated company and it should be possible to demonstrate that internal transfer charges are consistent with the prices charged to external third parties.

• Objectivity: the cost and revenue attribution criteria need to be objective and should not intend to benefit any business unit or service.

• Consistency: the cost and revenue attribution criteria should be consistent from year to year to enable meaningful comparison of information over time. Changes to the attribution methodology from year to year should be clearly justified and documented.

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

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

Changes for 2013-14

Our methodology is broadly unchanged compared to 2012-13 although we continue to enhance the data held on core systems so that the need to make further manual adjustments to data for compliance with the requirements of RAG 4.04 lessens over time.

Ofwat have required us to make two changes from the previous year methodology:

- Other business activities should now be allocated equally across business units with Retail counting as one business unit.
- Scientific Services are now accounted for in its entirety within the wholesale business – this includes sampling at customer taps.

Additionally we have chosen to align our methodology of allocating General and Support costs to be in line with our business plan submission and what we expect to be the future reporting requirements. We now make this allocation based on FTE's rather than operating expenditure.

General and Support costs have been allocated with a greater level of granularity:
- Central I.S costs are now allocated based on the number of computers.
- Facilities Maintenance costs are allocated based on the principal location of each FTE. This is the way in which internal budgets are set and recognises the difference in costs of the different site locations.

Retail operational cost allocations have also been brought in line with the Final Business guidance, as having completed the analysis; we consider this to be a preferred basis to report annually and remove the need for running two sets of operational cost accounting separation data. Further detail on the methodology change can be found in the Retail section below.

The capital charges included within notes 5 and 7 have been prepared consistent with previous submissions and regulatory accounting guidelines.

General Approach

All costs are booked against cost centres and an associated account code that describes the type of cost that has been incurred.

All cost centres within the company General Ledger system are aligned to regulatory business units for accounting separation reporting purposes.

All account codes are linked to a regulatory account code that conforms to the cost types that companies are required to show separately in the accounting separation tables, e.g. local authority rates.

Each time a new account code or cost centre is created within the corporate finance system it is linked to the appropriate business unit or cost type with reference to the latest regulatory guidelines. In addition, where Ofwat guidelines change we review the linkages of existing cost centres. As a secondary review the management accounting function checks all cost centre and account codes to ensure alignment.

Over time we are also making greater use of site process and asset codes within the General Ledger system to help automate the split of costs where certain sites undertake activities for more than one regulatory business unit. These codes each sit below the cost centre in the system hierarchy. For instance, within a sewage treatment works cost centre the process codes would be primary treatment, secondary treatment, sludge treatment, sludge disposal and each asset code is allocated to one of these treatment processes depending on its function. In this way the costs of maintaining and operating assets can be collected at an asset level and charged automatically to the appropriate business unit without any manual intervention.

Support functions require allocation to the published business units. In many cases we use the internal charges used in the management accounts as the basis for the allocations – in this way the accounting separation data most closely reflects how the business charges itself for use of support services. We carry out this analysis for Scientific Services, Facilities Management and the Mechanical & Electrical departments.

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

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

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

- The initial analysis is materially inconsistent with Ofwat guidance e.g. all fisheries costs charged to third party services rather than direct costs of resources.
- Where costs have continued to be coded to the “general” process cost code that are known to relate to more than one business unit - e.g. power costs at works that undertake activities that fall within both sewage treatment and sludge treatment business units where the allocation is based on a bottom up assessment of energy usage at each relevant site. A similar approach has been taken for the power costs at sites which have both water resource and water treatment activities. The allocation of power between the different water service activities is based on an average of the last three years pumping head data.

An allocation is also made to “Other Central costs”. This support function includes Chief Executive, Estates including legal services, Insurance and Public Relations. This has been left as the last apportionment and allocated based on FTE’s as outlined above.

We have a small amount of raw water aqueduct but no customers are supplied raw water. As such we do not believe there is a viable separated raw water distribution business unit within our boundary. As a result we allocate 'Other business activities' costs equally across eight business units rather than nine.

Historically we have aimed to identify specific operating costs that are identifiable as raw water distribution; however the only material operating cost would potentially be power as we do have pumping costs for pumping raw water from sources to treatment works. Applying the rule that water is transferred to one business unit to another via a pump means that these power costs are actually included in the water resources business unit as the pumps are located at the water resources site.

Significant variations of costs in the year

The table below identifies all significant (10% real change) variances from the previous year.

Business unit	Cost type	Movement in cost (£m)	Real % Change	Explanatory notes
Water Resources	Power	+0.2	11.4%	Higher water demand in the summer months caused by hot and dry spell
Water Resources	Local Authority Rates	+0.1	19%	An increase in the charge based on the cumulo formula
Water Resources	Other operating costs	+0.4	20.5%	Predominantly driven by the change in cost allocation methodology for Other business activities
Water Treatment	Bulk supply imports	+0.2	14.1%	Increase in bulk purchases from neighbouring companies associated with dry weather period
Water Treatment	Local Authority Rates	+0.3	19.2%	An increase in the charge based on the cumulo formula
Water Distribution	Local Authority Rates	+2.4	19.5%	An increase in the charge based on the cumulo formula
Water Distribution	Third party operating expenditure	(0.4)	12.4%	A decrease in the costs related to new connections
Sewerage	Other operating costs	+2.4	19.1%	An increase in employment and hired and contracted costs driven by the extreme wet weather over the winter
Sewage Treatment	Local Authority Rates	(0.7)	9.9%	Movement between Sewage and Sludge Treatment has occurred following a review of Liquor treatment costs
Sludge Treatment	Power	+0.4	49.3%	The power use at co-located sewage/sludge treatment sites has been reviewed during the year including a review of liquor treatment. The net result is a greater proportion of power costs now being attributed to sludge processes. There has been an equal and opposite reduction in sewage treatment
Sludge Treatment	Local Authority Rates	+0.3	14.9%	Movement between Sewage and Sludge Treatment has occurred following a review of Liquor treatment costs
Sludge Treatment	Other operating costs	+1.1	14.2%	A review of costs incurred at co-located sewage/sludge treatment sites alongside a review of liquor treatment activity has seen an increase in employment costs (£0.5m), materials (£0.4m) attributed to the sludge treatment activity. Other business costs have also increased based on the new allocation methodology
Retail	Exceptional items	(1.3)	100%	The exceptional item relates to a release of a provision for bad debt as detailed below

Retail Costs

The Ofwat review of 2012 focused particularly on the split of costs between wholesale and retail costs, and within retail on the split between household and non-household. The review found no issues with the way we allocated costs. Just over one third of total retail costs are invoiced to Wessex Water Services Ltd (WWSL) by Bristol Wessex Billing Services Ltd (BWBSL), an associate of WWSL, for billing and debt recovery services.

An analysis of costs is undertaken by BWBSL based on the company's management accounts team. This information is shared in full with WWSL to allow completion of the table analysing costs between household and non-household.

A significant amount of time has been spent analysing the cost allocation between household and non-household and as stated, in line with the Ofwat guidance document '2014 price review cost allocation for retail and wholesale price control' published in March 2014. We have decided that this represents an improved methodological approach and have adopted it for the 2013/14 Regulatory Accounts. We have included here the cost drivers used highlighting in **bold** the chosen method where there was a choice.

COST TYPE	HH/NHH or SPLIT	COST DRIVER
Customer Services		
Billing	Split	Number of bills raised
Payment handling, remittance and cash handling	Split	Number of payments received
Vulnerable customer schemes	Household only	
Non-network customer enquiries and complaints	Split	**Volume of non-network customer enquiries and complaints**
Network customer enquiries and complaints	Split	**Volume of network customer enquiries and complaints**
Other customer services	Split	**Customer numbers**
Debt management	Split	Debt outstanding >30 days
Customer doubtful debts	Split	Directly attributable on a customer specific basis
Meter reading	Split	**Number of meter reads factored using an allowance for average time taken**
Other Operating Costs		
Disconnections and reconnections	Non-Household	
Demand-side water efficiency initiatives	Split	Direct allocation (All Household)
Customer-side leaks	Split	Directly attributable on job specific basis
Charitable trust donations	Household	
Other operating costs	Split	Time via recharge
Other direct costs	Split	Time via recharge
General and Support		
IT costs	Split	Customer numbers
Motor vehicle costs	Split	Customer numbers
Finance, HR, payroll, executive team, general management	Split	Customer numbers
Facilities, building/grounds maintenance	Split	Customer numbers
Insurance costs	Split	Customer numbers
Other general and support costs	Split	**Customer numbers**
Other business activities	Split	**Customer numbers**
Developer services	Non-Household	
Local authority rates		
Local authority rates	Split	Customer numbers
Cumulo rates	Split	Customer numbers

Where departments are multi-functional management uses the best available data to allocate costs between the activities. Mailing volumes can be split between those for billing and those for debt recovery for instance. The apportionment by activity is sometimes different for the metered costs and the unmetered costs of the same department, for instance 80% of the unmetered costs of the social policy team are attributed to the debt management activity but only 60% of the metered costs. This is because a greater proportion of metered costs in this team are attributed to billing the WaterSure scheme for which only metered customers are eligible.

Non-BWBSL costs are allocated on the following basis

The costs attributable to doubtful debts, £12.8m is split between household and non-household based on the collectability of debt in each sector. For 2013-14 there has been a one off exceptional item which relates to the release of £1.3m relating to an overprovision of doubtful debt from 2011/12 to date. The underlying charge of £12.8m and the exceptional credit of £1.3m are allocated to customer type based on a review of the debt owed that is greater than 30 days.

Operational customer services costs are included within "Customer Services" and include the costs of visits to customers from operational staff driven by a customer contact, as well as the costs of handling calls and correspondence on operational matters and allocated based on the proportion of operational contact. The costs of the customer magazine are included here and are allocated to customer type on the basis of customer numbers.

Debt management charges are allocated in full to household and include the funding of independent debt advice providers such as Citizen's Advice Bureau. Developer services are charged in full to non-household. Local authority rates are allocated between customer types based on customer numbers as reported in the Regulatory Return 2012-13.

Other operating expenditure includes the full cost of repairing and/or replacing customers' service pipes where there are leaks. They have been allocated to Household or Non Household based on the total number of jobs carried out in the year, as they are identified as domestic or commercial.

The costs associated with the provision of water efficiency initiatives are included within Other operating expenditure and included in Household only. General and support costs are allocated in a consistent manner with wholesale costs (FTE's) and includes the cost of the Chief Executive, Estates including legal services, Insurance and Public Relations.

GROSS REPLACEMENT COST AND CCD

Within the financial accounting system, each depreciable asset has a number of attributes. Each asset is allocated to a business unit based on the asset type, the management responsibility centre and the site at which the assets is located.

Current Cost Depreciation is calculated by our corporate financial system on a per-asset basis after annual indexation for RPI and (if applicable) MEA adjustments. The only exception to this is the Management and General assets which are apportioned. We use an apportionment method, whereby capital costs and depreciation are apportioned between the business units in the proportion to the usage of the asset by each business unit.

This is achieved in a two stage process applied to each M&G asset according to its responsibility centre. Firstly a water/waste split based on long-term average operational usage and secondly, into business units based on accumulated total CCD of non-M&G assets.

We have split the assets and associated CCD into household and non-household within the retail table according to the number of customers served. In 2012-13 the methodology guidance had been amended resulting in meters being allocated in full to Treated water distribution rather than the Retail business unit.

INFRASTRUCTURE RENEWALS CHARGE

We have allocated the IRC to business units based on the average percentage of expenditure on each asset type since 1989 for water supply and since 2001 for waste. We have used a later date for waste than supply because of the significant expansion of the sludge treatment activities from a low base in the 1990's. As expected the vast majority of IRC is allocated to the sewerage and distribution networks.

INDEPENDENT AUDITOR'S REPORT TO THE WATER SERVICES REGULATION AUTHORITY (WSRA) AND THE DIRECTORS OF WESSEX WATER SERVICES LTD

We have audited the Regulatory Accounts of Wessex Water Services Ltd ('the Company') for the year ended 31 March 2014 on pages 110 to 125 which comprise:

- the regulatory historical cost accounting statements, comprising the regulatory historical cost profit and loss account, the regulatory historical cost balance sheet, the regulatory historical cost statement of total recognised gains and losses and the historical cost reconciliation between non-statutory and regulatory accounts; and
- the regulatory current cost accounting statements for the appointed business, comprising the current cost profit and loss account, the current cost cash flow statement and the related notes to the current cost financial statements, including the statement of accounting policies.

These Regulatory Accounts have been prepared in accordance with the basis of preparation and accounting policies set out in the Statement of Accounting Policies.

This report is made, on terms that have been agreed, solely to the Company and the WSRA in order to meet the requirements of Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the Company as a water and sewerage undertaker under the Water Industry Act 1991. Our audit work has been undertaken so that we might state to the Company and the WSRA those matters that we have agreed to state to them in our report, in order (a) to assist the Company to meet its obligation under Condition F to procure such a report and (b) to facilitate the carrying out by the WSRA of its regulatory functions, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the WSRA, for our audit work, for this report or for the opinions we have formed.

Respective responsibilities of the Directors and Auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 99, the Directors are responsible for the preparation of the Regulatory Accounts and for their fair presentation in accordance with the basis of preparation and accounting policies. Our responsibility is to audit and express an opinion on the Regulatory Accounts in accordance with International Standards on Auditing (UK and Ireland), except as stated in the 'Scope of the audit of the Regulatory Accounts' below, and having regard to the guidance contained in Audit 05/03 'Reporting to Regulators of Regulated Entities' issued by the Institute of Chartered Accountants in England and Wales. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the Regulatory Accounts

An audit involves obtaining evidence about the amounts and disclosures in the Regulatory Accounts sufficient to give reasonable assurance that the Regulatory Accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the Regulatory Accounts. In addition, we read all the financial and non-financial information in the Regulatory Accounts to identify material inconsistencies with the audited Regulatory Accounts. If we become aware of any apparent misstatements or inconsistencies we consider the implications for our report.

We have not assessed whether the accounting policies are appropriate to the circumstances of the Company where these are laid down by Condition F. Where Condition F does not give specific guidance on the accounting policies to be followed, our audit includes an assessment of whether the accounting policies adopted in respect of the transactions and balances required to be included in the Regulatory Accounts are consistent with those used in the preparation of the non-statutory accounts of the Company. Furthermore, as the nature, form and content of Regulatory Accounts are determined by the WSRA, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit opinion under International Standards on Auditing (UK & Ireland).

Opinion on Regulatory Accounts

In our opinion, the Regulatory Accounts:

- fairly present in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA and the accounting policies set out on pages 99 to 101, 115 and 116 , the state of the Company's affairs at 31 March 2014 on a historical cost and current cost basis, and its historical cost and current cost profit and its current cost cash flow for the year then ended; and
- have been properly prepared in accordance with Condition F, the Regulatory Accounting Guidelines and the accounting policies (including the accounting separation methodology).

Basis of preparation

Without modifying our opinion, we draw attention to the fact that the Regulatory Accounts have been prepared in accordance with Condition F of the Appointment and the Regulatory Accounting Guidelines, the accounting policies set out in the statement of accounting policies and, in the case of the regulatory historical cost accounting statements, under the historical cost convention.

The Regulatory Accounts are separate from the statutory financial statements of the Company and the non-statutory financial statements of the Company and have not been prepared under the basis of United Kingdom Generally Accepted Accounting Practice ('UK GAAP') or International Financial Reporting Standards as adopted by the European Union ('IFRSs'). Financial information other than that prepared on the basis of UK GAAP or IFRSs does not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in non-statutory financial statements prepared in accordance with the Companies Act 2006. Furthermore, the regulatory historical cost accounting statements on pages 110 to 112 have been drawn up in accordance with Regulatory Accounting Guideline 3.07 in that infrastructure renewals accounting as applied in previous years should continue to be applied and accordingly, that the relevant sections of Financial Reporting Standards 12 and 15 be disapplied. The effect of this departure from Generally Accepted Accounting Practice and a reconciliation of the balance sheet drawn up on this basis to the balance sheet drawn up and presented in the non-statutory accounts on the basis of the recognition, measurement and presentation requirements of UK GAAP is given on page 112.

Opinion on other matters prescribed by Condition F

Under the terms of our contract we have assumed responsibility to provide those additional opinions required by Condition F in relation to the accounting records. In our opinion:

- proper accounting records have been kept by the appointee as required by paragraph 3 of Condition F; and
- the Regulatory Accounts are in agreement with the accounting records and returns retained for the purpose of preparing the Regulatory Accounts.

Other matters

The nature, form and content of Regulatory Accounts are determined by the WSRA. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the WSRA's purposes. Accordingly, we make no such assessment. Our opinion on the Regulatory Accounts for the year ended 31 March 2014 is separate from both our opinions on the statutory financial statements of the Company for the year ended 30 June 2013 and on the non-statutory accounts of the Company for the year ended 31 March 2014 which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the Company (our 'statutory audit') was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Our audit report in relation to the non-statutory accounts of the Company was made solely to the Company, as a body, in accordance with the terms of our engagement letter in connection with their audit. Our non-statutory audit work was undertaken so that we might state to the Company those matters we are required to state to them in that non-statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our non-statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

AC Campbell-Orde (Senior Statutory Auditor)
for and on behalf of KPMG LLP
Chartered Accountants
100 Temple Street
Bristol BS1 6AG
24 June 2014

HISTORICAL COST PROFIT AND LOSS ACCOUNT
For the year to 31 March 2014

	2014 Appointed £m	2014 Non-appointed £m	2014 Total £m	2013 Appointed £m	2013 Non-appointed £m	2013 Total £m
Turnover	516.9	8.0	**524.9**	486.6	5.5	492.1
Operating costs	(157.3)	(8.0)	**(165.3)**	(145.5)	(5.5)	(151.0)
Infrastructure renewals	(47.2)	-	**(47.2)**	(43.2)	-	(43.2)
Depreciation	(79.1)	-	**(79.1)**	(76.3)	-	(76.3)
Operating income	(1.5)	-	**(1.5)**	(0.2)	-	(0.2)
Operating profit	231.8	-	**231.8**	221.4	-	221.4
Other income	0.4	-	**0.4**	0.3	-	0.3
Net interest	(77.8)	-	**(77.8)**	(85.5)	-	(85.5)
Profit on ordinary activities before taxation	154.4	-	**154.4**	136.2	-	136.2
Current taxation	(12.5)	-	**(12.5)**	(29.4)	-	(29.4)
Deferred taxation	24.8	-	**24.8**	(1.2)	-	(1.2)
Profit for the year	166.7	-	**166.7**	105.6	-	105.6
Ordinary dividend	(119.3)	-	**(119.3)**	(131.3)	-	(131.3)
Retained profit for year	47.4	-	**47.4**	(25.7)	-	(25.7)

The non appointed business comprises those activities for which the Appointee is not a monopoly supplier or involve the optional use of assets owned by the Appointee.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES (HISTORICAL COST ACCOUNTING)
For the year to 31 March 2014

	2014 Appointed £m	2013 Appointed £m
Profit for the year	166.7	105.6
Actuarial gains / (losses) net of tax	14.4	(15.0)
Total recognised gains	181.1	90.6

HISTORICAL COST BALANCE SHEET
At 31 March 2014

	2014 Appointed £m	2013 Appointed £m
Fixed assets		
Tangible fixed assets	**2,215.9**	2,128.2
Current assets		
Infrastructure renewals prepayment	**12.3**	12.9
Other	**268.5**	350.6
	280.8	363.5
Creditors - amounts falling due within one year		
Borrowings	**(28.6)**	(28.8)
Other creditors	**(149.0)**	(169.5)
	(177.6)	(198.3)
Net current assets	**103.2**	165.2
Total assets less current liabilities	**2,319.1**	2,293.4
Creditors - amounts falling due after more than one year		
Borrowings	**(1,901.0)**	(1,890.5)
Other creditors	**(0.5)**	(1.0)
	(1,901.5)	(1,891.5)
Provisions for liabilities and charges	**(179.1)**	(225.2)
Net assets employed	**238.5**	176.7
Capital and reserves	**238.5**	176.7
Capital and reserves	**238.5**	176.7

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

The regulatory information on pages 110 to 127 was approved by the Board of Directors on 24 June 2014.

Colin Skellett
Chief Executive

Mark Watts
Director

RECONCILIATION FROM REGULATORY ACCOUNTS TO NON-STATUTORY ACCOUNTS
At 31 March 2014

	2014 £m	2013 £m
Profit and loss account		
Profit for the year - regulatory accounts	**166.7**	105.6
Operating costs - capitalisation of customer pipe leak repairs	**2.6**	2.3
Profit attributable to shareholders - non-statutory accounts UK GAAP	**169.3**	107.9
Balance sheet		
(a) Fixed assets		
Regulatory accounts	**2,215.9**	2,128.2
Capitalisation of customer pipe leak repairs – current year	**2.6**	2.3
Capitalisation of customer pipe leak repairs – prior years	**26.0**	23.7
Infrastructure renewals expenditure under FRS 15	**12.3**	12.9
Non-statutory accounts UK GAAP	**2,256.8**	2,167.1
(b) Current assets		
Regulatory accounts	**280.8**	363.5
Infrastructure renewals expenditure under FRS 15	**(12.3)**	(12.9)
Tax adjustment on prior year customer pipe leak repairs	**(0.5)**	-
Non-statutory accounts UK GAAP	**268.0**	350.6
(c) Creditors – amounts falling due within one year		
Regulatory accounts	**(177.6)**	(198.3)
Tax adjustment on prior year customer pipe leak repairs	**-**	(0.5)
Non-statutory accounts UK GAAP	**(177.6)**	(198.8)
(d) Capital and reserves		
Regulatory accounts	**238.5**	176.7
Capitalisation of customer pipe leak repairs – current year	**2.6**	2.3
Capitalisation of customer pipe leak repairs – prior years	**25.5**	23.2
Non-statutory accounts UK GAAP	**266.6**	202.2

CURRENT COST PROFIT AND LOSS ACCOUNT FOR APPOINTED BUSINESS
For the year to 31 March 2014

	2014			2013		
	Water £m	**Sewerage £m**	**Total £m**	Water £m	Sewerage £m	Total £m
Turnover						
Unmeasured - household	**70.4**	**138.5**	**208.9**	68.0	138.7	206.7
Unmeasured – non-household	**2.5**	**3.4**	**5.9**	2.5	3.6	6.1
Measured - household	**63.4**	**113.6**	**177.0**	54.2	101.2	155.4
Measured – non-household	**42.1**	**50.6**	**92.7**	38.6	48.3	86.9
Trade effluent	**-**	**4.2**	**4.2**	-	4.0	4.0
Bulk supplies	**0.4**	**0.1**	**0.5**	0.2	-	0.2
Other third party services	**0.1**	**0.8**	**0.9**	0.1	1.1	1.2
Other sources	**13.3**	**13.5**	**26.8**	12.9	13.2	26.1
Total turnover	**192.2**	**324.7**	**516.9**	176.5	310.1	486.6
Operating costs – wholesale	**(112.3)**	**(175.7)**	**(288.0)**	(105.4)	(162.1)	(267.5)
Operating costs – retail	**(15.0)**	**(15.2)**	**(30.2)**	(14.2)	(16.4)	(30.6)
Operating income	**(0.2)**	**(1.9)**	**(2.1)**	(0.6)	(0.3)	(0.9)
Working capital adjustment	**(0.2)**	**(0.4)**	**(0.6)**	(0.3)	(0.9)	(1.2)
Current cost operating profit	**64.5**	**131.5**	**196.0**	56.0	130.4	186.4
Other income			**0.4**			0.3
Net interest			**(77.8)**			(85.5)
Financing adjustment			**26.1**			32.2
Current cost profit before taxation			**144.7**			133.4
Net revenue movement out of tariff basket	**-**	**(0.3)**	**(0.3)**	0.3	0.4	0.7
Back-billing amount identified	**-**	**-**	**-**	-	-	-

The accompanying notes on pages 115 to 125 form part of the current cost regulatory accounts.

CURRENT COST CASH FLOW STATEMENT
For the year to 31 March 2014

	2014 Appointed £m	2013 Appointed £m
Current cost operating profit	**196.0**	186.4
Working capital adjustment	**0.6**	1.2
Movement in working capital	**(13.7)**	2.1
Other income	**0.4**	0.3
Current cost depreciation	**113.7**	109.4
Current cost loss on disposal of fixed assets	**2.1**	0.9
Infrastructure renewals charge	**47.2**	43.2
Movement in provisions	**0.7**	(11.2)
Net cash inflow from operating activities	**347.0**	332.3
Returns on investments and servicing of finance	**(77.5)**	(80.0)
Taxation paid	**(29.5)**	(21.8)
Capital expenditure and financial investment		
Gross cost of purchase of fixed assets	**(185.4)**	(170.2)
Receipt of grants and contributions	**7.3**	5.2
Infrastructure renewals expenditure	**(46.6)**	(49.5)
Disposal of fixed assets	**0.7**	1.4
Movement on long term group loans to group companies	**20.1**	136.7
Net cash outflow from investing activities	**(203.9)**	(76.4)
Acquisitions and disposals	**-**	-
Equity dividends paid	**(119.3)**	(129.6)
Net cash flow from management of liquid resources	**-**	-
Net cash (outflow) / inflow before financing	**(83.2)**	24.5
Net cash outflow from financing	**(7.4)**	(57.7)
Decrease in cash	**(90.6)**	(33.2)

The analysis of net debt is shown in note 24 to the non-statutory accounts.

NOTES TO THE CURRENT COST STATEMENTS
For the year to 31 March 2014

These accounts have been prepared for the Appointed Business of Wessex Water Services Ltd in accordance with guidance issued by the WSRA for modified real terms financial statements suitable for regulation in the water industry. They measure profitability on the basis of real financial capital maintenance in the context of assets which are valued at their current cost value to the business.

The accounting policies used are the same as those adopted in the regulatory historical cost accounts except as set out below:

1 TANGIBLE FIXED ASSETS

Modern equivalent asset values (MEA) arising from the 2009 periodic review have been incorporated into the regulatory statements.

Assets acquired and in operational use are valued at the replacement cost of their operating capability. To the extent that the regulatory regime does not allow such assets to earn a return high enough to justify that value, no adjustment is made in arriving at the replacement cost. Also, no provision is made for the possible funding of future replacements of assets by contributions from third parties and to the extent that some of those assets would on replacement be so funded, replacement cost again differs from value to the business. Redundant assets are valued at their recoverable amounts.

Non-specialised operational properties

Non-specialised operational properties are valued on the basis of open market value for existing use and have been expressed in real terms by indexing using the Retail Price Index (RPI).

Specialised operational assets

Specialised operational assets are valued at the lower of depreciated replacement cost and recoverable amount, restated annually between Asset Management Plan (AMP) reviews by adjusting for inflation as measured by changes in the RPI. The unamortised portion of third party contributions received is deducted in arriving at net operating assets (as described below).

Infrastructure assets

Mains, sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines, sea outfalls and infrastructure investigations and studies are valued at replacement cost determined by the MEA value at the latest periodic review.

A process of continuing refinement of assets records is expected to produce adjustments to existing values when periodic reviews of the AMP take place. In the intervening years, values are restated to take account of changes in the general level of inflation as measured by changes in the RPI over the year.

Private sewers adopted on 1 October 2011 have been valued in the current cost balance sheet at an MEA comprising the estimated length of sewer, multiplied by the cost per meter of various diameters of sewer taken from the 2009 periodic review data. Values are restated for inflation as measured by changes in the RPI.

Other tangible assets

All other fixed assets are valued periodically at depreciated replacement cost. Between periodic AMP reviews, values are restated for inflation as measured by changes in the RPI.

Surplus land

Surplus land is valued at recoverable amount taking into account that part of any proceeds to be passed on to customers under Condition B of the Licence.

2 GRANTS AND OTHER THIRD PARTY CONTRIBUTIONS

Grants, infrastructure charges and other third party contributions received since 31 March 1990 are carried forward to the extent that any balance has not been credited to revenue. The balance carried forward is restated for the change in the RPI for the year and treated as for deferred income.

3 REAL FINANCIAL CAPITAL MAINTENANCE ADJUSTMENTS

These adjustments are made to historical cost profit in order to arrive at profit after the maintenance of financial capital in real terms.

Working capital adjustment

This is calculated by applying the change in the RPI over the year to the working capital of the Company at the beginning of the year.

Financing adjustment

This is calculated by applying the change in the RPI over the year to the opening balance of net finance which comprises all monetary assets and liabilities in the balance sheet apart from those included in working capital.

4a **OPERATING COST ANALYSIS - for the year to 31 March 2014 – Wholesale Business**

	Water					Sewerage					
Operating expenditure	Resources £m	Raw water distribution £m	Treatment £m	Treated distribution £m	Water sub-total £m	Sewage collection £m	Sewage treatment £m	Sludge treatment £m	Sludge disposal £m	Sewerage sub-total £m	Total £m
Power	1.7	-	4.0	1.1	6.8	3.6	10.5	1.2	-	15.3	**22.1**
Income treated as negative expenditure	-	-	-	-	-	-	-	-	-	-	**-**
Service charges	2.3	-	0.1	-	2.4	0.8	2.1	-	-	2.9	**5.3**
Bulk supply imports	-	-	1.3	-	1.3	-	-	-	-	-	**1.3**
Other operating expenditure	2.3	-	8.0	13.1	23.4	14.8	18.3	8.9	4.9	46.9	**70.3**
Local authority rates	0.8	-	1.6	14.6	17.0	-	7.4	2.1	-	9.5	**26.5**
Exceptional items	-	-	-	-	-	-	-	-	-	-	**-**
Total operating expenditure	7.1	-	15.0	28.8	50.9	19.2	38.3	12.2	4.9	74.6	**125.5**
Capital maintenance											
Infrastructure renewals charge	-	-	-	24.6	24.6	22.6	-	-	-	22.6	**47.2**
Current cost depreciation	4.1	-	13.1	17.1	34.3	11.4	54.6	10.6	2.7	79.3	**113.6**
Recharges to other business units	-	-	-	-	-	-	-	-	-	-	**-**
Recharges from other business units	-	-	-	-	-	-	-	-	-	-	**-**
Amortisation of deferred credits	-	-	-	(0.2)	(0.2)	(0.5)	(0.4)	-	-	(0.9)	**(1.1)**
Amortisation of intangible assets	-	-	-	-	-	-	-	-	-	-	**-**
Total capital maintenance	4.1	-	13.1	41.5	58.7	33.5	54.2	10.6	2.7	101.0	**159.7**
Third party services											
Operating expenditure	0.8	-	-	1.9	2.7	0.1	-	-	-	0.1	**2.8**
Infrastructure renewals charge	-	-	-	-	-	-	-	-	-	-	**-**
Current cost depreciation	-	-	-	-	-	-	-	-	-	-	**-**
Total operating costs	**12.0**	**-**	**28.1**	**72.2**	**112.3**	**52.8**	**92.5**	**22.8**	**7.6**	**175.7**	**288.0**

4b **OPERATING COST ANALYSIS - for the year to 31 March 2013 – Wholesale Business**

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

5 **CURRENT COST ANALYSIS OF FIXED ASSETS – at 31 March 2014 – Wholesale Business**

	Water				Water sub-total £m	Sewerage				Sewerage sub-total £m	Total £m
Non-Infrastructure assets Gross replacement cost	Resources £m	Raw water distribution £m	Treatment £m	Treated distribution £m		Sewage collection £m	Sewage treatment £m	Sludge treatment £m	Sludge disposal £m		
At 1 April 2013	187.0	1.7	502.1	636.8	1,327.6	433.0	1,958.2	323.8	71.9	2,786.9	4,114.5
AMP adjustment	-	-	-	-	-	-	-	-	-	-	**-**
Reclassification adjustment	-	-	-	-	-	-	-	-	-	-	**-**
RPI adjustment	3.9	-	9.6	12.6	26.1	7.7	42.3	6.1	1.4	57.5	**83.6**
Disposals	(0.3)	-	(1.6)	(1.1)	(3.0)	(2.9)	(10.2)	(1.6)	(0.7)	(15.4)	**(18.4)**
Additions	2.9	-	23.2	23.3	49.4	11.2	54.3	11.5	0.5	77.5	**126.9**
At 31 March 2014	**193.5**	**1.7**	**533.3**	**671.6**	**1,400.1**	**449.0**	**2,044.6**	**339.8**	**73.1**	**2,906.5**	**4,306.6**
Depreciation											
At 1 April 2013	64.4	0.4	228.1	306.3	599.2	233.2	990.7	177.5	43.4	1,444.8	2,044.0
AMP adjustment	-	-	-	-	-	-	-	-	-	-	**-**
Reclassification adjustment	-	-	-	-	-	-	-	-	-	-	**-**
RPI adjustment	1.0	-	3.7	4.9	9.6	3.2	18.9	2.5	0.7	25.3	**34.9**
Disposals	(0.3)	-	(1.3)	(1.0)	(2.6)	(2.6)	(8.6)	(1.2)	(0.6)	(13.0)	**(15.6)**
Charge for year	4.1	-	13.1	17.1	34.3	11.4	54.6	10.6	2.7	79.3	**113.6**
At 31 March 2014	**69.2**	**0.4**	**243.6**	**327.3**	**640.5**	**245.2**	**1,055.6**	**189.4**	**46.2**	**1,536.4**	**2,176.9**
Net book amount at 31 March 2014	**124.3**	**1.3**	**289.7**	**344.3**	**759.6**	**203.8**	**989.0**	**150.4**	**26.9**	**1,370.1**	**2,129.7**
Net book amount at 1 April 2013	122.6	1.3	274.0	330.5	728.4	199.8	967.5	146.3	28.5	1,342.1	2,070.5
Infrastructure assets Gross replacement cost											
At 1 April 2013	41.5	0.6	0.8	3,052.7	3,095.6	16,823.3	168.8	-	-	16,992.1	20,087.7
AMP adjustment	-	-	-	-	-	-	-	-	-	-	**-**
Reclassification adjustment	-	-	(0.8)	0.8	-	-	-	-	-	-	**-**
RPI adjustment	1.0	-	-	74.7	75.7	412.1	4.1	-	-	416.2	**491.9**
Disposals	-	-	-	-	-	-	-	-	-	-	**-**
Additions	0.1	-	-	24.1	24.2	23.3	1.3	-	-	24.6	**48.8**
At 31 March 2014	**42.6**	**0.6**	**-**	**3,152.3**	**3,195.5**	**17,258.7**	**174.2**	**-**	**-**	**17,432.9**	**20,628.4**

6a OPERATING COST ANALYSIS - for the year to 31 March 2014 – Retail Business

Operating expenditure	Household £m	Non-household £m	**Total £m**
Customer services	6.6	0.9	**7.5**
Debt management	2.7	0.3	**3.0**
Doubtful debts	11.8	1.0	**12.8**
Meter reading	1.3	0.5	**1.8**
Services to developers	-	0.8	**0.8**
Other operating expenditure	4.0	0.3	**4.3**
Local authority rates	0.1	-	**0.1**
Exceptional items	(1.2)	(0.1)	**(1.3)**
Total excluding third party services	25.3	3.7	**29.0**
Third party services	-	-	-
Total operating expenditure	25.3	3.7	**29.0**
Capital maintenance			
Current cost depreciation	1.0	0.1	**1.1**
Recharges to other business units	-	-	-
Recharges from other business units	0.1	-	**0.1**
Amortisation of deferred credits	-	-	-
Amortisation of intangible assets	-	-	-
Total capital maintenance	1.1	0.1	**1.2**
Total operating costs	26.4	3.8	**30.2**
Debt written off	8.4	0.6	**9.0**

6b OPERATING COST ANALYSIS - for the year to 31 March 2013 – Retail Business

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

7 CURRENT COST ANALYSIS OF FIXED ASSETS - at 31 March 2014 – Retail Business

Non-Infrastructure assets	Household £m	Non-household £m	**Total £m**
Gross replacement cost			
At 1 April 2013	27.1	3.0	**30.1**
AMP adjustment	-	-	**-**
Reclassification adjustment	-	-	**-**
RPI adjustment	0.3	-	**0.3**
Disposals	(0.2)	-	**(0.2)**
Additions	0.9	0.1	**1.0**
At 31 March 2014	**28.1**	**3.1**	**31.2**
Depreciation			
At 1 April 2013	16.7	1.9	**18.6**
AMP adjustment	-	-	**-**
Reclassification adjustment	-	-	**-**
RPI adjustment	0.1	-	**0.1**
Disposals	(0.2)	-	**(0.2)**
Charge for year	1.1	0.1	**1.2**
At 31 March 2014	**17.7**	**2.0**	**19.7**
Net book amount at 31 March 2014	**10.4**	**1.1**	**11.5**
Net book amount at 1 April 2013	10.4	1.1	11.5

8 ANALYSIS OF CAPITAL EXPENDITURE, GRANTS AND CONTRIBUTIONS AND LAND SALES
For the year to 31 March 2014

	2014 Gross £m	2014 Grants £m	2014 Net £m	2013 Gross £m	2013 Grants £m	2013 Net £m
Capital expenditure - Water						
Base						
Infrastructure Renewals Expenditure	**24.6**	**-**	**24.6**	24.6	-	24.6
Maintenance non-infrastructure	**23.4**	**-**	**23.4**	28.9	-	28.9
Enhancements						
Infrastructure enhancements	**24.2**	**(2.3)**	**21.9**	21.4	(1.7)	19.7
Non-infrastructure enhancements	**26.3**	**-**	**26.3**	16.1	-	16.1
Total capital expenditure - Water	**98.5**	**(2.3)**	**96.2**	91.0	(1.7)	89.3
Grants and contributions – Water						
Developer contributions		**(0.3)**			(0.2)	
Infra charges receipts - connections		**(1.6)**			(1.4)	
Other contributions		**(0.4)**			(0.1)	
Total grants and contributions – Water		**(2.3)**			(1.7)	
Capital expenditure - Sewerage						
Base						
Infrastructure Renewals Expenditure	**22.0**	**-**	**22.0**	24.9	-	24.9
Maintenance non-infrastructure	**51.1**	**-**	**51.1**	61.1	-	61.1
Enhancements						
Infrastructure enhancements	**24.6**	**(4.7)**	**19.9**	11.5	(3.3)	8.2
Non-infrastructure enhancements	**27.1**	**(0.2)**	**26.9**	34.1	-	34.1
Large projects capex						
Infrastructure enhancements	**-**	**-**	**-**	-	-	-
Non-infrastructure enhancements	**-**	**-**	**-**	-	-	-
Total capital expenditure – Sewerage	**124.8**	**(4.9)**	**119.9**	131.6	(3.3)	128.3
Grants and contributions – Sewerage						
Developer contributions		**(1.8)**			(0.9)	
Infra charges receipts - connections		**(2.9)**			(2.3)	
Other contributions		**(0.2)**			(0.1)	
Total grants and contributions – Sewerage		**(4.9)**			(3.3)	
Total capital expenditure - Water and Sewerage	**223.3**	**(7.2)**	**216.1**	222.6	(5.0)	217.6
Land sales – proceeds from disposals of protected land		**(0.1)**			(0.2)	

9 ANALYSIS OF WORKING CAPITAL

	2014 £m	2013 £m
Stocks	**6.4**	7.0
Trade debtors – measured household	**22.6**	18.0
Trade debtors – unmeasured household	**23.7**	24.5
Trade debtors – measured non-household	**7.2**	5.5
Trade debtors – unmeasured non-household	**0.3**	0.3
Other trade debtors	**0.9**	0.6
Measured income accrual	**64.0**	59.6
Prepayments and other debtors	**53.8**	53.4
Trade creditors	**(5.9)**	(4.3)
Deferred income – customer advance receipts	**(34.9)**	(33.4)
Capital creditors	**(35.7)**	(44.4)
Accruals and other creditors	**(29.9)**	(28.0)
	72.5	58.8
Total revenue outstanding – household	**46.3**	42.5
Total revenue outstanding – non-household	**7.5**	5.8

10 ANALYSIS OF NET DEBT, GEARING AND INTEREST COSTS

At 31 March 2014

	Fixed Rate £m	Floating Rate £m	Index Linked £m	**Total £m**
Borrowings	(849.9)	(366.2)	(694.1)	**(1,910.2)**
Preference share capital	-	-	-	**-**
	(849.9)	(366.2)	(694.1)	**(1,910.2)**
Bank overdraft				**(19.4)**
Short term deposits				**88.0**
Net debt				**(1,841.6)**
Regulatory capital value £m				**2,886.0**
Gearing %				**64%**
Full year equivalent nominal interest cost £m	(42.9)	(3.2)	(35.5)	**(81.6)**
Full year equivalent cash interest payment £m	(42.9)	(3.2)	(16.2)	**(62.3)**
Indicative interest rates				
Indicative weighted average nominal interest rate %	5.0%	0.9%	5.1%	**4.3%**
Indicative weighted average cash interest rate %	5.0%	0.9%	2.3%	**3.3%**
Weighted average years to maturity - number	13.5	3.9	35.9	**19.8**

11 NON-FINANCIAL INFORMATION
For the year to 31 March 2014

	2014		2013	
	Water	**Sewerage**	Water	Sewerage
Number of properties (000's)				
Households billed	**530**	**1,092**	525	1,083
Non-households billed	**52**	**81**	52	82
Household voids	**12**	**24**	12	25
Non-households voids	**2**	**4**	2	5
Properties served by new appointee in supply area as at 1 April 2009	**-**	**-**	-	-
Per capita consumption (excluding supply pipe leakage) l/h/d				
Unmeasured household	**144**	**-**	143	-
Measured household	**132**	**-**	128	-
Volume (Ml/d)				
Bulk supply export	**1**	**-**	1	-
Bulk supply import	**9**	**-**	5	-
Distribution input	**330**	**-**	323	-

ADDITIONAL REGULATORY DISCLOSURES
For the year to 31 March 2014

A REGULATORY CAPITAL VALUE

	2014 £m
Closing RCV for 2012-13	2,733
Indexation	67
Opening RCV for 2013-14	2,800
Capital expenditure	229
Infrastructure renewals expenditure	48
Grants and contributions	(9)
Depreciation	(117)
Infrastructure renewals charge	(44)
Outperformance of regulatory assumptions (5 years in arrears)	(21)
Closing RCV for 2013-14	2,886
Average RCV	2,809

B FINANCIAL INDICATORS

Ofwat has produced a number of Key Performance Indicators to be published annually as part of a balanced scorecard approach to regulation. Within the balanced scorecard are four financial indicators shown below.

		2013-14
Post-tax return on capital (target = 5.18%)		5.9%
Credit rating – latest published (target = investment grade)	Moody's	A3
	Standard & Poor's	BBB+
	Fitch Ratings	A-
Gearing (net debt as a percentage of closing Regulatory Capital Value)		64%
Interest cover - times	Adjusted interest cover (i)	2.9
	FFO / interest (ii)	3.6

The target has been achieved in respect of the first two financial indicators. No target was set for gearing or interest cover.

(i) Calculation as per Moody's methodology for 2012-13
(ii) Calculation as per Standard & Poor's methodology for 2012-13

C REGULATORY COMMENTARY AND TRENDS

Regulatory commentary and trends are included in the narrative to the non-statutory accounts, and principal risks are described on pages 20 and 21.

ADDITIONAL REGULATORY DISCLOSURES continued
For the year to 31 March 2014

D DISCLOSURE OF TRANSACTIONS WITH ASSOCIATES
For the year to 31 March 2014

Services provided by appointee to associated companies

Associate Company	Service Provided	Turnover of Associate £m	Terms of Supply	2013-14 Value £m
Wessex Water Ltd	Corporate charges	nil	No market	0.5
Bristol Wessex Billing Services Ltd	Information Systems, Transport, Insurance, staff costs and Personnel	13.7	No market	1.5
Wessex Water Enterprises Ltd and GENeco Ltd	Waste Treatment, Transport, Accommodation, Insurance, Laboratory and central services	19.0	No market	7.6
Wessex Water Ltd and Bath Hotel and Spa Ltd	Project management	nil	No market	0.3

Services provided to appointee by associated companies

Associate Company	Service Provided	Turnover of Associate £m	Terms of Supply	2013-14 Value £m
Bristol Wessex Billing Services Ltd	Billing services	13.7	Competitive letting	11.1
Wessex Water Enterprises Ltd	Supply of electricity	16.8	Other market testing	2.0

Financial transactions

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

The appointee paid £75.5m of interest to its subsidiary company Wessex Water Services Finance Plc in relation to the proceeds of the Bonds issued by that company, that were lent to the appointee under the same terms as the Bonds. The Bonds are shown in note 14 to the accounts.

The appointee acquired assets of £2.4m on behalf of Wessex Water Enterprises Ltd and transferred those assets to that company.

ENVIRONMENTAL ACCOUNTING
For the year to 31 March 2014

The accounts in the following pages have two main purposes. Firstly, they provide a monetary evaluation of environmental impacts that conventionally have been ‘externalised’ ie, not dealt with through investment or some other intervention. By calculating a hypothetical monetary cost of reducing these impacts to a sustainable level – through investment, offsetting, markets or shadow prices – an environmentally sustainable profit and loss account can be estimated. Secondly, they summarise our expenditure on items relevant to sustainability in its broader sense.

Environmental Accounts

Regulated investment in service improvements and the water environment
Our agreed investment programme for 2010-15 includes a range of schemes to benefit society and the environment. These schemes are largely driven by European regulation as implemented by Defra, the Environment Agency and Natural England. Issues being addressed include low river flows that can occur during dry weather; nitrates and pesticides found in groundwater; phosphorus in rivers and streams; flooding from the sewerage system and bathing water quality.

The single largest scheme being carried out is the integrated supply grid, which will involve investment of more than £200m over eight years.

Our proposals for investment during 2015-20 were submitted to Ofwat in December 2013. They include expenditure to respond to tighter quality standards and changing volumes associated with population growth and climate change. In the medium to long term we expect continuing pressure to upgrade sewage treatment to meet new or tighter standards associated with the Water Framework Directive and the Priority Substances Directive. The challenge will be to do this without significant increases in energy consumption or chemical dosing. Already, alongside investment in physical assets, we are working closely with others to better manage catchments and surface water and address impacts on the water environment at source.

Licences and fiscal measures
We are subject to numerous licences, taxes and other annual charges that have an environmental basis. These include abstraction licences and discharge consents paid to the Environment Agency, the Carbon Reduction Commitment Energy Efficiency Scheme (CRC) and the Climate Change Levy. The CRC is an incentive for energy reduction. It takes the form of a levy, currently set at £12 for every tonne of carbon dioxide associated with energy use. However, the money it raises goes into the public finances via the Treasury, rather than being spent on carbon abatement measures *per se*. Our CRC payment for 2013-14 is expected to be £1.6m.

Other valuation methods
Calculating the investment that would be needed to eliminate an environmental impact is one way to assess environmental costs in monetary terms. An example would be the net cost of converting energy and fuel use to renewable sources. We continue to look closely at possible investment medium and long term including renewable energy generation and emerging technologies for carbon abatement. It is clear that significant investment would be needed to reach carbon neutrality.

A further approach is the use of shadow prices, such as the carbon values that form part of the Green Book Supplementary Appraisal Guidance for Valuing Greenhouse Gas Emissions and Energy Use, for use in policy and project appraisal. These distinguish between traded and non-traded emissions and also varying climate change scenarios. The 2013 prices for traded carbon range from £0-£16 per tonne of carbon dioxide, and for non-traded carbon from £30-£89 per tonne of carbon dioxide.

In a few cases there are also market-based valuations, such as carbon offsets, through which the carbon dioxide avoided by renewable energy projects and the like are sold typically between £7 and £12 per tonne.

Greenhouse gas emissions
Our net emissions for 2013-14 as reported to Ofwat were 145 kilotonnes CO_2 equivalent. This is 9% lower than 2012-13, as rainfall was closer to the long term average and the carbon intensity of grid electricity was lower than the previous year.

Emissions are calculated using the most recent guidance from the Government for environmental reporting and Ofwat for their key performance indicators. They are split into three categories:

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

Carbon dioxide from energy and transport makes up around three quarters of our total greenhouse gas emissions. The remainder is in the form of methane and nitrous oxide emissions from sewage and sludge treatment.

By generating and using our own electricity from renewable sources we avoided the use of an additional 41 GWh of grid electricity, with an associated avoidance of 18 ktCO_2 equivalent. We also exported 8 GWh of self-generated electricity which is equivalent to a reduction of 3 ktCO_2 equivalent.

Some of the process chemicals we use to treat water and sewage have an estimated carbon footprint for their manufacture (but not their transportation); this typically amounts to less than 10 ktCO_2 equivalent.

We also estimate the wholelife carbon footprint of each project in the investment programme when carrying out initial appraisals. This includes the embodied carbon of materials used, the construction process and an estimate of annual carbon dioxide emissions during the operational lifespan of the asset being created.

Greenhouse gas emissions 2013-14 (ktCO_2 equivalent)

Appointed business	Scope 1 (Wessex Water direct fuel use, process emissions)	Scope 2 (grid electricity)	Scope 3 (third parties & electricity transmission)	**Total 2013-14**	Total 2012-13
Gas, diesel and other fuels	5		5	**10**	10
Grid electricity		93	8	**101**	115
Transport	10		1	**11**	11
Methane	15	<1	2	**17**	20
Nitrous oxide	10	1	8	**19**	17
Exported renewable (emissions netted off)		(3)		**(3)**	(3)
TOTAL (net emissions)	**40**	**90***	**24**	**155***	**169***

* Contains rounding errors
** Scope 3 methane and nitrous oxide emissions are excluded from the Ofwat KPI calculation

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

Investment Towards Sustainability – Unaudited	**2014**	**2013**
	Amount £m	**Amount £m**
Customers and Communities		
Mandatory expenditure *Example - water supply quality enhancement work such as mains relining*	**75**	**54**
Discretionary expenditure (a)	**-**	**-**
Discretionary expenditure (b) *Example - replacement of customers' supply pipes; education service*	**1**	**1**
Discretionary expenditure (c) *Example - charitable donations to community projects*	**0.2**	**0.1**
Environment		
Mandatory expenditure *Example - capital investment to meet the Habitats Directive*	**28**	**29**
Discretionary expenditure (a)	**-**	**-**
Discretionary expenditure (b) *Examples - trials on options for more sustainable water resources*	**0.7**	**0.7**
Discretionary expenditure (c) *Example - conservation grants to Wildlife Trusts*	**0.1**	**0.1**
Employees		
Mandatory expenditure *Example - basic pay and conditions including pension*	**45**	**41**
Discretionary expenditure (a) *Example - enhanced overtime payments*	**3**	**3**
Discretionary expenditure (b) *Example - staff training*	**5**	**5**
Discretionary expenditure (c) *Example - enhanced maternity leave*	**-**	**-**
Investment - Infrastructure		
Mandatory expenditure *Example - replacement / refurbishment of sewers*	**121**	**139**
Totals		
Customers and communities	**76**	**55**
Environment	**29**	**30**
Employees	**53**	**49**
Infrastructure	**121**	**139**
Total	**279**	**273**

Mandatory expenditure – expenditure governed primarily by legislation or regulation
Discretionary expenditure (a) – primary benefit to Wessex Water; secondary benefit to others
Discretionary expenditure (b) – equal benefit to Wessex Water and to others
Discretionary expenditure (c) – primary benefit to others; secondary benefit to Wessex Water