WESSEX WATER ENTERPRISES LTD

Annual report and financial statements
30 June 2019

Registered in England and Wales No. 02279151

SATURDAY
A8IDQX9V
A17 16/11/2019 #23
COMPANIES HOUSE

CONTENTS **Page**

STRATEGIC REPORT

Principal activities

The principal activities of the company are power generation, treatment of organic waste, gas to grid, solicitors' searches, laboratory services, and space rental. The Company has four 100% owned trading subsidiary companies (see note 11); GENeco Ltd which operates a food waste treatment plant, GENeco (South West) Ltd which operates two food waste disposal contracts, Enterprise Laundry Services Ltd which operates an industrial laundry and Wessex Utility Solutions Limited which undertakes construction projects for third parties. It operates in the same geographical area as Wessex Water Services Ltd (WWSL) which is a fellow subsidiary company of Wessex Water Ltd.

Company

The Company generated turnover of £32.4m (2018 - £31.5m) from a number of unregulated activities in the WWSL region. The Company has entered into a number of diverse activities to spread the risk should one activity no longer be viable. The turnover growth came from the power generation business. The activities are described below:

Organic waste treatment – this business accounts for 17% (2018 – 17%) of the turnover of the Company. Although it has no long-term contracts for the treatment of organic waste, the business has been established over a number of years and the market is holding up well. Organic waste generates a positive contribution to the Company.

Power generation – this business accounts for 55% (2018 – 51%) of the turnover of the Company and has three sources of power generation (combined heat and power plants, load management generators and turbines). The market and price for power fluctuates throughout the year and the success of the business depends on being available to supply power when the market demands it.

Solicitors' searches – this is a long-established activity providing information necessary for solicitors to complete property sales. The level of activity in this market is dependent upon the overall strength of the economy.

Gas to grid – the company operates a gas to grid plant at Avonmouth, Bristol sewage treatment works which takes gas generated from waste water treatment and injects it straight into the gas grid.

Other activities – these include the sale of industrial cooling water, NEST homes, laboratory services, composting of sewage by-products, sludge sales to farmers, and rental income from radio aerials.

The profit for the year after taxation was £9.9m (2018 – £11.2m). The Directors declared dividends of £7.25m during the year (2018 – £8m) and a final dividend of £3m in June 2019 (2018 - £3m).

Operating profit as a percentage of turnover was 29.9% (2018 – 34.3%) and has decreased due to two factors. Liquid Waste treated more waste, but the margin was squeezed by higher treatment charges from Wessex Water Services Ltd. Power Generation (Electricity & Gas) margin was impacted by the rise in electricity price and the impact this has on the Biogas payment made to WWSL.

During the year there was an additional loan of £2m (2018 - £nil) due to funding investment in a new Trowbridge Gas to grid line.

Subsidiaries

- *GENeco Ltd* – operates a food waste facility at Avonmouth, Bristol sewage treatment works which makes use of spare digester capacity to increase the generation of biogas from the food waste received. Turnover for the year was £2.8m (2018 - £2.9m).
- *GENeco (South West) Ltd* – during the year the Company operated contracts for the processing of food waste from two local county councils. The food waste is taken to the GENeco Ltd facility. Turnover for the year was £1.5m (2018 - £1.3m).
- *Enterprise Laundry Services Ltd* – this is a business providing industrial laundry services from a location in Bath. Turnover for the year was £0.9m (2018 - £0.9m)
- *Wessex Utilities Solutions Ltd* – this is a business undertaking engineering projects for third parties. Turnover for the year was £1.1m (2018 - £0.4m).

STRATEGIC REPORT *(continued)*

NEST Homes

Nest Homes was set up as a trading name within Wessex Water Enterprises Ltd. It looks at the residential development potential of redundant land held by Wessex Water Services Ltd. Once planning permission is gained, Nest Homes outsource construction and sales activities to third parties. The Bridport development was the first site progressed by Nest Homes in 2018 with 7 out of 14 properties being sold in the year to June 2019 (2018 -7).

Future Developments

Nest Homes is seeking to gain planning permission at four other sites. Construction is expected to start on all sites in 2019/20. First sales are not expected on these developments until 2019/20. A number of other significant sites are in the pipeline and being progressed for future years development.

Principal Risks

The Company's policy on risk identification and management is subject to regular review by the management team. The identification and management of risk is delivered through a tiered system of groups from operational staff, senior management and Directors. The Management Team reviews and holds ultimate responsibility for the risk process and for the identification and mitigation of risks.

The Management Team is in the process of setting up a formal risk register. Risks are an agenda item at the monthly management team meeting. Directors and senior staff discuss, review and issue actions on risks identified. The actions are reported upon until completion.

Regulatory. The Regulation and Systems manager reviews legislative changes and manages the relationship with the Environment Agency and other government bodies.

Operational resilience. The Director of Projects reviews with managers capital investment and maintenance requirements of the business. Asset conditions are assessed, then all capital investments proposals are risk scored. The schemes are prioritised based on significance and likelihood of occurrence.

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. As expected, the changes to the sentencing guidelines has resulted in an increase in recent prosecution fines for larger organisations which have, in some cases, been greater than £2m. Health and safety is of paramount importance to us with processes and procedures implemented through staff training and regularly monitored to maintain compliance and to protect people from harm.

Availability of new finance. A facility is in place with Wessex Water Limited to cover investment and growth. The facility size is reviewed by the Treasury department and Wessex Water Group Finance Director. The level of this facility is sufficient for current planned activities.

Resourcing and skills. There is already a recognised short-fall in STEM skills (Science, Technology, Engineering and Maths), which is compounded by the uncertainty from the Brexit vote and heightened in our region by the impact of the Hinkley Point C programme. It is expected that this situation will become worse and we have initiated a People Programme to help mitigate this risk.

Digital resilience. Most activities undertaken by the business are reliant on the availability of IT services and facilities and the company continues to examine ways in which IT resilience can be maintained and, where appropriate, improved. 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 also holds and processes large quantities of data which are considered sensitive within the meaning of the Data Protection Act. Failure to process and protect the data in the prescribed manner is an offence. The quarterly Information Security Forum maintains the focus on mitigating this risk.

Anti-competitive behaviour. The Wessex Water group have setup a competition team that meets monthly to consider emergent issues and risks and appropriate actions. Management and staff have completed a training programme and further mitigation is being implemented to address this risk.

STRATEGIC REPORT *(continued)*

All these risks are subject to active mitigation strategies and the Management Team considers that the Company is taking appropriate action to mitigate the severity and likelihood of those risks to an acceptable level. Many other areas which would be expected as standard areas for consideration, such as fraud, have been assessed and determined to be risks which are well controlled with current mitigations.

The strategic report was approved by the Board of Directors on 7th November 2019 and signed on its behalf by:

Mark Watts
Director

DIRECTORS' REPORT

The Directors present their report and accounts for the year to 30 June 2019.

Directors

The Directors of the Company during the year and subsequently were:

Colin Skellett
Mohammed Saddiq
Mark Watts

Colin Skellett and Mark Watts are also Directors of Wessex Utility Solutions Ltd, Wessex Concierge Ltd, Wessex Water Ltd, Wessex Water Services Ltd, Wessex Water Services Finance Plc, Wessex Engineering & Construction Services Ltd, GENeco Ltd, GENeco (South West) Ltd, YTL Land and Property (UK) Ltd and YTL Utilities (UK) Ltd.

Colin Skellett is also a Director of Enterprise Laundry Services Ltd and Bristol Wessex Billing Services Ltd. Mark Watts is also a Director of Albion Water Ltd and Flipper Ltd. Mohammed Saddiq is also a Director of GENeco (South West) Ltd, Albion Water Ltd and SC Technology AG.

Directors emoluments

Directors' emoluments and share interests in respect of services to group companies for Colin Skellett and Mark Watts are shown in the accounts of Wessex Water Ltd, the parent company. There were no material services to the Company.

Emoluments of Mohammed Saddiq in respect of services to group companies were as follows:

	Salary £000	Bonus £000	Benefits £000	Pension contributions £000	**Total 2018-19 £000**	Total 2017-18 £000
Mohammed Saddiq	209	188	17	42	**456**	381

Directors' share interests

a) *Share options*

The Directors were granted ordinary share options of Malaysian Ringgit RM0.50 each in YTL Power International Berhad, a subsidiary of the ultimate parent company YTL Corporation Berhad (see note 24). The share options held by Colin Skellett and Mark Watts are shown in the accounts of Wessex Water Ltd. The share options held by Mohammed Saddiq were as follows:

2011 UK Plan	At 30 June 2018	Exercise price RM	Date of grant	Exercise date	Expiry date	**At 30 June 2019**
Mohammed Saddiq	87,000	1.65	01/06/2012	01/06/2015	31/03/2021	**87,000**
Mohammed Saddiq	213,000	1.41	01/06/2012	01/06/2015	31/03/2021	**213,000**

b) *Shares held*

The ordinary shares of YTL Power International Berhad held by Mark Watts are shown in the accounts of Wessex Water Ltd.

DIRECTORS' REPORT *(continued)*

The modern slavery act 2015

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

Political donations

The Company made no political donations nor incurred any political expenditure during the year (2018: £nil).

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.

Other information

An indication of likely future developments in the business and particulars of significant events which have occurred since the end of the financial year have been included in the Strategic Report on page 2-4.

Disclosure of information to the 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.

Re-appointment of auditor

Following the resolution of the board, Ernst & Young LLP were reappointed as the auditor of the company for the current financial year.

By order of the Board,

Mark Watts, Director
Claverton Down
Bath BA2 7WW
7th November 2019

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT, THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

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

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

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

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

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

Opinion

We have audited the financial statements of Wessex Water Enterprise Limited for the year ended 30 June 2019 which comprise the Income Statement and Statement of Other Comprehensive Income, the Balance Sheet, Statement of Changes in Equity, the Cash Flow Statement and the related notes 1 to 27, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 30 June 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you were:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WESSEX WATER ENTERPRISES LIMITED *(continued)*

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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

Paul Mapleston

Paul Mapleston (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Bristol
Date: 7th November 2019

Income Statement and Statement of Other Comprehensive Income

For the year ended 30 June 2019

	Note	2019 £000	2018 £000
Revenue	3	**32,382**	31,494
Changes in inventories of finished goods and work in progress		**(1,455)**	(1,388)
Raw materials and consumables used		**(7,077)**	(5,818)
Staff costs		**(2,134)**	(1,756)
Depreciation and amortisation		**(1,714)**	(1,605)
Other expenses		**(10,318)**	(10,117)
Total expenses	5	**(22,698)**	(20,684)
Operating profit		**9,684**	10,810
Financial income	7	**561**	563
Financial expenses	7	**(205)**	(110)
Net financing income		**356**	453
Profit before tax		**10,040**	11,263
Taxation	8	**(168)**	(87)
Profit for the year		**9,872**	11,176
Other comprehensive income for the year, net of income tax		**-**	-
Total comprehensive income for the year		**9,872**	11,176

The notes on pages 14 to 31 are an integral part of these financial statements.

Balance Sheet

At 30 June 2019

	Note	**2019**	2018
		£000	£000
Non-current assets			
Property, plant and equipment	*10*	**17,214**	17,184
Investments in subsidiaries	*11*	**-**	-
		17,214	17,184
Current assets			
Inventories	*12*	**1,326**	232
Trade and other receivables	*13*	**14,669**	11,830
Cash and cash equivalents	*14*	**2,710**	4,412
		18,705	16,474
Total assets		**35,919**	33,658
Current liabilities			
Other interest-bearing loans and borrowings	*15*	**(19,750)**	(17,750)
Trade and other payables	*16*	**(14,876)**	(14,405)
		(34,626)	(32,155)
Non-current liabilities			
Deferred tax liabilities	*17*	**(1,151)**	(983)
		(1,151)	(983)
Total liabilities		**(35,777)**	(33,138)
Net assets		**142**	520
Equity			
Share capital	*18*	**-**	-
Retained earnings		**142**	520
Total equity		**142**	520

The notes on pages 14 to 31 are an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 7th November 2019 and signed on its behalf by:

Mark Watts
Director

Statement of Changes in Equity
For the year ended 30 June 2019

	Note	**Share capital £000**	**Retained earnings £000**	**Total equity £000**
Balance at 1 July 2017		-	344	344
Total comprehensive income for the year				
Profit for the year		-	11,176	11,176
Other comprehensive income		-	-	-
Total comprehensive income for the year		-	11,176	11,176
Transactions with owners, recorded directly in equity				
Dividends	*9*	-	(11,000)	(11,000)
Total contributions by and distributions to owners		-	(11,000)	(11,000)
Balance at 30 June 2018		-	520	520
Balance at 1 July 2018		-	520	520
Total comprehensive income for the year				
Profit for the year		-	9,872	9,872
Other comprehensive income		-	-	-
Total comprehensive income for the year		-	9,872	9,872
Transactions with owners, recorded directly in equity				
Dividends	*9*	-	(10,250)	(10,250)
Total contributions by and distributions to owners		-	(10,250)	(10,250)
Balance at 30 June 2019		-	142	142

Cash Flow Statement
For the year ended 30 June 2019

	Note	2019 £000	2018 £000
Cash flows from operating activities			
Profit for the year		**9,872**	11,176
Adjustments for:			
Depreciation, amortisation and impairment		**1,714**	1,605
Financial income		**(561)**	(563)
Financial expense		**205**	110
Taxation	8	**168**	87
		11,398	12,415
(Increase) / decrease in trade and other receivables		**(2,839)**	2,737
Decrease in inventories	12	**643**	23
(Decrease) in trade and other payables		**(2,529)**	(3,365)
		(4,725)	(605)
Tax paid	8	**-**	-
Net cash from operating activities		**6,673**	11,810
Cashflow used in investing activities			
Proceeds from sale of property, plant and equipment		**-**	79
Interest received		**61**	63
Dividends received		**500**	500
Acquisition of property, plant and equipment		**(3,481)**	(2,027)
Net cashflow used in investing activities		**(2,920)**	(1,385)
Cashflow used in financing activities			
Proceeds from new loan		**2,000**	-
Interest paid		**(205)**	(110)
Dividends paid		**(7,250)**	(8,000)
Net cashflow (used in)/from financing activities		**(5,455)**	(8,110)
Increase in cash and cash equivalents		**(1,702)**	2,315
Cash and cash equivalents at 1 July		**4,412**	2,097
Cash and cash equivalents at 30 June	14	**2,710**	4,412

Notes to the financial statements

1 Accounting policies

1.1 Basis of preparation

Wessex Water Enterprises Limited (the "Company") is a private company limited by shares, incorporated, domiciled and registered in England in the UK. The registered number is 2279151 and the registered address is Wessex Water Operations Centre, Claverton Down, Bath, BA2 7WW.

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

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

Judgements made by the Directors, in the application of these accounting policies, that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 27.

Group accounts have not been prepared as under section 400 of the Companies Act 2006 the Company and its subsidiaries are included in the consolidated financial statements of Wessex Water Ltd (see note 24).

1.2 Measurement convention

The financial statements are prepared on the historical cost basis.

1.3 Going concern

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

1.4 Foreign currency

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

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

1.5 Financial instruments

Cash and cash equivalents

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

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. The Company initially measures a financial asset at its fair value plus transaction costs.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

Notes to the financial statements *(continued)*

1. Accounting policies *(continued)*

1.3 Financial instruments (continued)

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Subsequent measurement

Financial assets at amortised cost (receivables)

This category is the most relevant to the Company. The Company measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and;
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to expected credit loss. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Company's financial assets at amortised cost includes intercompany loans receivable in less than 12 months.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Company's statement of financial position) when:

- The rights to receive cash flows from the asset have expired, or;
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Company's financial liabilities include trade and other payables and intercompany loans.

Subsequent measurement - Loans and borrowings

This is the category most relevant to the Company. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

Notes to the financial statements *(continued)*

1.6 Property, plant and equipment

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

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

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

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

Land and buildings	10 to 60 years
Plant, equipment and vehicles	3 to 30 years

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date. Assets under the course of construction are not depreciated until brought into use.

1.7 Inventories

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

1.8 Impairment excluding inventories and deferred tax assets

Financial assets (including receivables)

For trade receivables and contract assets that are expected to have a maturity of one year or less, the Company has applied the practical expedient and followed the simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date.

The Company considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

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

Notes to the financial statements *(continued)*

1.9 Employee benefits

Defined benefit plans

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

Employees in defined benefit plan scheme are Wessex Water Services Limited employees. Amounts included in the Wessex Water Enterprises Limited financial statements relate to intercompany recharges for their services.

Defined contribution plans

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

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

Short-term benefits

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

Share-based payment transactions

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

Notes to the financial statements *(continued)*

1.10 Revenue

The group adopted IFRS 15 using the modified retrospective method of adoption. The effect of the transition on the current period has not been disclosed as the standard provides an optional practical expedient.

Power generation and Gas to Grid

The Company generates green electricity and gas from combined heat and power plants along with the Biomethane plants which are accredited with government incentive schemes. The schemes run for twenty years from application and are based on fixed tariffs plus inflation each year. Renewable Obligation Certificates (ROCs) are issued monthly relating to the supply of green electricity to the grid with meter readings and submissions subsequently checked by OFGEM. Revenue is therefore recognised in the period to which it relates.

Organic waste treatment

Customers waste is categorised as domestic or controlled. The agreements for treatment of controlled waste are short term and acceptance of all waste is determined by available treatment capacity at Wessex Water Services Ltd sewage treatment works.

Domestic waste has an annual fixed tariff which has three tiers for strength of waste based on suspended solids and chemical oxygen demand. Waste is either measured using sludge loggers or from samples taken from the tanker sent to Wessex Water laboratory for analysis. Controlled waste is organic waste coming from industrial processes such as food processing and landfill leachate. Each individual waste stream is sampled with the suspended solids and chemical oxygen demand determining a treatment charge which is agreed with the customer.

Revenue is recognised in the period the waste was treated, the acceptance of waste from the customer being the fulfilment of the performance obligation.

Solicitors' searches

The Company trades under the brand 'Wessex Searches' delivering the CON29DW product, a drainage and water search. Solicitors, search agencies and individuals are supplied with mapping information of water supply and sewage pipes relating to an individual residential or commercial property. Associated products are also procured from third parties such as local councils, mining authority and environmental search providers and sold as a package within the COND29DW product.

The fee charged for these services covers a specific product supplied at a particular point with the revenue being recognised at this point.

NEST Homes

As described in the Strategic Report when land has been acquired and planning permission is gained construction and sales activities are outsourced to third parties. Revenue for the sale of properties is recognised at the point of completion of the sales transaction.

1.11 Grants and contributions

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

1.12 Expenses

Operating lease payments

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

Notes to the financial statements *(continued)*

1.12 Expenses (continued)

Financing income and expenses

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

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

1.13 Taxation

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

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

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

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

1.14 Dividends

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

1.15 Adopted IFRS not yet applied

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

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

- Classification and Measurement of Share-Based Payment Transactions – Amendments to IFRS 2
- Annual Improvements to IFRSs – 2014-2016 Cycle
- Annual Improvements to IFRSs – 2015-2017 Cycle

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

IFRS 16 Leases

IFRS 16 Leases is effective from 1 January 2019. This standard replaces IAS 17 Leases and sets out the principles for the for the recognition and, measurement, presentation and disclosure of leases. As the Company owns most of its assets outright the adoption of this standard will not have a significant effect on the Company's results or financial position. As the lessee, current estimates indicate right of use assets and lease liabilities of approximately £0.2m each will be incorporated into the Company's financial position.

Notes to the financial statements *(continued)*

2. Changes in accounting policies and disclosures

2.1 New and amended standards and interpretations

The Company applied IFRS 15 and IFRS 9 for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the financial statements of the Company. The Company has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Company adopted IFRS 15 on 1 July 2018, applying the standard retrospectively with the cumulative effect of initial application recognised at the date of initial application as an adjustment to retained earnings. Prior period comparatives have therefore not been restated and are presented in accordance with IAS 18. The Company has elected to use the practical expedient whereby any contracts that were completed in accordance with accounting standards as at 30 June 2018 need not be restated on an IFRS 15 basis.

On reviewing the existing accounting treatment, management have concluded there will be no financial impact under IFRS15.

IFRS 9 Financial Instruments

The company has adopted IFRS 9 'Financial Instruments: Recognition and Measurement' as at 1 July 2018 and applied the new rules using a modified retrospective approach, including the practical expedients permitted in the standard, where applicable. The Company has undertaken an assessment of its accounting policy as a result of the changes in the standard:

Classification and Measurement

The review included as assessment of the contractual cash flow characteristics of financial instruments, in order to determine their classification and measurement under IFRS.

Management's assessment was to consider whether the contractual cash flows of the financial instruments represented solely payments of principal and interest (SPPI) in order to determine whether the financial instruments should be classified at amortised cost of fair value through profit and loss.

Management concludes that the financial instruments should continue to be held at amortised cost. There are no charges in classification or measurement of its assets and liabilities as a result of adopting IFRS 9.

IFRS 9 introduces a new impairment model which requires the recognition of impairment provision based on expected credit losses rather than incurred credit losses, as we required under IAS 39.

A credit loss in respect of a financial asset measured at amortised cost is calculated as the difference between its' carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. An expected credit loss is then calculated by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

Notes to the financial statements *(continued)*

3. Revenue from contracts with customers

	2019	2018
	£'000	£'000
Recognised at a point in time		
Organic Waste	**5,559**	5,383
Housing development	**1,913**	1,830
Other Income Streams	**4,540**	5,547
	12,012	12,760
Recognised over a period of time		
Power Generation	**17,723**	16,135
Other Income Streams	**2,647**	2,599
	20,370	18,734
	32,382	31,494

Other income streams at a point in time includes solicitors' searches. Other income streams over time includes the sale of industrial cooling water.

4. Segmental analysis

	2019	2018
	£'000	£'000
Operating profit		
Organic Waste	**(448)**	(55)
Housing developments	**420**	442
Power Generation	**8,531**	8,295
Other Income Streams	**1,181**	2,128
	9,684	10,810

For management purposes, the Company is organised into units based on the business environment it operates in and has four reportable segments.

The board monitors the operating results of business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on a combination of Turnover and Operating profit and is measured consistently with the consolidated financial statements.

5. Expenses and audit fee information

	2019	2018
	£000	£000
Included in profit/loss are the following:		
Auditor's fees:		
Audit of these financial statements	**10**	5
	10	5

Notes to the financial statements *(continued)*

6. Staff numbers and costs

	2019	2018
Average number of employees	**44**	36

The aggregate payroll costs of these employees was:

	2018	2018
	£000	£000
Wages and salaries	**1,912**	1,513
Social security costs	**211**	165
Pension costs	**201**	164
	2,324	1,842
These costs were allocated as follows:		
Capitalised to tangible assets	**190**	86
Operating expenses	**2,134**	1,756
	2,324	1,842

The Directors' emoluments have been disclosed in the Directors' Report (see page 5).

7. Finance income and expense

Recognised in the income statement

	2019	2018
	£000	£000
Finance income		
On loans to subsidiary companies	**61**	63
Dividends from subsidiary company	**500**	500
Total finance income	**561**	563
Finance expense		
On loans from parent company	**(180)**	(110)
On bank loans and leases	**(25)**	-
Total finance expense	**(205)**	(110)

Notes to the financial statements *(continued)*

8. Taxation

a) Recognised in the income statement

	2019 £000	2018 £000
Current tax expense		
Current year	-	-
Deferred tax expense		
Origination and reversal of temporary differences	157	84
Adjustments for prior years	11	3
Deferred tax expense	168	87
Tax expense in income statement	168	87

b) Reconciliation of effective tax rate

	2019 £000	2018 £000
Profit for the year	9,872	11,176
Total tax expense	168	87
Profit excluding taxation:	10,040	11,263
Tax using the UK corporation tax rate of 19% (2018 - 19%)	1,908	2,140
Non-deductible expenses	185	182
Tax exempt revenues	(95)	(95)
Under provided in prior years	11	3
Group relief for nil consideration	(1,841)	(2,142)
Other	-	(1)
Total tax expense	168	87

The statutory rate of corporation tax was 19% for the current and prior year. Deferred tax balances have been measured at 17% in both periods, in line with legislation introduced as part of the Finance Act 2016.

9. Dividends

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

	2019 £000	2018 £000
Dividends for the current year	7,250	8,000
Final dividend	3,000	3,000
	10,250	11,000

Notes to the financial statements *(continued)*

10. Property, Plant and Equipment

	Land & buildings £000	Plant, equipment & vehicles £000	Total £000
Cost			
Balance at 1 July 2017	3,508	23,230	26,738
Additions	27	2,015	2,042
Balance at 30 June 2018	3,535	25,148	28,683
Balance at 1 July 2018	3,535	25,148	28,683
Additions	68	3,413	3,481
Transfer to inventories	(500)	(1,236)	(1,736)
Disposals	-	-	-
Balance at 30 June 2019	**3,103**	**27,325**	**30,428**
Depreciation and impairment			
Balance at 1 July 2017	(872)	(9,025)	(9,897)
Depreciation charge for the year	(53)	(1,568)	(1,621)
Disposals	-	18	18
Balance at 30 June 2018	(925)	(10,575)	(11,500)
Balance at 1 July 2018	(925)	(10,575)	(11,500)
Depreciation charge for the year	(54)	(1,660)	(1,714)
Balance at 30 June 2019	**(979)**	**(12,235)**	**(13,214)**
Net Book Value			
At 1 July 2017	2,636	14,205	16,841
At 30 June 2018	2,610	14,573	17,183
At 30 June 2019	**2,124**	**15,090**	**17,214**

Assets under construction included in the values above were £5,127k (2018 - £3,549k).

Notes to the financial statements *(continued)*

11. Investments in subsidiaries

The Company has the following investments in subsidiaries.

	Country	Registered number	Class of shares held	Ownership 2019	2018
Subsidiary					
GENeco Ltd	UK	06842738	ordinary	**100%**	100%
GENeco (South West) Ltd	UK	09326393	ordinary	**100%**	100%
Enterprise Laundry Services Ltd	UK	08488681	ordinary	**100%**	100%
Wessex Utility Solutions Ltd	UK	06718997	ordinary	**100%**	100%

The registered address of all these subsidiary companies is Wessex Water Operations Centre, Claverton Down Road, Bath, BA2 7WW.

12. Inventories

	2019	2018
	£000	£000
Raw materials and consumables	**222**	232
Work in progress	**1,104**	-
	1,326	232

13. Trade and other receivables

	2019	2018
	£000	£000
Trade receivables	**875**	950
Owed by subsidiary companies	**8,890**	8,193
Owed by immediate holding company	**-**	115
Accrued income	**4,904**	2,572
	14,669	11,830

Trade and other receivables are due in under one year.

All outstanding related party receivable balances are owed on commercial terms and arise through normal business operations. The Company has considered the present value of the contractual cash flows and compared this to a prudent assessment of the present value of the cash flows that are expected to be received. Having performed this assessment, the Company has determined that no material expected credit loss provisions are required as at year-end for related party balances owed.

Notes to the financial statements *(continued)*

14. Cash and cash equivalents

	2019	2018
	£000	£000
Cash at bank	**2,710**	4,412

15. Other interest-bearing loans and borrowings

	2019	2018
	£000	£000
Current liabilities		
Loans from immediate holding company	**19,750**	17,750

£16,500k (2018: £14,500k) has been borrowed from the parent company on a rolling 3-month basis with interest set at GBP Libor plus 0.75% each period. This loan can be rolled over every 3 months until September 2021. A further loan of £3,250k (2018: £3,250k) has been borrowed from the parent company at no interest.

16. Trade and other payables

	2019	2018
	£000	£000
Current		
Payable to immediate holding company	**25**	21
Payable to fellow subsidiaries	**9,303**	9,417
Trade payables	**547**	154
Dividend	**3,000**	3,000
Corporation tax	**113**	113
Other Taxes and social security	**57**	122
Accruals and deferred income	**1,831**	1,578
	14,876	14,405

Notes to the financial statements *(continued)*

17. Deferred Tax

Recognised deferred tax liabilities

Deferred tax liabilities are attributable to the following:

	Liabilities		Assets		Net	
	2019	2018	**2019**	2018	**2019**	2018
	£000	£000	**£000**	£000	**£000**	£000
Property, plant and equipment	**1,160**	992	**-**	-	**1,160**	992
Provisions	**(9)**	(9)	**-**	-	**(9)**	(9)
Tax (assets) / liabilities	**1,151**	983	**-**	-	**1,151**	983

Movement in deferred tax during the year

	1 July 2018 £000	Recognised in income £000	Recognised in equity £000	**30 June 2019 £000**
Property, plant and equipment	992	168	-	**1,160**
Provisions	(9)	-	-	**(9)**
	983	168	-	**1,151**

Movement in deferred tax during prior year

	1 July 2017 £000	Recognised in income £000	Recognised in equity £000	30 June 2018 £000
Property, plant and equipment	905	87	-	992
Provisions	(9)	-	-	(9)
	896	87	-	983

18. Capital and reserves

Ordinary shares

	2019	2018
	£	£
Allotted, called up and fully paid		
100 Ordinary shares of £1 each	**100**	100
Shares classified in shareholders' funds	**100**	100

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

Notes to the financial statements *(continued)*

19. Financial instruments

There are no financial instruments in the Company apart from trade payables and receivables, the bank overdraft and loan from immediate holding company disclosed in note 15.

(a) Credit risk

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

Cash and cash equivalents are short term deposits with counterparties that have a credit rating of A1+/P1 or A1/P1, and hence there is minimal exposure to credit risk for these values.

	2019	2018
	£000	£000
Cash and cash equivalents	**2,710**	4,412
	2,710	4,412

Billed and unbilled receivables are from business customers. Set out below is the information about the credit risk exposure on the Company's trade receivables.

Amounts receivable from customers

	2019	2018
	£000	£000
Billed receivables	**930**	1,005
Unbilled receivables	**4,904**	2,572
Expected credit losses	**(55)**	(55)
	5,779	3,522

Under IFRS 9:	**Gross**	**ECL rate**	**Impairment**
	2019	**2019**	**2019**
	£000	**%**	**£000**
Less than 1 year	**5,834**	**0.9%**	**(55)**
	5,834		**(55)**

Under IAS 39:	Gross	Impairment rate	Impairment
	2018	2018	2018
	£000	%	£000
Less than 1 year	3,577	1.5%	(55)
	3,577		(55)

The comparatives for 2018 have been presented under IAS 39 as the Company adopted IFRS 9 at 1 July 2018.

Notes to the financial statements *(continued)*

19. Financial instruments *(continued)*

(b) Liquidity risk

Financial risk management

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

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

	Carrying amount	**Contractual cash flows**	**Year 1**	**Years 2-5**	**Over 5 years**
	2019	**2019**	**2019**	**2019**	**2019**
	£000	**£000**	**£000**	**£000**	**£000**
Non-derivative financial instruments					
Inter-company loans	19,750	20,074	259	19,815	-
Total financial instruments	19,750	20,074	259	19,815	-

	Carrying amount	Contractual cash flows	Year 1	Years 2-5	Over 5 years
	2018	2018	2018	2018	2018
	£000	£000	£000	£000	£000
Non-derivative financial instruments					
Inter-company loans	17,750	18,157	181	17,976	-
Total financial instruments	17,750	18,157	181	17,976	-

(c) Market risk

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

Interest rate risk

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

	2019	2018
	£000	£000
Fixed rate instruments	**3,250**	3,250
Floating rate instruments	**16,500**	14,500
	19,750	17,750

Sensitivity

The floating rate instruments are sensitive to interest rate movements. If there was a 1% increase in interest rates on those floating rate instruments at the balance sheet date, there would be an additional interest charge to the income statement of £165k (2018: £145k).

Notes to the financial statements *(continued)*

20. Capital Management

For the purpose of the Company's capital management, capital includes issued capital, share premium and all other equity reserves attributable to the equity holders of the parent. The primary objective of the Company's capital management is to maximise the shareholder value.

The Company manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the financial covenants. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

21. Operating Leases

Non-cancellable operating lease rentals payable by the Company were £25k (2018: £25k). Future leasing commitments are as follows:

	2019
Term	**£'000**
Less than one year	25
One to two years	47
Two to five years	15
More than five years	448
Total	**535**

During the year £78k was recognised as an expense in the income statement in respect of operating leases (2018: £45k).

22. Commitments

Wessex Water Enterprises Ltd has provided performance guarantees on behalf of a subsidiary company of £500k (2018 - £500k).

23. Contingencies

Claims under the Environmental Information Regulations 2001 (EIR)

The Company has been notified of potential claims under the EIR relating to charges levied for drainage and water searches carried out since 2004, which it is argued should have been provided free of charge. The potential value of the claims is unclear, as very little detail has been provided, however we intend to defend all claims.

24. Ultimate parent company and parent company of the larger group

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

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

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

Notes to the financial statements *(continued)*

25. Significant transactions with related parties

There were no transactions with Directors or senior managers.

Directors' emoluments have been disclosed in the Director's Report.

There have been no transactions with pre-penultimate, penultimate and ultimate holding companies described in note 24.

	2019	2018
	£000	£000
Sales of goods and services:		
Subsidiaries	**20**	177
Fellow subsidiaries	**4,447**	3,565
Immediate holding company	**268**	-
Dividend Income:		
Subsidiaries	**500**	500
Interest Income:		
Subsidiaries	**61**	63
Interest expense:		
Immediate holding company	**180**	110
Purchase of goods and services:		
Subsidiaries	**1,883**	1,818
Fellow subsidiaries	**9,712**	8,841
Year-end balances owing by:		
Subsidiaries	**8,894**	8,193
Immediate holding company	**-**	115
Year-end balances owing to:		
Fellow subsidiaries	**9,303**	9,417
Immediate holding company	**22,775**	20,771

26. Subsequent events

There are no subsequent events requiring disclosure in these financial statements. The final dividend for the year of £3,000k was declared in June 2019 and paid in July 2019

27. Accounting estimates and Judgements

In preparing the financial statements and applying the accounting policies, the Company is required to make reasonable estimates and judgements based on the available information. The most significant is the asset lives used to determine depreciation disclosed in note 1.