

# WESSEX WATER SERVICES LTD

Accounts for the year to  
30 June 2006

Registered in England and Wales No. 2366648

## DIRECTORS' REPORT

The directors present their report and the audited accounts for the year to 30 June 2006.

## PRINCIPAL ACTIVITIES

The principal activities of the company are the supply of clean water and the treatment and disposal of waste water.

## FINANCIAL AND OPERATIONAL REVIEW

### OVERVIEW

This year we have delivered all the quality and environmental outputs expected in the year and are on course to meet all our future outputs.

Our customers continue to receive some of the highest levels of service in the country and Wessex Water was the only company to receive Ofwat's top star rating for all seven key areas of service.

Our overall performance assessment from our regulator, Ofwat, is at an all time high.

On top of this we achieved compliance rates for drinking water, sewage treatment and bathing water which are among the best in the country.

Wessex Water has also been awarded the prestigious Charter Mark for the fifth time in a row. It is the only water and sewerage company to have retained the award for its entire business since Charter Mark was introduced in 1992.

And in a year marked by supply problems in some parts of the south east, Wessex Water's management of its water resources meant that customers avoided water restrictions once again. We have maintained leakage below the regulatory target and do not anticipate any supply problems in 2006/2007.

We have risen to the challenge of the last price review by continued efficiency improvements which have enabled us to outperform against the financial assumptions made by Ofwat. This outperformance benefits investors in the short term and customers in the long term.

### FINANCIAL PERFORMANCE

Historic cost profit after tax increased by £27.1m from £49.0m (after restatement for the implementation of FRS 17) to £76.1m.

Turnover increased by £33.5m or 10.7% to £346.5m. Operational costs excluding depreciation increased from £104.0m to £104.9m due to the cost of meeting new standards, increases in business rates, regulatory charges, bad debts and inflation less real terms savings.

Depreciation charges (including the infrastructure maintenance charge and the disposal of assets) have increased by £3.1m as a result of the ongoing investment programme.

Net interest charges fell by £3.4m from £68.6m to £65.2m despite an increase in net debt of £22.2m from £1,135.5m to £1,157.7m. This was as a result of the financing undertaken last year and stable interest rates. There was a reduction of £0.4m in other finance costs shown on the interest line in respect of accounting for pensions under FRS 17.

There was a tax charge in the year of £15.7m, an increase of £6.2m over £9.5m charged last year. This was because:

- current year corporation tax increased by £22.5m (due to increased profits and a change to the tax treatment of expenditure on repairs)
- deferred tax reduced the overall charge by £16.3m (a credit of £9.9m this year compared with a £6.4m charge last year).

Dividends declared in the year amounted to £39.5m plus £12.7m final dividend for the prior year, compared to £42.1m last year. The final dividend for the year of £25.5m was declared and paid after the year end, making £65.0m for the full year based upon a policy of declaring 85% of historic cost profit after tax subject to satisfactory gearing levels being maintained. This final dividend was not recognised in the financial statements in line with the requirements of FRS 21 "Events after Balance Sheet Date".

The company fully adopted FRS 17 'Retirement Benefits' in these results. There was an opening scheme deficit of £71.4m which has reduced to £70.3m at 30 June 2006. Following the valuation in December 2004 employer and employee contribution rates were increased and the company also made a special contribution of £4.9m in December 2005.

The key performance indicators for the company are measured for the regulatory year to 31 March. These are included in the Regulatory Accounts of the company which can be obtained from Wessex Water Operations Centre, Claverton Down, Bath BA2 7WW.

Operating profit as a percentage of turnover was 45.8% (2005 – 41.2%) with the increase being a combination of cost control and increased turnover. Interest cover was 2.37 times (2005 – 1.83 times) with the increase being due to the refinancing undertaken last year and stable interest rates.

## OPERATIONAL REVIEW

### Water supply and water treatment

Maintaining supplies through careful management and targeted investment, Wessex Water has supplied water without restriction for 30 years. Rainfall across the region totalled 93% of the long term average during the year and resources remained healthy.

We have completed a major scheme to improve the security of supplies for Dorchester and to supply the expanding Poundbury development on the western side of the Dorset town. The works comprised new mains, a new pumping station and a service reservoir. We are also investing in a temporary treatment and pumping facility at Monkton Combe, near Bath, to ensure this source can be brought swiftly into use if necessary.

*Metering* – to encourage water conservation among our customers, we have introduced compulsory metering for households who use a water sprinkler.

*Leakage* – significant resources continue to be committed towards controlling leakage. We have maintained leakage rates below Ofwat's target level and have halved the repair time for dealing with leaks reported by customers. We have trialled and will be implementing new equipment which offers better control of pressures and better service for customers.

*Water supply enhancements* – we continue to maintain, and where necessary improve, the quality of drinking water and are investigating the impact our abstractions have on low river flows. We take an innovative approach by developing lowest whole life cost sustainable solutions rather than building conventional end-of-pipe treatment works. Our main areas of investment are:

- nitrates – due to the use of fertilisers in agriculture, the level of nitrate in raw waters is increasing gradually. We have or are carrying out work at Shapwick, near Blandford, Divers Bridge, near Warminster, Empool in south Dorset, Leckford Bridge near Collingbourne Ducis and Clarendon and Fovant near Salisbury, to ensure the quality of drinking water meets the required stringent standards. We are also working with farmers to encourage a reduction in the use of fertilisers
- water clarity – we are continuing to carry out work to improve the clarity of water from groundwater sources which can be affected during or after heavy rainfall
- pesticides – we are working with farmers to reduce the risk of pesticide contamination at three water supply sources. This work has included entering into a three year trial with three farms, near Weymouth, to assess the effects of a total ban on spraying pesticides
- iron – our 16 year programme of relining or replacing water mains across the region ended with work in Bath. More than £100m has been spent on improving our mains network to comply with the regulations for iron
- lead – we continue to replace customers' lead service pipes and encourage customers to replace their own lead plumbing.

*Maundown water treatment works* – work is under way to upgrade our largest treatment works which serves around 200,000 customers in west and central Somerset. This £25m project, due to be completed in 2009, will improve the quality of treatment and allow for an increase in capacity.

*Low river flows* – work to investigate the impact of our abstractions on rivers at risk in the region is well under way and encouraging results to maintain river flows were achieved in the Malmesbury Avon, Chitterne Brook and River Piddle. We are working in partnership with other stakeholders including environmental regulators to investigate and identify solutions to low flows in 13 other catchments in the region.

### Sewerage and sewage treatment

*Sewage discharges* – during the five years ending 2010, we plan to improve 25 unsatisfactory storm discharges that currently discharge diluted sewage to rivers following heavy rainfall. Over the past year we have completed improvements in Bristol, West Lulworth in Dorset, Somerton in Somerset and Malmesbury in Wiltshire.

We are investigating the impact of our treated sewage effluent discharges and storm sewage flows on nature conservation sites on the Somerset levels and moors and Dorset heaths. To comply with the EU Groundwater Directive we are investigating the effect of discharges from eight sewage treatment works. We have also continued our work in identifying and reducing the number of misconnections to the sewerage system which give rise to stream pollution.

*First time sewerage* – during this five year investment period we will bring mains sewerage to up to 20 rural communities to overcome public health or environmental problems. During the year we completed schemes at Seend Cleeve, near Melksham, Charlton Musgrove, near Wincanton and Pleck, near Marnhull.

*Sewage flooding* – we have reduced the number of properties at risk of internal and external sewage flooding. Where Ofwat excluded funding for some flooding problems, we are still planning to undertake some works to mitigate the flood risk using savings made on other projects. During the year, we investigated eight such schemes and works have either been undertaken or are in hand to provide some relief.

*Urban Waste Water Treatment Directive* – to comply with this European directive, we have eliminated 14 smaller discharges of untreated sewage to the environment by transferring flows to existing sewage treatment works. To reduce nutrient levels in the Bristol Avon river, phosphorus removal plants have been installed at Malmesbury and Chew Stoke sewage treatment works and at Bowerhill near Melksham.

At Kilve, near Minehead, the one remaining continuous coastal discharge in the region to receive primary treatment only, we have introduced secondary biological treatment. Six other works have also been upgraded to meet stricter effluent discharge standards. Work is also under way to install phosphorus removal at Wootton Bassett and to reduce nitrogen in the discharge from Poole sewage works to benefit Poole Harbour.

*Freshwater Fish Directive* – the sewage treatment works at Charlton Horethorne, near Wincanton, has been upgraded to meet this directive.

### **Customers and staff**

Wessex Water is committed to delivering ever higher standards of customer service. This year the company celebrated the award of the prestigious Charter Mark for the fifth time in a row – the only water and sewerage company to have retained the award for its entire business operation since it was introduced in 1992.

Our billing joint venture with Bristol Water, formed in 2001, has continued to achieve further improvements in the standards of service offered to customers while at the same time reducing costs.

*Debt recovery and affordability* – we are committed to helping customers who are unable to pay while improving the way we recover debt from customers who refuse to pay. To promote our initiative on debt, we have distributed widely our affordability leaflet *How Can We Help You?* and talked to organisations who come into contact with financially vulnerable people.

We continued our innovative pilot project with North East Somerset Citizens Advice Bureau and have set up a dedicated team within our debt recovery department to deal with customers struggling to afford to pay their bill. This team is forging effective working links with all advice agencies around the region. We are also linking up with the EDF Energy Trust and British Gas Trust Fund to ensure access to help with energy debt.

In February 2006 we launched Restart Plus which will run alongside our existing Restart scheme. Both schemes are designed to get customers who are having difficulty paying back on track. Restart Plus offers additional financial help for those in exceptional difficulty. Under Restart Plus we are also funding debt advice in the community by awarding grants to advice agencies in our region. All Restart Plus plans for individuals and funding grants to organisations are overseen by a panel chaired by our non executive customer director.

*Improving service* – we continue to achieve 100% compliance with three of the key customer service targets set by Ofwat. Our research into the quality of call handling shows that we are the leading water and sewerage company in England and Wales. Extensive customer research carried out during the year is helping us identify future improvements and strategies to meet the expectations of our customers.

*Business customers* – we continue to hold seminars and individual site visits with our business customers. To improve our service for local developers, we held four seminars in September 2005 to explain our services and receive feedback on areas for further improvement. As part of improvements to the business section of our company website, there is now a comprehensive section devoted to developer services enabling developers to access online application forms. We have also trialled new methods of communication with customers including text messaging.

*Customer guarantees* – through our Wessex Water Promise we continue to provide customer guarantees and compensation well in excess of the statutory guaranteed standards scheme. We have extended our guarantee scheme to include telephone as well as written responses to account queries. The maximum limit of £1,000 on compensation for internal sewage flooding has been removed and we have increased the minimum payments for sewage flooding to £150 for internal and £75 for external. We launched Sewage Floodline, a new dedicated 24 hours phone line for customers who have been flooded with sewage.

*Wessex Water Partnership* – during the year we introduced our community partnership programme – the Wessex Water Partnership. The Partnership brings together all of our community involvement including the Wessex Water Promise and Restart Plus. In addition it covers proactive help and advice on water conservation, a relaunch of our community support programmes and reinvestment of efficiency savings and customer service improvements.

*Employees* – we believe that our staff are essential to the success of the company and that it is vital they are provided with the right training, development and support to carry out their roles effectively. To meet the challenges of the future, a new structured training programme for leadership has been developed for supervisors and managers while an upskilling initiative has been introduced for our operators. To improve staff communication and working practices, a new three year project to develop the company intranet site has begun and is well under way.

### **Key issues facing the company**

As a company the major issues we face are:

*Cost inflation* – there is a growing mismatch between the input price inflation that we face and RPI that is making it increasingly difficult to make real-terms savings as measured against RPI.

Our operating costs are essentially made up of labour, power, chemicals, and uncontrollable regulatory charges and taxes. Over the last three years the weighted average increase in our input prices has been around 5% more than RPI.

*Water resources* – the recent drought in the south east has illustrated clearly to us that customers are not content to accept use restrictions except in extreme weather conditions. This gives a timely reminder to all companies to:

- ensure that assets are maintained in the appropriate condition and capacity
- repair leaks rapidly in order to maintain customer confidence in our operation of the network.

Wessex Water has not imposed use restrictions for 30 years. We believe that customers enjoy, and have paid for, this level of service. We will continue to plan and operate the network to maintain these standards.

*Meter options and bad debts* – the number of household meter switchers in 2005-06 increased again by 25%. There have already been further increases in meter applications in 2006-07. We perceive that much of the growth can be attributed to ‘word of mouth’, fuelled by continuing high price rises and the media. While saving money for some customers, we are aware that this change results in a rebalancing on to others and an income reduction for the company.

As predicted in our business plan, levels of bad debt continue to rise in both absolute terms and relative to the income we generate.

*Incentives for long-term, sustainable investment* – incentives (and indeed regulatory direction) need to be realigned to favour more sustainable options, such as local catchment management agreements. This is crucial if the Water Framework Directive is to be implemented in a sustainable way. We think of two issues in particular:

- whether five-year rolling incentives work effectively when the ‘pay back’ on a number of sustainable investments is often considerably longer?
- how can companies be encouraged to find sustainable solutions when there is a potential for that solution not to meet a regulatory output?

For example, contracting with the agricultural sector not to pollute may provide a sustainable and cost effective solution, but the outcome is not as certain as traditional end of pipe solutions.

### **EMPLOYMENT**

Wessex Water Services Ltd offers equal opportunities to all applicants for employment. Disabled people are considered for employment, training, career development and promotion on the basis of their aptitude and abilities, in common with all employees. Employees who become disabled whilst employed by the company are actively encouraged to find appropriate employment within the business. A high priority is given to employee communications which include team meetings, an employee newspaper, conferences and the wide availability of the company intranet.

### **ENVIRONMENT POLICY**

Wessex Water Services Ltd protects conserves and improves the environment and operates in a socially responsible manner. Working practices are continually revised as improved techniques and technologies become available. The company has an environmental advisory panel and an environmental and sustainability charter. A sustainability report is prepared indicating the progress made in this area during the year.

### **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 30 June 2006.

## **CHARITABLE DONATIONS**

During the year £43,000 was donated to UK charities (2005 - £70,000).

## **SUPPLIER PAYMENT POLICY**

The company does not follow any specific external code or standard on payment policy. The policy in respect of its suppliers is to agree the payment terms for transactions in advance and to make payments in accordance with those terms. At 30 June 2006 trade creditors represented approximately 30 days trade purchases (2005 - 30 days).

## **CORPORATE GOVERNANCE**

Wessex Water is committed to high standards of corporate governance. As a private company its shares are not listed on the stock exchange. However, under Condition F of its Instrument of Appointment as a water and sewerage undertaker ("the Licence") it is required to conduct its water and sewerage businesses as if they were the company's sole businesses as a public limited company. In so doing the directors take account of the principles of good governance in the Combined Code as approved for the purposes of the Listings Rules of the Financial Services Authority in the context of the company's circumstances as a private company with a single shareholder.

## **THE BOARD**

The board annually reviews and approves the company's Organisation and Control Arrangements which set out the principal duties of the board, matters reserved for its decision and the terms of reference of its committees. Matters reserved to the board include strategy, material changes to the company's management and control structure, approval of board appointments, award of material contracts, disposal of material assets, approval of the annual operating budget, significant changes in accounting policy, approval of dividend policy and defence or settlement of material litigation.

The board meets at least bimonthly.

The executive directors are appointed on one year rolling contracts. Three independent non-executive directors are appointed to the board in accordance with the requirements of Condition P of the Licence. Customer interests are further represented by the appointment of an independent customer director. Three non-executive directors are appointed by the company's sole shareholder.

## **BOARD COMMITTEES**

Three formal committees have been established:

- Risk Management and Audit Committee
- Remuneration Committee; and
- Nomination Committee.

### **Risk Management and Audit Committee**

The primary function of the committee is to review the reporting of financial and other information, the systems of internal control and risk management, the effectiveness and objectivity of internal and external processes and to maintain appropriate relationships with the company's external auditors KPMG Audit Plc. The terms of reference of the committee include all matters indicated by the Combined Code, and the committee considers any other corporate governance issues referred to it by the board.

The committee meets at least twice a year. Membership comprises three independent non-executive directors. The committee has access to the company's director of finance and regulation, the financial controller and the company's external auditors.

Members: D M Barclay, chairman, Mrs L C S Bennett and P J Costain.

## Remuneration Committee

The role of the Remuneration Committee is to ensure that the company's directors and senior managers are fairly rewarded for their overall contribution to company performance, giving due regard to market rates, individual performance and the financial health of the company. The committee reviews proposals for the total remuneration package, to include salary, bonus, pensions and other benefits as well as recommending policies and best practice. Salary levels are benchmarked against the HAY Industrial and Services Sector comparison of companies, with jobs sized in relation to scope, role, responsibilities and impact to determine salary. Bonus payments are made annually on the basis of a weighted average of individual performance against targets set, team and department performance, and company performance measured against Ofwat target standards of service.

The Remuneration Committee is exclusively comprised of non-executive directors of the board and meets during the year as necessary.

Members of the Remuneration Committee do not participate in decisions concerning their own remuneration.

Members: H Yeoh, chairman, D M Barclay, P J Costain, F Yeoh and M Yeoh.

## Nomination Committee

The Nomination Committee's duty 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 successional needs. David Barclay was appointed a non-executive director on 1 November 2005 and replaced Louis Sherwood who retired from the board at the end of March 2006. A tailored induction programme is provided for all new directors.

Members: H Yeoh, chairman, C F Skellett, F Yeoh and M Yeoh.

## INTERNAL CONTROL

The board maintains full control and direction over strategic, financial, risk management, organisational and regulatory issues.

The board has ensured that an organisational structure is in place that has defined lines of responsibility and delegation of authority. There are established systems for capital authorisations and asset disposal. Regular reviews of the key risk items that may affect the company are held at board level and in the Risk Management and Audit Committee. The board receives a management report detailing all relevant financial, operational and regulatory matters that affect the company.

The board ensures that the company maintains an internal audit department that is charged with carrying out reviews of capital expenditure and adherence to business and financial control procedures. The board receives regular updates on changes to the legal and regulatory framework within which the company's business operates.

The company secretary reports changes to corporate governance requirements and best practice to the board.

## DIRECTORS

The following were directors of the Company during the year and subsequently: -

C F Skellett - Executive Chairman  
D M Barclay – appointed 1 November 2005  
Mrs L C S Bennett \*\*  
Kathleen Chew +  
P J Costain \*  
P J L Dennis  
T K Harris  
Mrs K J Morgan OBE \* - resigned 31 July 2005  
J E Porritt \*  
D A Randle  
P L M Sherwood \* - resigned 31 March 2006  
Francis Yeoh #  
Hong Yeoh #  
Mark Yeoh #

\* Independent non-executive director  
# Non-executive director

\*\* Independent customer director  
+ Alternate director to Francis Yeoh

The following directors have been granted ordinary share options of Malaysian Ringgit RM0.50 each in YTL Power International Berhad.

	Opening number	Exercise price RM	Date of grant	Exercise date	Expiry date	Grant	Exercise	Closing number
TK Harris	2,000,000	1.32	13/12/2002	13/12/2005	30/11/2011	-	400,000	1,600,000
DA Randle	600,000	1.32	13/12/2002	13/12/2005	30/11/2011	-	120,000	480,000
	1,400,000	1.53	12/12/2003	12/12/2006	30/11/2011	-	-	1,400,000
PJL Dennis	-	1.82	16/05/2005	16/05/2008	30/11/2011	2,000,000	-	2,000,000

The market price of share options exercised in the year was RM2.10 and the gain on exercise for T K Harris was RM312,000 and for D A Randle RM93,600.

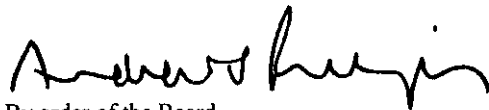
The interests in shares of Francis Yeoh, Hong Yeoh and Mark Yeoh are disclosed in the accounts of YTL Power International Berhad. There were no other interests in shares of group companies that are disclosable in these accounts.

#### DISCLOSURE OF INFORMATION TO AUDITORS

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 auditors are unaware; and each director has taken all the steps that ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

#### AUDITORS

In accordance with section 384 of the Companies Act 1985 a resolution to re-appoint KPMG Audit Plc as auditors of the Company will be proposed at the Annual General Meeting.



By order of the Board  
A J Phillips - Company Secretary  
19 September 2006



## **STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS**

The directors are responsible for preparing the Directors' report and the financial statements in accordance with applicable law and regulations. Under Company law they have elected to prepare the financial statements in accordance with UK Accounting Standards.

The financial statements are required by law to 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 and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

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

## REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF WESSEX WATER SERVICES LTD

We have audited the financial statements of Wessex Water Services Ltd for the year ended 30 June 2006, which comprise the Profit and Loss Account, Balance Sheet, Statement of Total Recognised Gains and Losses and the related Notes to the Accounts. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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.

### Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities on page 8, the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice). Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed. We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

### Basis of audit opinion

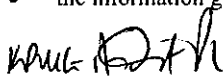
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 30 June 2006 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

  
KPMG Audit Plc  
Chartered Accountants and Registered Auditor  
100 Temple Street  
Bristol  
BS1 6AG  
19 September 2006

**PROFIT AND LOSS ACCOUNT**  
**For the year to 30 June 2006**

	NOTE	Year to 30.06.06 £m	Year to 30.06.05 £m restated
<b>Turnover</b>	2	346.5	313.0
Operating costs	3	(187.9)	(183.9)
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<b>Operating profit</b>	2	158.6	129.1
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Net interest payable	4	(66.8)	(69.4)
Net interest receivable	4	1.6	0.8
Other finance income	15	(1.6)	(2.0)
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<b>Profit on ordinary activities before taxation</b>		91.8	58.5
Taxation on profit on ordinary activities	5	(15.7)	(9.5)
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<b>Profit attributable to shareholders</b>		<u>76.1</u>	<u>49.0</u>

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

Details of restated items are shown in note 22.

The accompanying notes are an integral part of this profit and loss account.

**BALANCE SHEET**  
30 June 2006

	NOTE	30.06.06 £m	30.06.05 £m restated
<b>Fixed assets</b>			
Tangible assets	8	1,698.9	1,674.5
Investments	9	-	-
		<hr/>	<hr/>
		1,698.9	1,674.5
<b>Current assets</b>			
Stock and work in progress	10	4.8	2.5
Debtors	11	106.8	98.4
Short term cash investments		26.7	24.2
		<hr/>	<hr/>
		138.3	125.1
<b>Creditors - amounts falling due within one year</b>	12	(119.8)	(194.2)
		<hr/>	<hr/>
<b>Net current assets / (liabilities)</b>		18.5	(69.1)
		<hr/>	<hr/>
<b>Total assets less current liabilities</b>		1,717.4	1,605.4
<b>Creditors - amounts falling due after more than one year</b>	13	(1,180.0)	(1,081.9)
Provisions for liabilities and charges	14	(95.9)	(104.9)
Retirement benefit obligations	15	(50.4)	(51.2)
Deferred income	16	(21.9)	(21.7)
		<hr/>	<hr/>
<b>Net assets</b>	2	369.2	345.7
		<hr/> <hr/>	<hr/> <hr/>
<b>Capital and reserves</b>			
Called up equity share capital	17	81.3	81.3
Profit and loss account	18	287.9	264.4
		<hr/>	<hr/>
<b>Equity shareholders' funds</b>	19	369.2	345.7
		<hr/> <hr/>	<hr/> <hr/>

Details of restated items are shown in note 22.

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

These accounts were approved by the board of directors on 19 September 2006 and signed on its behalf by:

  
T K Harris  
Director

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**  
**For the year to 30 June 2006**

	<b>Year to 30.6.06 £m</b>	<b>Year to 30.6.05 £m restated</b>
Profit for the financial year	76.1	49.0
<hr/>		
Total recognised gains relating to the financial year	76.1	49.0
Actuarial gains / (losses) net of taxation	(0.4)	(11.3)
<hr/>		
<b>Total gains recognised since last annual report</b>	<b>75.7</b>	<b>37.7</b>
<hr/>		
Prior year adjustment – adoption of FRS 17	(79.3)	
<hr/>		
	<b>(3.6)</b>	
	<hr/> <hr/>	

**NOTES TO THE ACCOUNTS**  
**For the year to 30 June 2006**

**1 Accounting policies**

**a. Basis of preparation**

The financial statements have been prepared on a basis consistent with the last financial 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 1985.

In the financial statements the following new standards have been adopted for the first time:

- FRS 21 'Events after the balance sheet date'
- The presentation requirements of FRS 25 'Financial instruments: presentation and disclosure'; and
- FRS 28 'Corresponding amounts'.

Under FRS 21 final dividends payable are recognised only in the period in which they are declared and therefore become a liability, whereas previously under SSAP 17 dividends were accrued for when proposed. This resulted in an increase of £12.7m in reserves for the year ended 30 June 2005.

The recognition and measurement requirements of FRS 17 'Retirement Benefits' have also been adopted, previously the transitional disclosures of that standard had been followed.

Group accounts have not been prepared as under section 228 of the Companies Act 1985 the company and its subsidiary are included in the consolidated financial statements of Wessex Water Ltd (see note 25).

**b. Turnover**

Turnover represents income receivable in the ordinary course of business, excluding VAT, for services provided to third party customers. Income includes an estimate of the value of services provided between the last meter reading date and the year end.

**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 16). 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 schedule 4 of the Companies Act 1985 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. This is 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 provisions 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. Foreign currency balances 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. Gains and losses on these translations are taken to reserves net of exchange differences arising on related foreign currency borrowings.

**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 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 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.

**l. Cash flow**

Under Financial Reporting Standard 1 (revised 1996) the company is exempt from the requirement to prepare cash flow statements on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.

**m. Joint arrangements**

The company has certain contractual arrangements with other participants to engage in joint activities that do not create an entity carrying on a trade or business of its own. The company includes its share of assets, liabilities and cash flows in such joint arrangements in the financial statements.

n. **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.

o. **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.

p. **Interest rate instruments**

Interest rate instruments are 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.

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

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

2 **Segmental analysis**

Year to 30.06.06 £m	Year to 30.06.05 £m restated
---------------------------	---------------------------------------

Substantially all of the turnover, operating profit and net assets derive from the United Kingdom.

a. Turnover		
Regulated	343.0	309.6
Unregulated	-	-
Intra group	3.5	3.4
	<hr/>	<hr/>
	346.5	313.0
	<hr/>	<hr/>
b. Operating profit		
Regulated	158.6	129.1
Unregulated	-	-
	<hr/>	<hr/>
	158.6	129.1
	<hr/>	<hr/>
c. Net assets		
Regulated	369.2	345.7
Unregulated	-	-
	<hr/>	<hr/>
	369.2	345.7
	<hr/>	<hr/>
3 <b>Operating costs</b>		restated
Manpower costs (note 6b)	38.8	34.8
Materials and consumables	17.6	16.5
Other operational costs	48.5	52.7
Depreciation	82.0	80.6
Amortisation of grants and contributions	(0.8)	(0.8)
Loss on disposals of fixed assets	1.8	0.1
	<hr/>	<hr/>
	187.9	183.9
	<hr/>	<hr/>
Operating costs include:		
Operating leases for plant and machinery	1.6	3.0
Research and development	0.1	0.1
Directors' remuneration (note 6c)	0.8	1.0
Audit fees	0.1	0.1
	<hr/>	<hr/>



4 Net interest payable	Year to 30.06.06 £m	Year to 30.06.05 £m
Interest payable:		
To group companies	52.6	45.0
On bank loans	10.4	19.9
On finance leases	3.8	4.5
	<hr/>	<hr/>
Total interest payable	66.8	69.4
Interest receivable	(1.6)	(0.8)
	<hr/>	<hr/>
Net interest payable	65.2	68.6
	<hr/> <hr/>	<hr/> <hr/>
<b>5 Taxation</b>		restated
Current year corporation tax:		
UK corporation tax at 30%	8.5	3.5
Advance corporation tax due to parent company	17.1	7.2
	<hr/>	<hr/>
	25.6	10.7
Prior year corporation tax: adjustments in respect of previous years	-	(7.6)
	<hr/>	<hr/>
Total corporation tax charge	25.6	3.1
	<hr/> <hr/>	<hr/> <hr/>
Deferred tax – current year:		
Origination and reversal of timing differences	(1.3)	(0.4)
(Increase)/decrease in discount	(8.7)	7.1
	<hr/>	<hr/>
	(10.0)	6.7
Deferred tax – prior year:		
Origination and reversal of timing differences	1.0	1.8
(Increase) in discount	(0.9)	(2.1)
	<hr/>	<hr/>
	0.1	(0.3)
	<hr/>	<hr/>
Total deferred tax (credit)/charge	(9.9)	6.4
	<hr/> <hr/>	<hr/> <hr/>
Taxation charge on profit on ordinary activities	15.7	9.5
	<hr/> <hr/>	<hr/> <hr/>
b. Current tax reconciliation		
Profit on ordinary activities before tax	91.8	58.5
	<hr/>	<hr/>
Current tax at 30%	27.5	17.5
Group relief for nil consideration	(2.6)	(2.1)
Adjustments in respect of previous years	-	(7.6)
Capital allowances for the year lower/(greater than) depreciation	3.5	(2.5)
Payment of lease creditor capital	(1.9)	(1.9)
Other timing differences	(0.9)	(0.3)
	<hr/>	<hr/>
Total corporation tax charge - as above	25.6	3.1
	<hr/> <hr/>	<hr/> <hr/>

6 Directors and employees	Year to 30.06.06 £m	Year to 30.06.05 £m restated
a. Total employment costs of the company were:		
Wages and salaries	43.8	41.4
Social security costs	3.7	3.5
Other pension costs	9.3	8.1
	<u>56.8</u>	<u>53.0</u>
b. Total employment costs are charged as follows:		
Capital schemes	14.2	14.4
Infrastructure renewals expenditure	2.2	1.8
Other finance income	1.6	2.0
Manpower costs	38.8	34.8
	<u>56.8</u>	<u>53.0</u>
	<b>Year to 30.06.06 £000</b>	<b>Year to 30.06.05 £000</b>
c. Total directors' remuneration		
Salary and fees	616	557
Bonuses	165	148
Benefits in kind	36	42
	<u>817</u>	<u>747</u>
Compensation for loss of office	-	222
	<u>817</u>	<u>969</u>

The remuneration above is in respect of four executive directors (2005 – five) and nine non executive directors (2005 – eight).

Executive directors have one year rolling contracts of employment. In addition the executive directors received £565k (2005 - £512k) remuneration from other group companies. Three directors have benefits accruing under defined benefit pension schemes (2005 - five). The aggregate amount of company contributions to pension schemes in respect of directors was £87k (2005 - £94k).

On 3 July 2002, C F Skellett entered into a 5 year Consultancy Agreement of £0.2m per annum, with YTL Power International Berhad. The full £1.0m was paid in advance, less 8% Malaysian Withholding Tax.

d. Highest paid director		
Salary	122	113
Bonus	52	50
Benefits in kind	14	13
	<u>188</u>	<u>176</u>

The highest paid director had an accrued annual pension entitlement of £75,355 at 30 June 2006 (30 June 2005 - £67,619).

		30.06.06 number	30.06.05 number
e. Monthly average number of employees during the year	- Billing Services	292	275
	- All other staff	1,451	1,441
		<u>1,743</u>	<u>1,716</u>
	- Total	<u>1,743</u>	<u>1,716</u>

## 7 Dividends

The dividend policy of the company in respect of the interim dividends was to declare dividends based upon the current cost profits shown in the Regulatory Accounts.

	Year to 30.06.06 £m	Year to 30.06.05 £m restated
Final dividend in respect of a prior year but not recognised as a liability in that year of 15.61p per share on 81,350,000 ordinary shares (2005 – 15.00p)	12.7	12.2
Interim dividends of 48.56p per share on 81,350,000 ordinary shares (2005 – 36.75p)	39.5	29.9
	<hr/>	<hr/>
	52.2	42.1
	<hr/> <hr/>	<hr/> <hr/>

In accordance with FRS 21 "Events after Balance Sheet Date" the final dividend for 2005/06 declared and paid in July 2006 of £25.5m (31.35p per share) was not recognised in these financial statements.

## 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
<b>Cost</b>						
At 1 July 2005	603.1	911.3	769.3	75.2	47.6	2,406.5
Additions	3.5	24.2	20.3	2.9	65.2	116.1
Transfers on commissioning	2.1	1.5	3.8	1.4	(8.8)	-
Disposals	(0.5)	-	(8.3)	0.1	-	(8.7)
Grants and contributions	-	(6.9)	-	-	-	(6.9)
<b>At 30 June 2006</b>	<b>608.2</b>	<b>930.1</b>	<b>785.1</b>	<b>79.6</b>	<b>104.0</b>	<b>2,507.0</b>
<b>Depreciation</b>						
At 1 July 2005	128.6	226.8	331.1	45.5	-	732.0
Charge for the year	11.6	25.2	40.7	4.5	-	82.0
Disposals	(0.3)	-	(5.7)	0.1	-	(5.9)
<b>At 30 June 2006</b>	<b>139.9</b>	<b>252.0</b>	<b>366.1</b>	<b>50.1</b>	<b>-</b>	<b>808.1</b>
<b>Net book value</b>						
<b>At 30 June 2006</b>	<b>468.3</b>	<b>678.1</b>	<b>419.0</b>	<b>29.5</b>	<b>104.0</b>	<b>1,698.9</b>
At 1 July 2005	474.5	684.5	438.2	29.7	47.6	1,674.5

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 £83.7m (2005 - £90.1m).

The depreciation charge for the year on assets held under finance leases is £6.4m (2005 - £6.3m).

The net book value of infrastructure assets at 30 June 2006 is stated after the deduction of grants and contributions amounting to £91.5m (2005 - £84.6m) in order to give a true and fair view (note 1e).

Included in the cost of infrastructure assets is £244.2m (2005 - £225.3m) of expenditure on maintaining the network, and £252.0m (2005 - £226.8m) of depreciation included in the profit and loss account.

Included in freehold land and buildings above is an amount of £9.4m (2005 - £8.7m) in respect of land which is not depreciated.

## 9 Investments

The company has an investment of £13,000 (2005 - £13,000) in 100% of the £1 ordinary shares of a subsidiary company, Wessex Water Services Finance Plc.

	30.06.06 £m	30.06.05 £m
<b>10 Stock and work in progress</b>		
Raw materials and consumables	1.1	1.0
Work in progress	3.7	1.5
	<u>4.8</u>	<u>2.5</u>
<b>11 Debtors - amounts falling due within one year</b>		restated
Trade debtors	43.4	39.6
Owed by other group companies	22.5	19.5
Prepayments and accrued income	36.8	34.4
Other debtors	4.1	4.9
	<u>106.8</u>	<u>98.4</u>
<b>12 Creditors - amounts falling due within one year</b>		restated
Bank overdraft	3.5	-
Loans repayable	-	78.4
Obligations under finance leases	3.2	2.7
Trade creditors	2.6	5.2
Amounts owed to parent company	16.1	8.5
Amounts owed to subsidiary undertaking	23.0	23.0
Amounts owed to other group companies	0.6	0.6
Other creditors	1.9	1.6
Corporation tax	7.9	5.4
Taxation and social security	2.5	1.4
Accruals and deferred income	58.5	67.4
	<u>119.8</u>	<u>194.2</u>
<b>13 Creditors - amounts falling due after more than one year</b>		
Loans repayable - in more than 1 year, but not more than 2 years	-	-
- in more than 2 years, but not more than 5 years	96.6	21.6
- in more than 5 years	100.0	75.0
	<u>196.6</u>	<u>96.6</u>
Finance lease repayable - in more than 1 year, but not more than 2 years	3.7	3.2
- in more than 2 years, but not more than 5 years	15.0	13.0
- in more than 5 years	65.4	71.1
	<u>84.1</u>	<u>87.3</u>
Inter company loans - in more than 2 years, but not more than 5 years	299.0	298.7
- in more than 5 years	597.9	596.0
Other	2.4	3.3
	<u>1,180.0</u>	<u>1,081.9</u>

The inter company loans are due to a subsidiary company Wessex Water Services Finance Plc in respect of the proceeds of four bond issues lent to the company. A bond of £299.0m at an interest rate of 5.875% is repayable in March 2009, a £55.1m index linked bond at an interest rate of 3.83% plus inflation repayable in July 2023, a £345.1m bond issued at an interest rate of 5.75% and repayable in October 2033, and a £197.7m bond at an interest rate of 5.375% repayable in March 2028.

#### 14 Provisions for liabilities and charges

	Deferred tax £m	Restructuring costs £m	Total £m
At 1 July 2005 - restated	104.2	0.7	104.9
Provided in year	-	1.6	1.6
Utilised during year	-	(0.3)	(0.3)
Origination and reversal of timing differences	(1.0)	-	(1.0)
(Increase) in discount	(9.3)	-	(9.3)
<b>At 30 June 2006</b>	<b>93.9</b>	<b>2.0</b>	<b>95.9</b>

	30.06.06 £m	30.06.05 £m
Deferred tax is provided as follows:		restated
Accelerated capital allowances	306.2	306.7
Other timing differences	(1.6)	(1.1)
Undiscounted provision for deferred tax	304.6	305.6
Discount	(210.7)	(201.4)
Discounted provision for deferred tax	93.9	104.2

#### 15 Pensions

FRS 17 pension liability (see note 15e)	70.3	71.4
FRS 17 deferred tax asset	(21.1)	(21.4)
Unfunded and compensatory added years pension	1.2	1.2
	50.4	51.2

- 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 a separate trustee administered fund. 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 total pension cost for the year under FRS 17, including amounts set aside for early retirees and other finance income, was £9.3m (2005 - £5.3m under SSAP 24).
- The latest actuarial valuation for WWPS was undertaken at 31 December 2004. The assumptions which have the most significant effect on the results of a valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions. It was assumed that the investment returns would be 5.5%, that salary increases would average 3.9% per annum and that present and future pensions would increase at the rate of 3.0% per annum. The smoothed market value of the WWPS assets as at 31 December 2004 was £219.9m which represented 79% of the actuarial value of the accrued benefits, a deficit, after smoothing of £60.0m. The next actuarial valuation will be at 31 December 2007.

In response to this valuation the company has agreed to increase contributions to 17.5% of pensionable salaries from 1 June 2005. The company also agreed to pay further sums of £4.9m at 31 December 2006 and 2007 and, subject to a review at the next valuation date, £9.0m annually from 31 December 2008 through to 31 December 2015. In addition, members' contributions have increased.

- The actuarial valuation described above has been updated at 30 June 2006 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:

	30.06.06	30.06.05	30.06.04
Rate of increase in salaries	3.8%	3.5%	4.0%
Rate of increase in pensions in payment	2.8%	2.5%	3.0%
Discount rate	5.2%	5.0%	5.8%
Inflation assumption	2.8%	2.5%	3.0%

e. FRS 17 was fully adopted in these financial statements. The value of the assets and liabilities were as follows:

	30.06.06	30.06.05	30.06.04
	£m	£m	£m
Equities	109.5	98.8	85.1
Property	22.2	-	-
Government Bonds	86.5	83.6	86.7
Corporate Bonds	42.5	56.0	36.9
Cash	2.0	1.9	2.3
	<hr/>	<hr/>	<hr/>
Total fair value of the assets	262.7	240.3	211.0
Present value of scheme liabilities	(333.0)	(311.7)	(262.9)
	<hr/>	<hr/>	<hr/>
(Deficit) in the scheme	(70.3)	(71.4)	(51.9)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The expected rates of return were as follows:

	%	%	%
Equities	8.9	7.8	8.0
Property	7.2	-	-
Government Bonds	4.6	4.3	5.0
Corporate Bonds	5.0	4.9	5.5
Cash	4.6	4.8	4.8
	<hr/>	<hr/>	<hr/>
	6.7	5.9	6.3
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The contribution rate agreed for the next 2 years is 17.5% of pensionable earnings and lump sum contributions of £4.9m at December 2006 and 2007.

f. Additional analysis:

	30.06.06	30.06.05
	£m	£m
<b>Amount charged to operating profit</b>		
Current service cost	(6.7)	(5.6)
Past service cost (augmentations and early retirement costs)	(1.0)	(0.5)
	<hr/>	<hr/>
Total operating charge	(7.7)	(6.1)
	<hr/> <hr/>	<hr/> <hr/>
<b>Amount credited to other finance income</b>		
Expected return on pension scheme assets	14.0	13.2
Interest on pension scheme liabilities	(15.6)	(15.2)
	<hr/>	<hr/>
Net return / (cost)	(1.6)	(2.0)
	<hr/> <hr/>	<hr/> <hr/>
<b>Amount recognised in statement of recognised gains and losses</b>		
Actual return less expected return on pension scheme assets	5.1	18.7
Experience gains and losses arising on the scheme liabilities	(0.2)	(9.7)
Changes in assumptions underlying the present value of the scheme liabilities	(5.5)	(25.2)
	<hr/>	<hr/>
Actuarial (loss)/gain recognised in statement of recognised gains and losses	(0.6)	(16.2)
	<hr/> <hr/>	<hr/> <hr/>

			30.06.06 £m	30.06.05 £m
<b>Analysis of the movement in scheme surplus/(deficit) during the year</b>				
Surplus/(deficit) in scheme at the start of the year			(71.4)	(51.9)
Current service cost			(6.7)	(5.6)
Contributions paid			11.0	4.8
Past service costs			(1.0)	(0.5)
Other finance income			(1.6)	(2.0)
Actuarial (loss)/gain			(0.6)	(16.2)
			<hr/>	<hr/>
Surplus/(deficit) in scheme at the end of the year			(70.3)	(71.4)
			<hr/> <hr/>	<hr/> <hr/>
<b>History of experience gains and losses</b>				
	30.06.06	30.06.05	30.06.04	30.06.03
Difference between expected and actual return on scheme assets:				
Amount £m	5.1	18.7	4.3	(10.2)
Percentage of scheme assets	2.0%	7.8%	2.0%	(5.2)%
Experience gains/(losses) on scheme liabilities:				
Amount £m	(0.2)	(9.7)	(6.3)	(0.3)
Percentage of the present value of the scheme liabilities	(0.1)%	(3.1)%	(2.4)%	(0.1)%
Total amount recognised in STRGL:				
Amount £m	(0.6)	(16.2)	5.3	(36.6)
Percentage of the present value of the scheme liabilities	(0.2)%	(5.2)%	2.0%	(14.6)%
			<hr/>	<hr/>
			30.06.06 £m	30.06.05 £m
<b>16 Deferred income</b>				
Grants and contributions:				
At 1 July			21.7	21.1
Received in the year			1.0	1.4
Less amortisation			(0.8)	(0.8)
			<hr/>	<hr/>
At 30 June			21.9	21.7
			<hr/> <hr/>	<hr/> <hr/>
<b>17 Called up equity share capital</b>				
81,350,000 ordinary shares of £1 each:				
Authorised, allotted, called up and fully paid			81.3	81.3
			<hr/> <hr/>	<hr/> <hr/>
<b>18 Profit and loss account</b>				
At 1 July			331.0	327.2
Restated for pension accounting under FRS 17			(79.3)	(70.6)
Restated for dividend accounting under FRS 21			12.7	12.2
			<hr/>	<hr/>
Restated 1 July			264.4	268.8
Profit attributable to shareholders			76.1	49.0
Dividends (note 7)			(52.2)	(42.1)
Actuarial gains / (losses) net of taxation			(0.4)	(11.3)
			<hr/>	<hr/>
At 30 June			287.9	264.4
			<hr/> <hr/>	<hr/> <hr/>



	30.06.06 £m	30.06.05 £m
<b>19 Equity shareholders' funds</b>		
At 1 July	412.3	408.5
Restated for pension accounting under FRS 17	(79.3)	(70.6)
Restated for dividend accounting under FRS 21	12.7	12.2
	<hr/>	<hr/>
Restated 1 July	345.7	350.1
Profit attributable to shareholders	76.1	49.0
Dividends (note 7)	(52.2)	(42.1)
Actuarial gains / (losses) net of taxation	(0.4)	(11.3)
	<hr/>	<hr/>
At 30 June	<b>369.2</b>	<b>345.7</b>
	<hr/> <hr/>	<hr/> <hr/>

## 20 Financial instruments

Short term debtors and creditors have been excluded from the financial instruments disclosure other than £6.7m (2005 - £81.1m) of short term borrowings and £26.7m of short term cash investments (2005 - £24.2m).

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 30 June 2006 there were £250.0m (2005 - £250.0m) of undrawn facilities.

The company uses derivative financial instruments to reduce the exposure to foreign currency fluctuations and to limit exposure to floating interest rates.

### a. Interest rate and currency exposure

	Fixed rate borrowings 2006 £m	Floating rate borrowings 2006 £m	Total borrowings 2006 £m	Fixed rate borrowings 2005 £m	Floating rate borrowings 2005 £m	Total borrowings 2005 £m
Sterling	907.7	250.0	1,157.7	965.5	170.0	1,135.5
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

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

	Interest rate % 2006	Period years 2006	Interest rate % 2005	Period years 2005
Sterling	5.59	17.1	5.55	17.0
	<hr/>	<hr/>	<hr/>	<hr/>

£19.9m of floating rate net deposits (2005 - £3.1m) are short term, and £269.9m (2005 - £173.1m) are long term borrowings 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 2006	Fair value £m 2006	Book value £m 2005	Fair value £m 2005
(Cash) / borrowings less than 1 year	(19.9)	(19.9)	56.9	56.9
Floating rate borrowings over 1 year	269.9	269.9	173.1	173.1
Fixed rate borrowings over 1 year	907.7	953.1	905.5	976.0
	<hr/>	<hr/>	<hr/>	<hr/>
	<b>1,157.7</b>	<b>1,203.1</b>	<b>1,135.5</b>	<b>1,206.0</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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.

## 21 Commitments and guarantees

- a. There were no operating lease payments under leases on land and buildings due within the next year, which expire after 2 years. There are no commitments under other operating leases.
- b. At 30 June 2006 the company had interest rate and currency instrument agreements outstanding with commercial banks with a principal value of £10.8m (2005 - £70.8m).
- c. Capital expenditure contracted but not provided at 30 June 2006 was £84.0m (2005 - £48.7m).
- d. The company has guaranteed Bonds of £299.0m, £345.1m and £197.7m, and a £55.1m index linked Bond, issued by its wholly owned subsidiary company Wessex Water Services Finance Plc.

## 22 Prior year adjustment

As set out in note 1a, Accounting policies, the company has adopted FRS 17 in full in these financial statements. The full adoption this year of FRS 17 has had the following impact on the prior year accounts:

	2005 £m
Decrease in operating profit	(0.6)
Inclusion of pension finance cost	(2.0)
Decrease in tax on profit on ordinary activities	5.2
Increase in profit after tax	<u>2.6</u>
Reversal of SSAP 24 prepayment	(39.1)
Increase in deferred taxation debtor	31.2
Inclusion of pension liabilities	(71.4)
(Decrease) in net assets	<u>(79.3)</u>

The impact of the prior year adjustment on the net assets at 30 June 2005 represents the reversal of the SSAP 24 prepayment and inclusion of the FRS 17 liability, net of deferred tax. The impact of the prior year adjustment on the profit and loss account for the year ended 30 June 2005 represents the reversal of the SSAP 24 net pension charges, a £0.7m increase, and inclusion of the net pension charges and associated tax credit under FRS17, a £1.9m increase. It is not possible to demonstrate the impact on the current year figures due to the information on SSAP 24 being unavailable.

## 23 Contingent liabilities

A judgement made by the High Court in the year found that the defendant could not, by virtue of a charges scheme approved by the Water Services Regulatory Authority, bill for services that have not been provided. The judgement is subject to an appeal, however, if the appeal is dismissed the company may be liable for rebates to customers, in particular for sewerage services deemed not to have been received.

## 24 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 25), the company has taken advantage of the exemption contained in FRS 8 'Related Party Disclosures' and has therefore not disclosed transactions or balances with entities which form part of the group.

## 25 Ultimate parent company

The smallest group into which the accounts 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 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. Consolidated accounts are available on request from both these addresses.

## 26 Post balance sheet event

On 31 July 2006 a subsidiary company Wessex Water Services Finance Plc issued a £150.0m index linked bond at an interest rate of 1.75% plus inflation repayable in July 2046 and July 2051.