

WESSEX WATER LTD GROUP

CONSOLIDATED ACCOUNTS

For the year to
30 June 2004

Registered in England and Wales No. 2366633



DIRECTORS' REPORT

The directors present their report and the audited accounts for the year to 30 June 2004.

PRINCIPAL ACTIVITIES

The principal subsidiary of Wessex Water Ltd (the company) is Wessex Water Services Ltd (WWSL) a regulated company licenced for the supply of clean water and treatment and disposal of waste water. WWSL operates in a region of 10,000 square kilometres in the south west of England. On 1 April 2003 the unregulated activities of WWSL were transferred to Wessex Water Enterprises Ltd another wholly owned subsidiary of the company.

PROFIT AND DIVIDEND

Profit for the year after taxation was £76.4m (2003 - £67.4m). Dividends of £33.0m (2003 - £257.0m, including a special dividend of £210.0m) were declared in the year, and the directors propose a final dividend of £13.5m (2003 - £12.7m).

OPERATIONAL REVIEW

The group has continued to provide an excellent service and high quality standards for customers.

The Director General of Water Services announced on 25 November 1999 a 12% price cut for WWSL from 1 April 2000, before adjustment for inflation. The announcement also included level prices, before adjustment for inflation, for the years commencing 1 April 2001 and 1 April 2002, with price increases of 3.8% and 4.7%, before adjustment for inflation, for the years commencing 1 April 2003 and 2004 respectively.

In the last year WWSL has prepared and submitted draft and final business plans for the next price review period from April 2005. The plans have been reviewed by the Office of Water Services, Ofwat, who published a draft determination of price limits last month. The company wrote to Ofwat on 15 September 2004 highlighting a number of issues to be discussed with them at the company meeting in October. The final determination will be published by Ofwat in December 2004.

The acquisition of the company in May 2002, by YTL Power International Berhad, was financed in part through an acquisition facility taken out by YTL Utilities (UK) Ltd. The creation of the facility created time in which to consider the appropriate long term financial structure of the UK group. After considering the options carefully it was decided not seek to emulate other companies by creating a highly indebted, ring fenced structure for WWSL. Rather than this YTL injected an additional £200m of equity to repay broadly half of the acquisition facility. The residual £210m was then repaid by way of a special dividend from WWSL to the company and through to YTL Utilities (UK) Ltd.

DIRECTORS

The directors of the company during the year and subsequently were:

C F Skellett
T K Harris
Peng Koon Chin – appointed 7 July 2003 – alternate to Mark Seok Kah Yeoh
Choong Min Tan – appointed 7 July 2003 – alternate to Seok Hong Yeoh
Francis Sock Ping Yeoh *
Seok Hong Yeoh *
Seok Kian Yeoh *
Mark Seok Kah Yeoh *
Sock Siong Yeoh *
Tiong Lay Yeoh *

* Shares held in YTL Power International Berhad and YTL Corporation Berhad are disclosed in the accounts of those companies.

T K Harris was granted 1,000,000 ordinary share options of Malaysian Ringgit RM1.00 each in YTL Power International Berhad on 13 December 2002. The share option price was RM2.64 and the options are exercisable between 13 December 2005 and 12 December 2012. There were no other interests in shares of group companies that are disclosable in these accounts. During the year no director was materially interested in any contract with the company or with any of its subsidiaries.

EMPLOYMENT

Wessex Water Ltd group 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 group are actively encouraged to find appropriate employment within the group. A high priority is given to employee communications which include team meetings, an employee magazine, conferences and the wide availability of the company intranet.

ENVIRONMENT POLICY

Wessex Water Ltd group 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. WWSL 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 and ethical in the way we conduct our business. We treat one another, our customers and the environment with respect.

RESEARCH AND DEVELOPMENT

The group 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 group exceeds the book value of these assets at 30 June 2004.

CHARITABLE DONATIONS

During the year £50,000 was donated to UK charities (2003 - £60,000).

SUPPLIER PAYMENT POLICY

The group 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 2004 trade creditors represented approximately 30 days trade purchases (2003 - 29 days).

CORPORATE GOVERNANCE

WWSL is required, under Condition F of its Instrument of Appointment as a water and sewerage undertaker, to 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. Details of compliance are shown in the annual accounts of WWSL whose registered address is Wessex Water Operations Centre, Claverton Down, Bath, BA2 7WW.

AUDITORS

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
21 September 2004

DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the group and company and of the group's profit or loss for the period. In preparing those 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 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 group and company will continue in business.

The directors are responsible for keeping proper accounting records which 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 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.

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

We have audited the financial statements on pages 4 to 23.

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

The directors are responsible for preparing the directors' report and, as described above, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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 if, in our opinion, the directors' report is not consistent with the financial statements, if 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 transactions with the group is not disclosed.

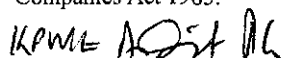
Basis of audit opinion

We conducted our audit in accordance with Auditing Standards 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 judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group'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 of the state of affairs of the company and the group as at 30 June 2004 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



KPMG Audit Plc
Chartered Accountants
Registered Auditor
21 September 2004

GROUP PROFIT AND LOSS ACCOUNT
For the year to 30 June 2004

	NOTE	Year to 30.06.04 £m	Year to 30.06.03 £m
Turnover	2	307.6	287.7
Operating costs	3	(182.6)	(175.2)
Operating profit	2	125.0	112.5
Net interest payable	5	(61.2)	(43.0)
Profit on ordinary activities before taxation		63.8	69.5
Taxation on profit on ordinary activities	6	12.6	(2.1)
Profit attributable to shareholders		76.4	67.4
Dividends	7	(46.5)	(269.7)
Transfer to reserves	18	29.9	(202.3)

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

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

BALANCE SHEETS
30 June 2004

	NOTE	Group		Company	
		30.06.04 £m	30.06.03 £m	30.06.04 £m	30.06.03 £m
Fixed assets					
Tangible assets	8	1,626.8	1,535.8	-	-
Investments	9	-	-	81.0	81.0
		1,626.8	1,535.8	81.0	81.0
Current assets					
Stock	10	3.5	4.4	-	-
Debtors - amounts falling due within one year	11	176.7	163.4	92.5	94.8
Debtors - amounts falling due after more than one year	11	-	-	29.4	22.7
Investments	12	0.4	0.7	0.4	0.7
		180.6	168.5	122.3	118.2
Creditors – amounts falling due within one year	13	(140.9)	(137.4)	(38.5)	(36.9)
Net current assets		39.7	31.1	83.8	81.3
Total assets less current liabilities		1,666.5	1,566.9	164.8	162.3
Creditors – amounts falling due after more than one year	14	(1,085.4)	(1,007.6)	-	-
Provisions for liabilities and charges	15	(77.3)	(84.6)	(0.7)	(0.5)
Deferred income	16	(21.1)	(21.9)	-	-
Net assets	2	482.7	452.8	164.1	161.8
Capital and reserves					
Called up equity share capital	17	131.8	131.8	131.8	131.8
Share premium account	18	28.8	28.8	28.8	28.8
Profit and loss account	18	322.1	292.2	3.5	1.2
Equity shareholders' funds	19	482.7	452.8	164.1	161.8

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

These accounts were approved by the board of directors on 21 September 2004 and signed on its behalf by:



T K Harris
Director

GROUP CASH FLOW STATEMENT
For the year to 30 June 2004

	NOTE	Year to 30.06.04 £m	Year to 30.06.03 £m
Net cash inflow from operating activities	20	204.2	187.4
Returns on investments and servicing of finance	21	(56.1)	(44.7)
Taxation		(0.3)	(0.1)
Capital expenditure and financial investment	22	(165.4)	(185.3)
Equity dividends paid		(45.7)	(272.3)
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Cash outflow before financing		(63.3)	(315.0)
Financing	23	68.1	312.6
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Increase/(decrease) in cash		4.8	(2.4)
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Reconciliation of cash movement to the movement in net debt			
Increase/(decrease) in cash - above		4.8	(2.4)
Movement in loans and leases		(68.1)	(312.6)
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Movement in net debt	24	(63.3)	(315.0)
Opening net debt	24	(990.4)	(675.4)
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Closing net debt	24	(1,053.7)	(990.4)
		<hr/> <hr/>	<hr/> <hr/>

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
For the year to 30 June 2004

	NOTE	Year to 30.6.04 £m	Year to 30.6.03 £m
Profit for the financial year		76.4	67.4
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Total recognised gains relating to the financial year		76.4	67.4
Foreign exchange adjustment		-	(0.4)
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Total gains recognised since last annual report		76.4	67.0
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NOTES TO THE ACCOUNTS
For the year to 30 June 2004

1 Accounting policies

a. Basis of preparation

The accounts have been prepared on a basis consistent with last financial period, 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 1g) in accordance with the Companies Act 1985. The group has adopted all applicable accounting standards up to and including FRS19 "Deferred Tax". The group has followed the transitional arrangements of FRS 17 "Retirement Benefits" in these financial statements.

b. Basis of consolidation

The consolidated financial statements include the financial statements of the company and its subsidiary undertakings made up to 30 June 2004. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the period are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal. Under section 230(4) of the Companies Act 1985 the company is exempt from the requirement to present its own profit and loss account.

An associate is an undertaking in which the group has a long term interest, usually from 20% to 50% of the equity voting rights, and over which it exercises significant influence. A joint venture is an undertaking in which the group has a long term interest and over which it exercises joint control. The group's share of the profits less losses of associates and of joint ventures is included in the consolidated profit and loss account and its interest in their net assets is included in investments in the consolidated balance sheet.

Where a group company is party to a joint arrangement which is not an entity, that company accounts directly for its part of income and expenditure, assets, liabilities and cash flows. Such arrangements are reported in the consolidated financial statements on the same basis.

c. Goodwill

Goodwill in respect of acquisitions before 1 January 1998, when FRS 10 "Goodwill and Intangible Assets" was adopted, was written off to reserves in the year of acquisition. When a subsequent disposal occurs any related goodwill previously written off to reserves is written back through the profit and loss account as part of the profit or loss on disposal.

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on consolidation in respect of acquisitions since 1 January 1998 is capitalised. Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life.

d. Turnover

Turnover for the group 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 period end.

e. 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

f. 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.

g. 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 (see 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 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 requirements 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.

h. 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.

i. Stock

Stock and work in progress are stated at the lower of cost and net realisable value. In respect of work in progress, costs include labour, materials and attributable overheads. Long term contract turnover and profit are recognised according to the value of work done. Where amounts received are different from the turnover recognised, they are included in debtors or creditors according to the circumstances of each individual contract.

j. 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. The results of overseas subsidiaries are translated at average rates of exchange for the year. The assets and liabilities of overseas subsidiary undertakings are translated at the closing exchange rates. Gains and losses on these translations are taken to reserves net of exchange differences arising on related foreign currency borrowings.

k. Interest rate instruments

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

l. 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. Advance corporation tax recoverable by deduction from future corporation tax is carried forward within deferred taxation.

m. Research and development

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

n. Pensions

The cost of providing benefits is charged to the profit and loss account on a basis designed to spread the cost over the expected average service lives of employees. Differences between the amounts funded and amounts charged to the profit and loss account are treated either as provisions or prepayments in the balance sheet. The pension scheme is of the defined benefit type, which is externally funded and valued by an independent actuary.

o. **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.

p. **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 costs in respect of the accounting period and reduced by payments made in the period.

q. **Cash and liquid resources**

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

	Year to 30.06.04 £m	Year to 30.06.03 £m
2 Segmental analysis		
Substantially all of the turnover, operating profit and net assets arise in the United Kingdom. Regulated activities represent the entire trade of Wessex Water Services Ltd. Unregulated activities comprise the trade of SC Technology GmbH and Wessex Water Enterprises Ltd as well as the holding company activities of Wessex Water Ltd.		
a. Turnover		
Regulated	285.4	266.0
Unregulated	22.2	21.7
	<hr/>	<hr/>
	307.6	287.7
	<hr/> <hr/>	<hr/> <hr/>
b. Operating profit		
Regulated	120.5	110.4
Unregulated	4.5	2.1
	<hr/>	<hr/>
	125.0	112.5
	<hr/> <hr/>	<hr/> <hr/>
c. Net assets		
Regulated	408.5	355.5
Unregulated	74.2	97.3
	<hr/>	<hr/>
	482.7	452.8
	<hr/> <hr/>	<hr/> <hr/>

	Year to 30.06.04 £m	Year to 30.06.03 £m
3 Operating costs		
Manpower costs (note 4b)	29.7	27.1
Materials and consumables	23.2	23.1
Other operational costs	53.1	52.4
Depreciation of fixed assets	76.8	73.0
Amortisation of grants and contributions	(0.8)	(0.8)
Loss on disposals of fixed assets	0.6	0.4
	<u>182.6</u>	<u>175.2</u>
 Operating costs include:		
Operating leases for plant and machinery	1.5	2.0
Research and development	0.1	0.1
Directors' remuneration (note 4d)	0.7	1.3
Remuneration to auditors - audit fees	0.2	0.2
- non audit fees	0.1	-
	<u>2.3</u>	<u>3.6</u>
 The auditors' remuneration in respect of the company was £30,000 (2003 - £30,000).		
4 Employment costs		
a. Total employment costs of the group:		
Wages and salaries	43.4	39.4
Social security costs	3.8	3.4
Other pension costs	4.3	3.8
	<u>51.5</u>	<u>46.6</u>
b. Total employment costs are charged as follows:		
Capital schemes	19.6	17.2
Infrastructure renewals expenditure	2.2	2.3
Manpower costs	29.7	27.1
	<u>51.5</u>	<u>46.6</u>
	30.06.04 number	30.06.03 number
c. Monthly average number of employees during the period		
- Engineering department	126	149
- Billing department	299	295
- All other staff	1,413	1,238
	<u>1,838</u>	<u>1,682</u>
- Total	<u>1,838</u>	<u>1,682</u>

	Year to 30.06.04 £000	Year to 30.06.03 £000
c. Total directors' remuneration		
Salary and fees	529	709
Bonuses	115	503
Benefits in kind	33	56
	<u>677</u>	<u>1,268</u>

The above remuneration is in respect of two executive directors (2003 – four). Executive directors have one year rolling contracts of employment. Two directors have benefits accruing under defined benefits pension schemes (2003 – four).

The aggregate amount of contributions to pension schemes in respect of directors was £97k (2003 - £135k). Included in bonuses for the year to 30 June 2003 was £310k from Azurix Europe Ltd on completion of the sale of the Wessex Water Ltd group to YTL Power International Berhad.

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. Remuneration of highest paid director		
Salary	375	345
Bonus	55	111
Benefits in kind	14	15
	<u>444</u>	<u>471</u>

The highest paid director had an accrued annual pension entitlement of £321,493 at 30 June 2004 (2003 - £291,470).

	Year to 30.06.04 £m	Year to 30.06.03 £m
5 Net interest payable		
On bank loans	61.9	44.5
On finance leases	2.4	0.7
	<u>64.3</u>	<u>45.2</u>
Total interest payable	64.3	45.2
Inter company interest receivable	(2.0)	(2.0)
Other interest receivable	(1.1)	(0.2)
	<u>(3.1)</u>	<u>(2.2)</u>
Net interest payable	<u>61.2</u>	<u>43.0</u>

6	Taxation	Year to 30.06.04 £m	Year to 30.06.03 fm
a.	Analysis of charge in the period		
	Current year corporation tax:		
	UK corporation tax at 30%	4.8	-
	Advance corporation tax utilised relating to prior years	(3.2)	-
	Foreign tax credit	-	(0.1)
		<hr/>	<hr/>
		1.6	(0.1)
	Prior year corporation tax:		
	Adjustments in respect of previous periods	(6.7)	(10.8)
		<hr/>	<hr/>
	Total corporation tax (credit)	(5.1)	(10.9)
		<hr/> <hr/>	<hr/> <hr/>
	Deferred tax – current year:		
	Origination and reversal of timing differences	14.0	13.9
	(Increase) in discount	(15.1)	(3.0)
		<hr/>	<hr/>
		(1.1)	10.9
	Deferred tax – prior year:		
	Origination and reversal of timing differences	(3.6)	10.5
	(Increase) in discount	(2.8)	(8.4)
		<hr/>	<hr/>
		(6.4)	2.1
		<hr/>	<hr/>
	Total deferred tax (credit)/charge	(7.5)	13.0
		<hr/> <hr/>	<hr/> <hr/>
	Taxation (credit)/charge on profit on ordinary activities	(12.6)	2.1
		<hr/> <hr/>	<hr/> <hr/>
b.	Current tax reconciliation		
	Profit on ordinary activities before tax	63.8	69.5
		<hr/>	<hr/>
	Current tax at 30%	19.1	20.8
		<hr/>	<hr/>
	Expenses not deductible for corporation tax purposes	0.1	-
	Group relief for nil consideration	(4.5)	(8.1)
	Adjustments in respect of previous periods	(6.7)	(10.8)
	Capital allowances for the period in excess of depreciation	(7.4)	(8.3)
	Payment of lease creditor capital	(1.1)	(3.1)
	Subsidiary company losses	0.2	-
	Advance corporation tax written back	(3.2)	-
	Other timing differences	(1.6)	(1.4)
		<hr/>	<hr/>
	Total corporation tax (credit) - as above	(5.1)	(10.9)
		<hr/> <hr/>	<hr/> <hr/>
7	Dividends		
	Ordinary shares		
	Interim dividends	33.0	47.0
	Final dividend	13.5	12.7
	Special dividend	-	210.0
		<hr/>	<hr/>
		46.5	269.7
		<hr/> <hr/>	<hr/> <hr/>

8 Tangible fixed assets

	Freehold land and buildings	Infra- structure assets	Plant machinery and vehicles	Other assets	Payments on account & assets in course of const- ruction	Group Total
	£m	£m	£m	£m	£m	£m
Cost						
At 1 July 2003	543.2	796.1	639.5	60.0	91.5	2,130.3
Additions	13.4	35.1	36.7	3.0	87.9	176.1
Transfers on commissioning	12.7	9.7	47.8	3.2	(73.4)	-
Disposals	(1.1)	-	(10.6)	-	-	(11.7)
Grants and contributions	-	(5.8)	-	-	-	(5.8)
At 30 June 2004	568.2	835.1	713.4	66.2	106.0	2,288.9
Depreciation						
At 1 July 2003	104.7	180.1	274.9	34.8	-	594.5
Charge for the period	12.4	22.5	36.8	5.1	-	76.8
Disposals	(0.5)	-	(8.7)	-	-	(9.2)
At 30 June 2004	116.6	202.6	303.0	39.9	-	662.1
Net Book Value						
At 30 June 2004	451.6	632.5	410.4	26.3	106.0	1,626.8
At 1 July 2003	438.5	616.0	364.6	25.2	91.5	1,535.8

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 £96.4m (2003 - £50.7m).

The depreciation charge for the period on assets held under finance leases is £3.6m (2003 - £0.4m).

The net book value of infrastructure assets at 30 June 2004 is stated after the deduction of grants and contributions amounting to £71.4m (2003 - £65.6m) in order to give a true and fair view (see note 1g).

Included in the cost of infrastructure assets is £205.0m (2003 - £186.9m) of expenditure on maintaining the network, and £202.6m (2003 - £180.1m) of depreciation included in the profit and loss account.

Included in freehold land and buildings above is an amount of £7.0m (2003 - £7.0m) in respect of land which is not depreciated.

9 Investments

	Group Associated undertakings £m	Company Subsidiary companies £m	Company Associated undertakings £m	Company Total £m
Cost				
At 1 July 2003	-	102.6	-	102.6
Disposal	-	-	-	-
At 30 June 2004	-	102.6	-	102.6
Amounts written off				
At 1 July 2003	-	21.6	-	21.6
Written off in the year	-	-	-	-
At 30 June 2004	-	21.6	-	21.6
Carrying value at 30 June 2004	-	81.0	-	81.0
Carrying value at 1 July 2003	-	81.0	-	81.0

The investments are comprised solely of shares in the subsidiary and associated undertakings. The principal subsidiary companies and associated undertakings are listed in note 31.

10 Stock

	Group	
	30.06.04 £m	30.06.03 £m
Raw materials and consumables	1.5	1.4
Work in progress	2.0	3.0
	3.5	4.4

11 Debtors

	Group		Company	
	30.06.04 £m	30.06.03 £m	30.06.04 £m	30.06.03 £m
Amounts falling due within one year				
Trade debtors	42.4	38.1	-	-
Amounts owed by subsidiary companies	-	-	37.9	43.7
Amounts owed by immediate parent company	48.1	48.1	48.1	48.1
Other debtors	44.3	44.2	-	-
Prepayments and accrued income	41.9	33.0	6.5	3.0
	176.7	163.4	92.5	94.8
Amounts falling due after more than one year				
Deferred tax asset - advance corporation tax recoverable	-	-	29.4	22.7
Total debtors	176.7	163.4	121.9	117.5

A loan of £48.1m was made to YTL Utilities (UK) Limited. The loan is repayable in October 2005 with interest based on LIBOR plus 0.5%.

12 Investments

Listed investments at 30 June 2004 with a cost of £0.4m (2003 - £0.7m), had a market value at that date of £1.9m (2003 - £2.2m).

13 Creditors - amounts falling due within one year

	Group		Company	
	30.06.04	30.06.03	30.06.04	30.06.03
	£m	£m	£m	£m
Bank overdraft repayable on demand	6.2	11.0	7.6	6.7
Loans repayable	11.9	22.9	-	-
Obligations under finance leases	2.3	1.0	-	-
Trade creditors	3.1	5.0	-	-
Amounts owed to subsidiary company	-	-	9.0	7.9
Amounts owed to parent company	0.6	0.6	-	-
Dividend	13.5	12.7	13.5	12.7
Other creditors	1.0	1.0	-	-
Corporation tax	2.1	8.2	(0.1)	0.7
Other taxation and social security	1.3	1.1	-	-
Accruals and deferred income	98.9	73.9	8.5	8.9
	<u>140.9</u>	<u>137.4</u>	<u>38.5</u>	<u>36.9</u>

14 Creditors - amounts falling due after more than one year

Loans repayable - in more than 1 year, but not more than 2 years	78.4	5.5
- in more than 2 years, but not more than 5 years	54.0	457.7
- in more than 5 years	254.0	191.8
	<u>386.4</u>	<u>655.0</u>
Bonds - in more than 2 years, but not more than 5 years	298.3	-
- in more than 5 years	396.7	348.6
Other	4.0	4.0
	<u>1,085.4</u>	<u>1,007.6</u>

The bonds are issued by a subsidiary company Wessex Water Services Finance Plc. One bond of £298.3m is at an interest rate of 5.875% repayable in March 2009, another is a £52.0m index linked bond at an interest rate of 3.52% plus inflation repayable in July 2023 and the other is a £344.7m bond issued at an interest rate of 5.75% and repayable in October 2033.

15 Provisions for liabilities and charges

	Deferred tax	Restructuring costs	Group Total
	£m	£m	£m
At 1 July 2003	80.7	3.9	84.6
Utilised during year	-	(0.6)	(0.6)
Additional amounts provided	-	0.8	0.8
Origination and reversal of timing differences	10.4	-	10.4
Increase in discount	(17.9)	-	(17.9)
	<u>73.2</u>	<u>4.1</u>	<u>77.3</u>

15 Provisions for liabilities and charges - continued

	Company			
	at 1 July 2003	Provided	Utilised	at 30 June 2004
	£m	£m	£m	£m
Restructuring costs	0.5	0.5	(0.3)	0.7
				Group
				30.06.04 30.06.03
				£m £m
Deferred tax is provided as follows:				
Accelerated capital allowances			304.6	290.7
Other timing differences			5.8	1.8
Advance corporation tax recoverable			(32.1)	(24.6)
			278.3	267.9
Undiscounted provision for deferred tax			(205.1)	(187.2)
Discount			73.2	80.7
Provision for deferred tax				
16 Deferred income				
Grants and contributions				
At 1 July			21.9	22.8
Received in the period			-	-
Other adjustment			-	(0.1)
Less amortisation			(0.8)	(0.8)
			21.1	21.9
At 30 June				
17 Called up equity share capital				
				Group and Company
				30.06.04 30.06.03
				£m £m
Authorised				
346,666,670 ordinary shares of 60p each			208.0	208.0
Allotted and fully paid				
219,585,986 ordinary shares of 60p each			131.8	131.8

On 21 May 2002 the entire share capital of the company was acquired by YTL Utilities (UK) Limited.

18 Reserves

	Share premium account £m	Profit & loss account £m
Group		
At 1 July 2003	28.8	292.2
Retained for the period	-	29.9
At 30 June 2004	28.8	322.1
Company		
At 1 July 2003	28.8	1.2
Retained for the period	-	2.3
At 30 June 2004	28.8	3.5

- a. As permitted by Section 230 of the Companies Act 1985, a profit and loss account of the parent company is not presented. The profit attributable to the company in the year is £48.8m (2003 - £269.6m) after dividends from subsidiary companies of £46.5m (2003 - £269.7m).
- b. The group's profit and loss account reserve is stated net of cumulative goodwill eliminated on acquisition in prior years of £14.5m (2003 - £14.5m).

19 Reconciliation of movements in equity shareholders' funds

	Group		Company	
	30.06.04 £m	30.06.03 £m	30.06.04 £m	30.06.03 £m
Profit attributable to shareholders	76.4	67.4	48.8	269.6
Foreign exchange adjustment	-	(0.4)	-	-
Transfer from subsidiary company	-	-	-	0.6
Dividends	(46.5)	(269.7)	(46.5)	(269.7)
Net addition to shareholders' funds	29.9	(202.7)	2.3	0.5
Opening shareholders' funds	452.8	655.5	161.8	161.3
Closing shareholders' funds	482.7	452.8	164.1	161.8

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

	Year to 30.06.04 £m	Year to 30.06.03 £m
Operating profit	125.0	112.5
Depreciation	76.8	73.0
Amortisation of grants and contributions	(0.8)	(0.8)
Provisions	0.2	(2.7)
Loss on disposal of fixed assets	0.6	0.4
Decrease/(increase) in stocks	0.9	(1.5)
(Increase)/decrease in debtors	(4.9)	1.1
Increase in creditors	6.4	5.4
	<u>204.2</u>	<u>187.4</u>

21 Returns on investments and servicing of finance

Interest received	1.9	(0.2)
Interest paid	(55.6)	(42.6)
Interest element of finance lease rentals	(2.4)	(1.9)
	<u>(56.1)</u>	<u>(44.7)</u>

22 Capital expenditure and financial investment

Purchase of tangible fixed assets	(172.6)	(190.8)
Sale of tangible fixed assets	1.4	0.7
Connection charges, grants and deferred income	5.8	4.8
	<u>(165.4)</u>	<u>(185.3)</u>

23 Financing

Amount owed by parent company	-	(3.1)
Loans and finance leases	68.1	315.7
	<u>68.1</u>	<u>312.6</u>

24 Movement in net debt

	1 July 2003 £m	Cash Flow £m	30 June 2004 £m
Bank overdraft	(11.0)	4.8	(6.2)
Short term loans	(22.9)	11.0	(11.9)
Loans repayable after one year	(608.4)	312.0	(296.4)
Amounts owed by parent company	48.1	-	48.1
Finance leases repayable within one year	(1.0)	(1.3)	(2.3)
Finance leases repayable after one year	(46.6)	(43.4)	(90.0)
Bonds repayable after one year	(348.6)	(346.4)	(695.0)
	<u>(990.4)</u>	<u>(63.3)</u>	<u>(1,053.7)</u>

25 Financial instruments

Short term debtors and creditors have been excluded from the financial instrument disclosure other than £20.4m (2003 - £34.9m) of short term borrowings and £48.1m (2003 - £48.1m) of amounts owed by immediate parent company.

The group has financed its activities through a combination of short term borrowings, long term loans and leases and bonds issued by a subsidiary company Wessex Water Services Finance Plc. At 30 June 2004 there were £346.0m (2003 - £79.6m) of undrawn facilities. There are no securities attributed to any of the borrowings.

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

a. Interest rate and currency exposure

	Fixed rate borrowings 2004 £m	Floating rate borrowings 2004 £m	Total borrowings 2004 £m	Fixed rate borrowings 2003 £m	Floating rate borrowings 2003 £m	Total borrowings 2003 £m
Sterling	515.9	537.8	1,053.7	829.4	161.0	990.4

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

	Interest rate % 2004	Period years 2004	Interest rate % 2003	Period years 2003
Sterling	5.51	10.4	4.80	5.1

£20.4m (2003 - £34.9m) of floating rate borrowings are short term, and £517.4m (2003 - £126.1m) are long term with interest rates moving in line with LIBOR.

b. Fair values

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

	Book value £m 2004	Fair value £m 2004	Book value £m 2003	Fair value £m 2003
Borrowings less than 1 year	20.4	20.4	34.9	34.9
Amounts owed by immediate parent company	(48.1)	(48.1)	(48.1)	(48.1)
Floating rate borrowings over 1 year	565.5	561.2	174.2	174.2
Fixed rate borrowings over 1 year	515.9	520.8	829.4	854.4
	<u>1,053.7</u>	<u>1,054.3</u>	<u>990.4</u>	<u>1,015.4</u>

The fair value of short term and floating rate borrowings approximate to book value. The fair value of long term fixed rate borrowings has been calculated using market values or discounted cash flow techniques.

26 Commitments

- There were no operating lease payments (2003 - nil) under leases on land and buildings due within the next year, which expire after 2 years.
- At 30 June 2004 the group had interest rate and currency instrument agreements outstanding with commercial banks with a principal value of £730.8m (2003 - £480.8m).
- Capital expenditure contracted but not provided at 30 June 2004 was £66.4m (2003 - £36.4m).

27 Contingent liabilities and guarantees

Wessex Water Ltd has provided performance guarantees on behalf of SC Technology GmbH on the tendering for contracts, the maximum liability in respect of which, at 30 June 2004 was £1.1m (2003 - £1.4m).

28 Pensions

- a. The defined benefit scheme operated by the group, which covers the majority of staff, is the Wessex Water Pension Scheme (WWPS). The assets are held in 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.
- b. The pension cost for the year, including amounts set aside for early retirees, was £3.9m (2003 - £4.3m).
- c. The latest actuarial valuation for WWPS was undertaken at 31 December 2001. 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 6.0%, that salary increases would average 3.5% per annum and that present and future pensions would increase at the rate of 2.5% per annum. The market value of the WWPS assets as at 31 December 2001 was £176.7m which represented 83% of the actuarial value of the accrued benefits. The next actuarial valuation will be as at 31 December 2004.

In response to this valuation the company made a special contribution to WWPS in April 2002 of £25.6m which increased the market value of scheme assets to around 95% of the actuarial value of the accrued benefits.

- d. Additional disclosures regarding the defined benefit pension scheme are required under the transitional provisions of FRS 17 "Retirement benefits" and these are set out below. The disclosures provide the information which will be necessary for the full implementation of FRS 17.

The actuarial valuation described above has been updated at 30 June 2004 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:

	30.06.04	30.06.03	30.06.02
Rate of increase in salaries	4.0%	3.6%	3.6%
Rate of increase in pensions in payment	3.0%	2.6%	2.6%
Discount rate	5.8%	5.3%	5.9%
Inflation assumption	3.0%	2.6%	2.6%

The value of the assets and liabilities over the last three years were as follows:

	30.06.04	30.06.03	30.06.02
	£m	£m	£m
Equities	85.1	75.9	91.1
Government Bonds	86.7	107.4	101.2
Corporate Bonds	36.9	12.4	2.1
Cash	2.3	1.7	3.3
	<hr/>	<hr/>	<hr/>
Total fair value of the assets	211.0	197.4	197.7
Present value of scheme liabilities	(262.9)	(251.4)	(214.7)
	<hr/>	<hr/>	<hr/>
(Deficit) in the scheme	(51.9)	(54.0)	(17.0)
Related deferred tax asset	15.6	16.2	5.1
	<hr/>	<hr/>	<hr/>
Net pension (liability)	(36.3)	(37.8)	(11.9)
	<hr/>	<hr/>	<hr/>

The expected rates of return over the last three years were as follows:

	%	%	%
Equities	8.0	7.5	8.0
Government Bonds	5.0	4.5	5.0
Corporate Bonds	5.5	4.8	5.9
Cash	4.8	3.8	3.5
	<hr/>	<hr/>	<hr/>
Total	6.3	5.7	6.4
	<hr/>	<hr/>	<hr/>

The contribution rate agreed for the next 6 months is 15.0% of pensionable earnings.

- e. If FRS 17 had been adopted in the financial statements, the net assets and profit and loss reserves at the respective balance sheet dates would be as follows:

	30.06.04 £m	30.06.03 £m	30.06.02 £m
Balance sheet presentation			
Net assets per statutory accounts	482.7	452.8	655.5
Remove SSAP 24 pension asset	(40.8)	(40.2)	(39.6)
FRS 17 pension liability (net of deferred tax asset)	(36.3)	(37.8)	(11.9)
	<hr/>	<hr/>	<hr/>
Net assets including pension liability	405.6	374.8	604.0
	<hr/>	<hr/>	<hr/>
Profit and loss account presentation			
Profit and loss reserves per statutory accounts	322.1	292.2	494.9
Remove SSAP 24 pension asset	(40.8)	(40.2)	(39.6)
FRS 17 pension liability (net of deferred tax asset)	(36.3)	(37.8)	(11.9)
	<hr/>	<hr/>	<hr/>
Profit and loss reserves including pension liability	245.0	214.2	443.4
	<hr/>	<hr/>	<hr/>

- f. Additional analysis required by FRS 17.

	30.06.04 £m	30.06.03 £m
Analysis of the amount that would have been charged to operating profit		
Current service cost	(5.4)	(4.4)
Past service cost (augmentations and early retirement costs)	(0.1)	(0.7)
	<hr/>	<hr/>
Total operating charge	(5.5)	(5.1)
	<hr/>	<hr/>
Analysis of the amount that would have been credited to other finance income		
Expected return on pension scheme assets	11.1	12.5
Interest on pension scheme assets	(13.3)	(12.6)
	<hr/>	<hr/>
Net return	(2.2)	(0.1)
	<hr/>	<hr/>
Analysis of the movement in scheme surplus/(deficit) during the year		
Surplus/(deficit) in scheme at the start of the year	(54.0)	(17.0)
Current service cost	(5.4)	(4.4)
Contributions paid	4.5	4.8
Past service costs	(0.1)	(0.7)
Other finance income	(2.2)	(0.1)
Actuarial gains/(losses)	5.3	(36.6)
	<hr/>	<hr/>
Surplus/(deficit) in scheme at the end of the year	(51.9)	(54.0)
	<hr/>	<hr/>
Analysis of amount that would have been recognised in statement of recognised gains and losses		
Actual return less expected return on pension scheme assets	4.3	(10.2)
Experience gains and losses arising on the scheme liabilities	(6.3)	(0.3)
Changes in assumptions underlying the present value of the scheme liabilities	7.3	(26.1)
	<hr/>	<hr/>
Actuarial gain/(loss) recognised in statement of recognised gains and losses	5.3	(36.6)
	<hr/>	<hr/>

29 Related party transactions

There are no related party transactions requiring disclosure in these accounts.

30 Wessex Water Services Ltd - dividend policy

The policy adopted by the board of Wessex Water Services Ltd up to 31 March 2002 was to declare ordinary dividends of two thirds of the historic profit attributable to shareholders, subject to a current cost ordinary dividend cover of one. Since 1 April 2002 the policy has been to declare all of the current cost profit available to shareholders after current year corporation tax but before prior year corporation tax, deferred tax and the current cost financing adjustment.

31 Principal subsidiary companies and associated undertakings

a. Subsidiary companies

Wessex Water Ltd owns 100% of the issued ordinary share capital of each subsidiary company.

Company	Country of incorporation and operation	Principal activities
Wessex Water Services Ltd	United Kingdom	Water supply and waste water services
SC Technology GmbH	Switzerland	Waste treatment processes
Wessex Water Services Finance Plc *	United Kingdom	Issue of bonds
Wessex Engineering Services Ltd	United Kingdom	Engineering services
Wessex Water Enterprises Ltd	United Kingdom	Unregulated water and waste water services

* 100% owned by Wessex Water Services Ltd

Other subsidiary companies are dormant or not material to the group.

On 1 July 2001, Wessex Water Services Ltd transferred the engineering services employees to another 100% subsidiary, Wessex Engineering Services Ltd, which changed its name to MWH Wessex Ltd. On 18 December 2001 the company entered into a joint venture agreement with MWH UK Ltd which took a 49% share in MWH Wessex Ltd. On 21 January 2003 the joint venture was dissolved and the company purchased the 49% share from MWH UK Ltd, and the name was changed back to Wessex Engineering Services Ltd.

b. Joint arrangements that are not entities

Company	Class of shares	Proportion held	Principal activities
Bristol Wessex Billing Services Ltd	£1 ordinary	50%	Billing services

On 28 June 2001, Wessex Water Services Ltd and Wessex Water Ltd entered into a joint arrangement with Bristol Water Holdings Plc, under which the billing and customer services of both groups were transferred into a new company Bristol Wessex Billing Services Ltd.

c. Associated undertakings

Company	Class of shares	Proportion held	Principal activities
Aquator Services Ltd	£1 ordinary	10%	Membrane technology

32 Ultimate parent company

The company is 100% owned by YTL Utilities (UK) Limited, a company incorporated in the United Kingdom whose registered address is 2 Lambs Passage, London EC1Y 8BB. 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.