WESSEX WATER LTD GROUP

CONSOLIDATED ACCOUNTS

For the year to
30 June 2005

Registered in England and Wales No. 2366633

DIRECTORS' REPORT

The directors present their report and the audited accounts for the year to 30 June 2005.

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 £55.3m (2004 - £76.4m). Dividends of £33.4m (2004 - £33.0m) were declared in the year, and the directors propose a final dividend of £15.8m (2004 - £13.5m).

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 2 December 2004 an 8.9% price rise for WWSL from 1 April 2005, before adjustment for inflation. The announcement also included price increases for each of the four subsequent years of 4.9%, 5.6%, 4.0% and 2.9%, before adjustment for inflation, for the years commencing 1 April 2006, 2007, 2008 and 2009 respectively.

DIRECTORS

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

C F Skellett
T K Harris
Peng Koon Chin – alternate to Mark Seok Kah Yeoh
Choong Min Tan – 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 2,000,000 ordinary share options of Malaysian Ringgit RM0.50 each in YTL Power International Berhad on 13 December 2002. The share option price was RM1.32 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 newspaper, 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 group 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 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 2005.

CHARITABLE DONATIONS

During the year £160,000 was donated to UK charities (2004 - £50,000).

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 2005 trade creditors represented approximately 30 days trade purchases (2004 - 30 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.

Andrew J Phillips

By order of the board
A J Phillips
Company secretary
19 September 2005

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 24.

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 2005 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

KPMG Audit Plc
Chartered Accountants
Registered Auditor
19 September 2005

GROUP PROFIT AND LOSS ACCOUNT
For the year to 30 June 2005

	NOTE	**Year to 30.06.05 £m**	Year to 30.06.04 £m
Turnover	2	**333.1**	307.6
Operating costs	3	**(197.5)**	(182.6)
Operating profit	2	**135.6**	125.0
Net interest payable	5	**(66.6)**	(61.2)
Profit on ordinary activities before taxation		**69.0**	63.8
Taxation on profit on ordinary activities	6	**(13.7)**	12.6
Profit attributable to shareholders		**55.3**	76.4
Dividends	7	**(49.2)**	(46.5)
Transfer to reserves	18	**6.1**	29.9

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

In both the current and preceding financial periods, there was no difference between the historical cost profits and losses and those reported in the profit and loss account.

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

BALANCE SHEETS
30 June 2005

	NOTE	Group 30.06.05 £m	Group 30.06.04 £m	Company 30.06.05 £m	Company 30.06.04 £m
Fixed assets					
Tangible assets	8	**1,688.8**	1,626.8	**-**	-
Investments	9	**0.1**	-	**81.1**	81.0
		1,688.9	1,626.8	**81.1**	81.0
Current assets					
Stock	10	**2.8**	3.5	**-**	-
Debtors - amounts falling due within one year	11	**177.5**	176.7	**87.2**	92.5
Debtors - amounts falling due after more than one year	11	**-**	-	**31.4**	29.4
Investments	12	**-**	0.4	**-**	0.4
Short term cash investments		**22.0**	-	**-**	-
		202.3	180.6	**118.6**	122.3
Creditors – amounts falling due within one year	13	**(204.4)**	(140.9)	**(32.2)**	(38.5)
Net current (liabilities) / assets		**(2.1)**	39.7	**86.4**	83.8
Total assets less current liabilities		**1,686.8**	1,666.5	**167.5**	164.8
Creditors – amounts falling due after more than one year	14	**(1,088.7)**	(1,085.4)	**-**	-
Provisions for liabilities and charges	15	**(87.5)**	(77.3)	**(0.6)**	(0.7)
Deferred income	16	**(21.7)**	(21.1)	**-**	-
Net assets	2	**488.9**	482.7	**166.9**	164.1
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	**328.3**	322.1	**6.3**	3.5
Equity shareholders' funds	19	**488.9**	482.7	**166.9**	164.1

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

These accounts were approved by the board of directors on 19 September 2005 and signed on its behalf by:

T K Harris
Director

GROUP CASH FLOW STATEMENT
For the year to 30 June 2005

	NOTE	**Year to 30.06.05 £m**	Year to 30.06.04 £m
Net cash inflow from operating activities	20	**208.4**	204.2
Returns on investments and servicing of finance	21	**(59.8)**	(56.1)
Taxation		**(1.6)**	(0.3)
Capital expenditure and financial investment	22	**(142.8)**	(165.4)
Equity dividends paid		**(46.9)**	(45.7)
Cash outflow before financing		**(42.7)**	(63.3)
Financing	23	**70.9**	68.1
Increase in cash		**28.2**	4.8

Reconciliation of cash movement to the movement in net debt

	NOTE	**Year to 30.06.05 £m**	Year to 30.06.04 £m
Increase in cash - above		**28.2**	4.8
Movement in loans and leases		**(68.7)**	(68.1)
Non cash items	24	**(2.2)**	-
Movement in net debt	24	**(42.7)**	(63.3)
Opening net debt	24	**(1,053.7)**	(990.4)
Closing net debt	24	**(1,096.4)**	(1,053.7)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
For the year to 30 June 2005

	Year to 30.6.05 £m	Year to 30.6.04 £m
Profit for the financial year	**55.3**	76.4
Total recognised gains relating to the financial year	**55.3**	76.4
Exchange movement on translation of overseas results and net assets	**0.1**	-
Total gains recognised since last annual report	**55.4**	76.4

NOTES TO THE ACCOUNTS
For the year to 30 June 2005

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 2005. 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 30.06.05 £m	Year to 30.06.04 £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.

		Year to 30.06.05 £m	Year to 30.06.04 £m
a.	Turnover		
	Regulated	**309.6**	285.4
	Unregulated	**23.5**	22.2
		333.1	307.6
b.	Operating profit		
	Regulated	**129.6**	120.5
	Unregulated	**6.0**	4.5
		135.6	125.0
c.	Net assets		
	Regulated	**412.2**	408.5
	Unregulated	**76.7**	74.2
		488.9	482.7

	Year to 30.06.05 £m	Year to 30.06.04 £m
3 Operating costs		
Manpower costs (note 4b)	**39.4**	29.7
Materials and consumables	**21.8**	23.2
Other operational costs	**55.4**	53.1
Depreciation of fixed assets	**82.0**	76.8
Amortisation of grants and contributions	**(0.8)**	(0.8)
(Profit)/loss on disposals of fixed assets	**(0.3)**	0.6
	197.5	182.6
Operating costs include:		
Operating leases for plant and machinery	**3.1**	1.5
Research and development	**0.1**	0.1
Directors' remuneration (note 4d)	**0.8**	0.7
Remuneration to auditors - audit fees	**0.2**	0.2
- non audit fees	**-**	0.1

The auditors' remuneration in respect of the company was £23,000 (2004 - £30,000).

4 **Employment costs**

a. Total employment costs of the group:

Wages and salaries	**49.8**	43.4
Social security costs	**4.4**	3.8
Other pension costs	**4.7**	4.3
	58.9	51.5

b. Total employment costs are charged as follows:

Capital schemes	**17.0**	19.6
Infrastructure renewals expenditure	**2.5**	2.2
Manpower costs	**39.4**	29.7
	58.9	51.5

		30.06.05 number	30.06.04 number
c. Monthly average number of employees during the period	- Engineering department	**142**	126
	- Billing department	**275**	299
	- All other staff	**1,521**	1,413
	- Total	**1,938**	1,838

c. Total directors' remuneration

	Year to 30.06.05 £000	Year to 30.06.04 £000
Salary and fees	**544**	529
Bonuses	**230**	115
Benefits in kind	**33**	33
	807	677

The above remuneration is in respect of two executive directors (2004 – two). Executive directors have one year rolling contracts of employment. Two directors have benefits accruing under defined benefits pension schemes (2004 – two). The aggregate amount of contributions to pension schemes in respect of directors was £47k (2004 - £97k).

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**	375
Bonus	**150**	55
Benefits in kind	**14**	14
	539	444

The highest paid director had an accrued annual pension entitlement of £329,229 at 30 June 2005 (2004 - £321,493).

5 Net interest payable

	Year to 30.06.05 £m	Year to 30.06.04 £m
On bank loans	**65.4**	61.9
On finance leases	**4.5**	2.4
Total interest payable	**69.9**	64.3
Inter company interest receivable	**(2.4)**	(2.0)
Other interest receivable	**(0.9)**	(1.1)
	(3.3)	(3.1)
Net interest payable	**66.6**	61.2

		Year to 30.06.05 £m	Year to 30.06.04 £m
6	**Taxation**		
a.	Analysis of charge in the period		
	Current year corporation tax:		
	UK corporation tax at 30%	**10.8**	4.8
	Advance corporation tax utilised relating to prior years	**(7.2)**	(3.2)
		3.6	1.6
	Prior year corporation tax:		
	Adjustments in respect of previous periods	**0.3**	(6.7)
	Total corporation tax charge/(credit)	**3.9**	(5.1)
	Deferred tax – current year:		
	Origination and reversal of timing differences	**12.7**	14.0
	Decrease/(increase) in discount	**4.7**	(15.1)
		17.4	(1.1)
	Deferred tax – prior year:		
	Origination and reversal of timing differences	**(6.1)**	(3.6)
	(Increase) in discount	**(1.5)**	(2.8)
		(7.6)	(6.4)
	Total deferred tax charge/(credit)	**9.8**	(7.5)
	Taxation charge/(credit) on profit on ordinary activities	**13.7**	(12.6)
b.	Current tax reconciliation		
	Profit on ordinary activities before tax	**69.0**	63.8
	Current tax at 30%	**20.7**	19.1
	Expenses not deductible for corporation tax purposes	**0.1**	0.1
	Group relief for nil consideration	**(4.3)**	(4.5)
	Adjustments in respect of previous periods	**0.3**	(6.7)
	Capital allowances for the period in excess of depreciation	**(2.8)**	(7.4)
	Payment of lease creditor capital	**(1.9)**	(1.1)
	Subsidiary company losses	**0.1**	0.2
	Advance corporation tax written back	**(7.2)**	(3.2)
	Other timing differences	**(1.1)**	(1.6)
	Total corporation tax charge/(credit) - as above	**3.9**	(5.1)
7	**Dividends**		
	Ordinary shares		
	Interim dividends	**33.4**	33.0
	Final dividend	**15.8**	13.5
		49.2	46.5

8 Tangible fixed assets

	Freehold land and buildings	Infra-structure assets	Plant machinery and vehicles	Other assets	Payments on account & assets in course of construction	Group Total
	£m	£m	£m	£m	£m	£m
Cost						
At 1 July 2004	568.2	835.1	713.4	66.2	106.0	2,288.9
Additions	20.5	53.7	50.3	4.0	30.5	159.0
Transfers on commissioning	17.6	34.8	32.8	5.0	(90.2)	-
Disposals	(0.6)	-	(6.9)	-	-	(7.5)
Grants and contributions	-	(13.2)	-	-	-	(13.2)
At 30 June 2005	**605.7**	**910.4**	**789.6**	**75.2**	**46.3**	**2,427.2**
Depreciation						
At 1 July 2004	116.6	202.6	303.0	39.9	-	662.1
Charge for the period	12.3	24.2	39.9	5.6	-	82.0
Disposals	(0.2)	-	(5.5)	-	-	(5.7)
At 30 June 2005	**128.7**	**226.8**	**337.4**	**45.5**	**-**	**738.4**
Net Book Value						
At 30 June 2005	**477.0**	**683.6**	**452.2**	**29.7**	**46.3**	**1,688.8**
At 1 July 2004	451.6	632.5	410.4	26.3	106.0	1,626.8

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 £90.1m (2004 - £96.4m).

The depreciation charge for the period on assets held under finance leases is £6.3m (2004 - £3.6m).

The net book value of infrastructure assets at 30 June 2005 is stated after the deduction of grants and contributions amounting to £84.6m (2004 - £71.4m) in order to give a true and fair view (see note 1g).

Included in the cost of infrastructure assets is £225.1m (2004 - £205.0m) of expenditure on maintaining the network, and £226.8m (2004 - £202.6m) of depreciation included in the profit and loss account.

Included in freehold land and buildings above is an amount of £8.7m (2004 - £7.0m) in respect of land which is not depreciated.

9 Investments

	Group	Company	Company	Company
	Associated undertakings	Subsidiary companies	Associated undertakings	Total
	£m	£m	£m	£m
Cost				
At 1 July 2004	-	102.6	-	102.6
Additions	0.1	-	0.1	0.1
Disposal	-	-	-	-
At 30 June 2005	**0.1**	**102.6**	**0.1**	**102.7**
Amounts written off				
At 1 July 2004	-	21.6	-	21.6
Written off in the year	-	-	-	-
At 30 June 2005	-	**21.6**	-	**21.6**
Carrying value at 30 June 2005	**0.1**	**81.0**	**0.1**	**81.1**
Carrying value at 1 July 2004	-	81.0	-	81.0

The investments comprise shares in the subsidiary and associated undertakings and capital contributions to an associated undertaking. The principal subsidiary companies and associated undertakings are listed in note 29.

10 Stock

	Group	
	30.06.05	30.06.04
	£m	£m
Raw materials and consumables	**1.0**	1.5
Work in progress	**1.8**	2.0
	2.8	3.5

11 Debtors

	Group		Company	
	30.06.05	30.06.04	**30.06.05**	30.06.04
Amounts falling due within one year	**£m**	£m	**£m**	£m
Trade debtors	**41.3**	42.4	-	-
Amounts owed by subsidiary companies	-	-	**29.8**	37.9
Amounts owed by immediate parent company	**9.4**	6.9	-	-
Loan to immediate parent company	**48.1**	48.1	**48.1**	48.1
Other debtors	**43.4**	44.3	-	-
Prepayments and accrued income	**35.3**	35.0	**9.3**	6.5
	177.5	176.7	**87.2**	92.5
Amounts falling due after more than one year				
Deferred tax asset - advance corporation tax recoverable	-	-	**31.4**	29.4
Total debtors	**177.5**	176.7	**118.6**	121.9

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 with a cost of £0.4m at 30 June 2004 had a market value at that date of £1.9m, and were disposed in the year for £3.1m generating a profit before tax of £2.7m.

13 Creditors - amounts falling due within one year

	Group		Company	
	30.06.05	30.06.04	**30.06.05**	30.06.04
	£m	£m	**£m**	£m
Bank overdraft repayable on demand	**-**	6.2	**4.7**	7.6
Loans repayable	**78.4**	11.9	**-**	-
Obligations under finance leases	**2.7**	2.3	**-**	-
Trade creditors	**6.2**	3.1	**-**	-
Amounts owed to subsidiary company	**-**	-	**10.9**	9.0
Amounts owed to parent company	**0.6**	0.6	**-**	-
Dividend	**15.8**	13.5	**15.8**	13.5
Other creditors	**1.7**	1.0	**-**	-
Corporation tax	**4.3**	2.1	**(0.1)**	(0.1)
Other taxation and social security	**1.4**	1.3	**-**	-
Accruals and deferred income	**93.3**	98.9	**0.9**	8.5
	204.4	140.9	**32.2**	38.5

14 Creditors - amounts falling due after more than one year

Loans repayable	- in more than 1 year, but not more than 2 years	**1.2**	75.7
	- in more than 2 years, but not more than 5 years	**23.3**	37.8
	- in more than 5 years	**78.9**	182.9
		103.4	296.4
Finance lease repayable	- in more than 1 year, but not more than 2 years	**3.2**	2.7
	- in more than 2 years, but not more than 5 years	**13.0**	16.2
	- in more than 5 years	**71.1**	71.1
		87.3	90.0
Bonds	- in more than 2 years, but not more than 5 years	**298.7**	298.3
	- in more than 5 years	**596.0**	396.7
Other		**3.3**	4.0
		1,088.7	1,085.4

The bonds are issued by a subsidiary company Wessex Water Services Finance Plc. A bond of £298.7m is at an interest rate of 5.875% repayable in March 2009, another is a £53.5m index linked bond at an interest rate of 3.52% plus inflation repayable in July 2023, another is a £344.9m bond issued at an interest rate of 5.75% and repayable in October 2033, and a £197.6m bond is at an interest rate of 5.38% repayable in March 2028.

15 Provisions for liabilities and charges

	Deferred tax £m	Restructuring costs £m	Group Total £m
At 1 July 2004	73.2	4.1	77.3
Utilised during year	-	(0.1)	(0.1)
Additional amounts provided	-	0.5	0.5
Origination and reversal of timing differences	6.6	-	6.6
Decrease in discount	3.2	-	3.2
At 30 June 2005	**83.0**	**4.5**	**87.5**

Company

	at 1 July 2004 £m	Provided £m	Utilised £m	**at 30 June 2005 £m**
Restructuring costs	0.7	-	(0.1)	**0.6**

Deferred tax is provided as follows:	Group **30.06.05 £m**	30.06.04 £m
Accelerated capital allowances	**307.4**	304.6
Other timing differences	**10.3**	5.8
Advance corporation tax recoverable	**(32.8)**	(32.1)
Undiscounted provision for deferred tax	**284.9**	278.3
Discount	**(201.9)**	(205.1)
Provision for deferred tax	**83.0**	73.2

16 Deferred income

Grants and contributions

At 1 July	**21.1**	21.9
Received in the year	**1.4**	-
Less amortisation	**(0.8)**	(0.8)
At 30 June	**21.7**	21.1

17 Called up equity share capital

	Group and Company **30.06.05 £m**	30.06.04 £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 2004	28.8	322.1
Retained for the year	-	6.1
Exchange movement on translation of overseas results and net assets	-	0.1
At 30 June 2005	**28.8**	**328.3**
Company		
At 1 July 2004	28.8	3.5
Retained for the year	-	2.8
At 30 June 2005	**28.8**	**6.3**

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 £52.0m (2004 - £48.8m) after dividends from subsidiary companies of £47.3m (2004 - £46.5m).

b. The group's profit and loss account reserve is stated net of cumulative goodwill eliminated on acquisition in prior years of £14.5m (2004 - £14.5m).

19 Reconciliation of movements in equity shareholders' funds

	Group		Company	
	30.06.05	30.06.04	**30.06.05**	30.06.04
	£m	£m	**£m**	£m
Profit attributable to shareholders	**55.3**	76.4	**52.0**	48.8
Exchange movement on translation of overseas results and net assets	**0.1**	-	**-**	-
Dividends	**(49.2)**	(46.5)	**(49.2)**	(46.5)
Net addition to shareholders' funds	**6.2**	29.9	**2.8**	2.3
Opening shareholders' funds	**482.7**	452.8	**164.1**	161.8
Closing shareholders' funds	**488.9**	482.7	**166.9**	164.1

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

	Year to 30.06.05 £m	Year to 30.06.04 £m
Operating profit	**135.6**	125.0
Depreciation	**82.0**	76.8
Amortisation of grants and contributions	**(0.8)**	(0.8)
Provisions	**0.4**	0.2
(Profit)/loss on disposal of fixed assets	**(0.3)**	0.6
Decrease in stocks	**0.7**	0.9
(Increase) in debtors	**(4.1)**	(4.9)
(Decrease)/increase in creditors	**(5.1)**	6.4
	208.4	204.2

21 Returns on investments and servicing of finance

	Year to 30.06.05 £m	Year to 30.06.04 £m
Interest received	**7.8**	1.9
Interest paid	**(63.1)**	(55.6)
Interest element of finance lease rentals	**(4.5)**	(2.4)
	(59.8)	(56.1)

22 Capital expenditure and financial investment

	Year to 30.06.05 £m	Year to 30.06.04 £m
Purchase of tangible fixed assets	**(159.2)**	(172.6)
Sale of tangible fixed assets	**1.7**	1.4
Connection charges, grants and deferred income	**14.7**	5.8
	(142.8)	(165.4)

23 Financing

	Year to 30.06.05 £m	Year to 30.06.04 £m
Loans and finance leases	**70.9**	68.1
	70.9	68.1

24 Movement in net debt

	1 July 2004 £m	Cash Flow £m	Non cash items £m	30 June 2005 £m
Short term cash investments	-	22.0	-	**22.0**
Bank overdraft	(6.2)	6.2	-	**-**
Short term loans	(11.9)	(66.5)	-	**(78.4)**
Loans repayable after one year	(296.4)	193.0	-	**(103.4)**
Amounts owed by parent company	48.1	-	-	**48.1**
Finance leases repayable within one year	(2.3)	(0.4)	-	**(2.7)**
Finance leases repayable after one year	(90.0)	2.7	-	**(87.3)**
Bonds repayable after one year	(695.0)	(197.5)	(2.2)	**(894.7)**
	(1,053.7)	(40.5)	(2.2)	**(1,096.4)**

25 Financial instruments

Short term debtors and creditors have been excluded from the financial instrument disclosure other than £81.1m (2004 - £20.4m) of short term borrowings, £22.0m of short term debtors (2004 – nil), and £48.1m (2004 - £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 2005 there were £250.0m (2004 - £346.0m) 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 2005 £m	**Floating rate borrowings 2005 £m**	**Total borrowings 2005 £m**	Fixed rate borrowings 2004 £m	Floating rate borrowings 2004 £m	Total borrowings 2004 £m
Sterling	**965.5**	**130.9**	**1,096.4**	515.9	537.8	1,053.7

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

	Interest rate % 2005	**Period years 2005**	Interest rate % 2004	Period years 2004
Sterling	**5.55**	**17.0**	5.51	10.4

Floating rate borrowings with interest rates moving in line with LIBOR comprise £21.1m (2004 - £20.4m) of short term borrowings, £179.9m (2004 - £565.5m) of long term borrowings, £48.1m (2004 - £48.1m) owed to immediate parent company and £22.0m of short term debtors (2004 – nil).

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 2005	**Fair value £m 2005**	Book value £m 2004	Fair value £m 2004
Borrowings less than 1 year	**59.1**	**59.1**	20.4	20.4
Amounts owed by immediate parent company	**(48.1)**	**(48.1)**	(48.1)	(48.1)
Floating rate borrowings over 1 year	**179.9**	**179.9**	565.5	561.2
Fixed rate borrowings over 1 year	**905.5**	**976.0**	515.9	520.8
	1,096.4	**1,166.9**	1,053.7	1,054.3

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

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 2005 the group had interest rate and currency instrument agreements outstanding with commercial banks with a principal value of £70.8m (2004 - £730.8m).

c. Capital expenditure contracted but not provided at 30 June 2005 was £48.7m (2004 - £66.4m).

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 2005 was £1.3m (2004 - £1.1m).

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 £5.3m (2004 - £3.9m).

c. 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 2005, 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.

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 2005 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:

	30.06.05	30.06.04	30.06.03
Rate of increase in salaries	**3.5%**	4.0%	3.6%
Rate of increase in pensions in payment	**2.5%**	3.0%	2.6%
Discount rate	**5.0%**	5.8%	5.3%
Inflation assumption	**2.5%**	3.0%	2.6%

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

	30.06.05	30.06.04	30.06.03
	£m	£m	£m
Equities	**98.8**	85.1	75.9
Government Bonds	**83.6**	86.7	107.4
Corporate Bonds	**56.0**	36.9	12.4
Cash	**1.9**	2.3	1.7
Total fair value of the assets	**240.3**	211.0	197.4
Present value of scheme liabilities	**(311.7)**	(262.9)	(251.4)
(Deficit) in the scheme	**(71.4)**	(51.9)	(54.0)
Related deferred tax asset	**21.4**	15.6	16.2
Net pension (liability)	**(50.0)**	(36.3)	(37.8)

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

	%	%	%
Equities	**7.8**	8.0	7.5
Government Bonds	**4.3**	5.0	4.5
Corporate Bonds	**4.9**	5.5	4.8
Cash	**4.8**	4.8	3.8
Total	**5.9**	6.3	5.7

The contribution rate agreed for the next 3 years is 17.5% of pensionable earnings and lump sum contributions of £4.9m at December 2005, 2006 and 2007.

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:

	30.06.05 £m	30.06.04 £m	30.06.03 £m
Balance sheet presentation			
Net assets per statutory accounts	**488.9**	482.7	452.8
Remove SSAP 24 pension asset	**(37.9)**	(40.8)	(40.2)
FRS 17 pension liability (net of deferred tax asset)	**(50.0)**	(36.3)	(37.8)
Net assets including pension liability	**401.0**	405.6	374.8
Profit and loss account presentation			
Profit and loss reserves per statutory accounts	**328.3**	322.1	292.2
Remove SSAP 24 pension asset	**(37.9)**	(40.8)	(40.2)
FRS 17 pension liability (net of deferred tax asset)	**(50.0)**	(36.3)	(37.8)
Profit and loss reserves including pension liability	**240.4**	245.0	214.2

f. Additional analysis required by FRS 17.

	30.06.05 £m	30.06.04 £m
Analysis of the amount that would have been charged to operating profit		
Current service cost	**(5.6)**	(5.4)
Past service cost (augmentations and early retirement costs)	**(0.5)**	(0.1)
Total operating charge	**(6.1)**	(5.5)
Analysis of the amount that would have been credited to other finance income		
Expected return on pension scheme assets	**13.2**	11.1
Interest on pension scheme liabilities	**(15.2)**	(13.3)
Net return	**(2.0)**	(2.2)
Analysis of the movement in scheme surplus/(deficit) during the year		
Surplus/(deficit) in scheme at the start of the year	**(51.9)**	(54.0)
Current service cost	**(5.6)**	(5.4)
Contributions paid	**4.8**	4.5
Past service costs	**(0.5)**	(0.1)
Other finance income	**(2.0)**	(2.2)
Actuarial gains/(losses)	**(16.2)**	5.3
Surplus/(deficit) in scheme at the end of the year	**(71.4)**	(51.9)

Analysis of amount that would have been recognised in statement of recognised gains and losses

Actual return less expected return on pension scheme assets	**18.7**	4.3
Experience gains and losses arising on the scheme liabilities	**(9.7)**	(6.3)
Changes in assumptions underlying the present value of the scheme liabilities	**(25.2)**	7.3
Actuarial (loss)/gain recognised in statement of recognised gains and losses	**(16.2)**	5.3

History of experience gains and losses	**30.06.05**	30.06.04	30.06.03
Difference between expected and actual return on scheme assets:			
Amount £m	**18.7**	4.3	(10.2)
Percentage of scheme assets	**7.8%**	2.0%	(5.2)%
Experience gains/(losses) on scheme liabilities:			
Amount £m	**(9.7)**	(6.3)	(0.3)
Percentage of the present value of the scheme liabilities	**(3.1)%**	(2.4)%	(0.1)%
Total amount recognised in STRGL:			
Amount £m	**(16.2)**	5.3	(36.6)
Percentage of the present value of the scheme liabilities	**(5.2)%**	2.0%	(14.6)%

29 **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

30 **Related party transactions**

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

31 **Wessex Water Services Ltd - dividend policy**

The policy adopted by the board of Wessex Water Services Ltd is to declare as a dividend all of the current cost profit available to shareholders after current year corporation tax paid but before prior year corporation tax, deferred tax and the current cost financing adjustment.

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.