WESSEX WATER LTD GROUP

CONSOLIDATED ACCOUNTS

For the year to
30 June 2006

Registered in England and Wales No. 2366633

DIRECTORS' REPORT

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

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.

Wessex Water Enterprises Ltd (WWE), a wholly owned subsidiary company, undertakes unregulated water and waste water activities in the Wessex Water region and SC Technology GmbH (SCT), a wholly owned subsidiary company installs and operates sludge drying equipment operating from its head office in Switzerland.

FINANCIAL AND OPERATIONAL REVIEW

OVERVIEW

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

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

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

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

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

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

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

FINANCIAL PERFORMANCE

Historic cost profit after tax increased by £21.1m from £57.9m (after restatement for the implementation of FRS 17) to £79.0m.

Turnover increased by £24.6m or 7.4% to £357.7m, there was a 10.7% increase in WWSL turnover but other turnover fell mainly because of the end of an operating contract in WWE.

Operational costs excluding depreciation decreased from £117.2m to £114.6m due to the lower level of activity in WWE and SCT. Depreciation charges (including the infrastructure maintenance charge and the disposal of assets) have increased by £3.5m as a result of the ongoing investment programme.

Net interest charges fell by £3.4m from £66.6m to £63.2m despite an increase in net debt of £15.6m from £1,096.4m to £1,112.0m. This was as a result of the financing undertaken last year and stable interest rates. There was a reduction of £0.4m in other finance costs shown on the interest line in respect of accounting for pensions under FRS 17.

There was a tax charge in the year of £14.9m, an increase of £6.4m over £8.5m charged last year This was because:

- current year corporation tax increased by £4.6m (due to increased profits and a change to the tax treatment of expenditure on repairs)
- deferred tax increased by £1.8m.

Dividends declared in the year amounted to £59.3m compared to £46.9m last year. The final dividend for the year of £27.0m was declared and paid after the year end, this was not recognised in the financial statements in line with the requirements of FRS 21 "Events after Balance Sheet Date".

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

The key performance indicators for WWSL are measured for the regulatory year to 31 March. These are included in the Regulatory Accounts of WWSL whose registered address is Wessex Water Operations Centre, Claverton Down, Bath BA2 7WW.

Group operating profit as a percentage of turnover was 44.4% (2005 – 40.5%) with the increase being a combination of cost control and increased turnover. Interest cover was 2.45 times (2005 – 1.97 times) with the increase being due to the refinancing undertaken last year and stable interest rates.

OPERATIONAL REVIEW - WWSL

Water supply and water treatment

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

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

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

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

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

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

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

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

Sewerage and sewage treatment

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

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

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

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

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

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

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

Customers and staff

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

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

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

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

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

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

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

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

Wessex Water Partnership – during the year we introduced our community partnership programme – the Wessex Water Partnership. The Partnership brings together all of our community involvement including the Wessex Water Promise and Restart Plus. In addition it covers proactive help and advice on water conservation, a relaunch of our community support programmes and reinvestment of efficiency savings and customer service improvements.
Employees – we believe that our staff are essential to the success of the company and that it is vital they are provided with the right training, development and support to carry out their roles effectively. To meet the challenges of the future, a new structured training programme for leadership has been developed for supervisors and managers while an upskilling initiative has been introduced for our operators. To improve staff communication and working practices, a new three year project to develop the company intranet site has begun and is well under way.

Key issues facing the group

As a group the major issues we face are:

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

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

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

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

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

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

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

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

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

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

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

	Opening number	Exercise price RM	Date of grant	Exercise date	Expiry date	Grant	Exercise	Closing number
TK Harris	2,000,000	1.32	13/12/2002	13/12/2005	30/11/2011	-	400,000	1,600,000

The market price of the shares exercised in the year was RM2.10 and the gain on exercise was RM312,000. 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.

DISCLOSURE OF INFORMATION TO AUDITORS

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Group's auditors are unaware; and each director has taken all the steps that ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

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 a sustainability 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 2006.

CHARITABLE DONATIONS

During the year £120,000 was donated to UK charities (2005 - £160,000).

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 2006 trade creditors represented approximately 30 days trade purchases (2005 - 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

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

Andrew J Phillips

By order of the board
A J Phillips
Company secretary
19 September 2006

DIRECTORS' RESPONSIBILITIES

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

The group and parent company financial statements are required by law to give a true and fair view of the state of affairs of the group and parent company and of the profit or loss for that year.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable 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 parent company will continue in business.

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

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

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

We have audited the group and parent company financial statements (the "financial statements") of Wessex Water Ltd for the year ended 30 June 2006, which comprise the Group Profit and Loss Account, Balance Sheets, Group Cash Flow Statement, Statement of Total Recognised Gains and Losses and the related Notes to the Accounts. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Directors' Report and the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 8. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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

Basis of audit opinion

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

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

Opinion

In our opinion:

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

KPMG Audit Plc

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

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

	NOTE	Year to 30.06.06 £m	Year to 30.06.05 £m restated
Turnover	2	**357.7**	333.1
Operating costs	3	**(199.0)**	(198.1)
Operating profit	2	**158.7**	135.0
Net interest payable	5	**(67.5)**	(69.9)
Net interest receivable	5	**4.3**	3.3
Other finance costs	15	**(1.6)**	(2.0)
Profit on ordinary activities before taxation		**93.9**	66.4
Taxation on profit on ordinary activities	6	**(14.9)**	(8.5)
Profit attributable to shareholders		**79.0**	57.9

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

Details of the restated items are shown in note 28.

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

BALANCE SHEETS
30 June 2006

	NOTE	Group 30.06.06 £m	Group 30.06.05 £m restated	Company 30.06.06 £m	Company 30.06.05 £m restated
Fixed assets					
Tangible assets	8	**1,712.8**	1,688.8	**-**	-
Investments	9	**-**	0.1	**81.0**	81.1
		1,712.8	1,688.9	**81.0**	81.1
Current assets					
Stock	10	**5.1**	2.8	**-**	-
Debtors - amounts falling due within one year	11	**155.5**	139.6	**92.2**	73.3
Debtors - amounts falling due after more than one year	11	**-**	-	**15.3**	31.4
Short term cash investments		**26.7**	22.0	**-**	-
		187.3	164.4	**107.5**	104.7
Creditors – amounts falling due within one year	12	**(112.8)**	(188.6)	**(20.5)**	(16.4)
Net current assets / (liabilities)		**74.5**	(24.2)	**87.0**	88.3
Total assets less current liabilities		**1,787.3**	1,664.7	**168.0**	169.4
Creditors – amounts falling due after more than one year	13	**(1,185.8)**	(1,088.7)	**-**	-
Provisions for liabilities and charges	14	**(84.6)**	(77.7)	**(0.2)**	(0.6)
Retirement benefit obligations	15	**(50.4)**	(51.2)	**-**	-
Deferred income	16	**(21.9)**	(21.7)	**-**	-
Net assets	2	**444.6**	425.4	**167.8**	168.8
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	19	**284.0**	264.8	**7.2**	8.2
Equity shareholders' funds	20	**444.6**	425.4	**167.8**	168.8

Details of the restated items are shown in note 28.

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

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

T K Harris
Director

GROUP CASH FLOW STATEMENT
For the year to 30 June 2006

	NOTE	Year to 30.06.06 £m	Year to 30.06.05 £m
Net cash inflow from operating activities	21	**228.9**	208.4
Returns on investments and servicing of finance	22	**(63.4)**	(59.8)
Taxation		**(6.1)**	(1.6)
Capital expenditure and financial investment	23	**(115.7)**	(142.8)
Equity dividends paid		**(59.3)**	(46.9)
Cash outflow before financing		**(15.6)**	(42.7)
Financing	24	**11.2**	70.9
(Decrease) / increase in cash		**(4.4)**	28.2

Reconciliation of cash movement to the movement in net debt

	NOTE	Year to 30.06.06 £m	Year to 30.06.05 £m
(Decrease) / increase in cash - above		**(4.4)**	28.2
Movement in loans and leases		**(9.0)**	(68.7)
Non cash items	25	**(2.2)**	(2.2)
Movement in net debt	25	**(15.6)**	(42.7)
Opening net debt	25	**(1,096.4)**	(1,053.7)
Closing net debt	25	**(1,112.0)**	(1,096.4)

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

	Year to 30.6.06 £m	Year to 30.6.05 £m restated
Profit for the financial year	**79.0**	57.9
Total recognised gains relating to the financial year	**79.0**	57.9
Actuarial gains / (losses) net of taxation	**(0.4)**	(11.3)
Exchange movement on translation of overseas results and net assets	**(0.1)**	0.1
Total gains recognised since last annual report	**78.5**	46.7
Prior year adjustment – adoption of FRS 17	**(79.3)**	
	(0.8)	

NOTES TO THE ACCOUNTS
For the year to 30 June 2006

1 Accounting policies

a. Basis of preparation

The financial statements have been prepared on a basis consistent with last year, under the historic cost convention, in accordance with applicable accounting standards in the United Kingdom and, except for the treatment of certain grants and contributions (see note 1g) in accordance with the Companies Act 1985.

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

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

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

Under FRS 21 final dividends payable are recognised only in the period in which they are declared and therefore become a liability, whereas previously under SSAP 17 dividends were accrued for when proposed. This resulted in an increase of £15.8m in reserves for the year ended 30 June 2005.

b. Basis of consolidation

The consolidated financial statements include the financial statements of the company and its subsidiary undertakings made up to 30 June 2006. 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 year 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 requirements of schedule 4 of the Companies Act 1985 which requires assets to be stated at their purchase price or production cost, without deduction of grants and contributions which would be accounted for as deferred income. The departure from the 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 Group operates a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Group.

Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

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

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 year and reduced by payments made in the year.

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.

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

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

2 Segmental analysis

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 30.06.06 £m	Year to 30.06.05 £m restated
a. Turnover		
Regulated	**343.0**	309.6
Unregulated	**14.7**	23.5
	357.7	333.1
b. Operating profit		
Regulated	**158.6**	129.0
Unregulated	**0.1**	6.0
	158.7	135.0
c. Net assets		
Regulated	**369.2**	348.7
Unregulated	**75.4**	76.7
	444.6	425.4

3 Operating costs

		restated
Manpower costs (note 4b)	**43.4**	39.4
Materials and consumables	**21.4**	21.8
Other operational costs	**49.8**	56.0
Depreciation of fixed assets	**83.4**	82.0
Amortisation of grants and contributions	**(0.8)**	(0.8)
Loss/(profit) on disposals of fixed assets	**1.8**	(0.3)
	199.0	198.1
Operating costs include:		
Operating leases for plant and machinery	**1.7**	3.1
Research and development	**0.1**	0.1
Directors' remuneration (note 4c)	**0.9**	0.8
Remuneration to auditors - audit fees	**0.1**	0.2
- non audit fees	**-**	-

The auditors' remuneration in respect of the company was £24,000 (2005 - £23,000).

4	**Employment costs**		**Year to 30.06.06 £m**	Year to 30.06.05 £m restated
	Total employment costs of the group:			
	Wages and salaries		**52.1**	49.8
	Social security costs		**4.5**	4.4
	Other pension costs		**9.3**	8.1
			65.9	62.3
b.	Total employment costs are charged as follows:			
	Capital schemes		**17.8**	18.4
	Infrastructure renewals expenditure		**3.1**	2.5
	Other finance income		**1.6**	2.0
	Manpower costs		**43.4**	39.4
			65.9	62.3
			30.06.06 number	30.06.05 number restated
c.	Monthly average number of employees during the year	- Engineering & Construction	**404**	434
		- Billing	**292**	275
		- All other staff	**1,266**	1,229
		- Total	**1,962**	1,938
			Year to 30.06.06 £000	Year to 30.06.05 £000
c.	Total directors' remuneration			
	Salary and fees		**557**	544
	Bonuses		**300**	230
	Benefits in kind		**27**	33
			884	807

The above remuneration is in respect of two executive directors (2005 – two). Executive directors have one year rolling contracts of employment. One director has benefits accruing under a defined benefit pension schemes (2005 – two). The aggregate amount of contributions to pension schemes in respect of directors was £35k (2005 - £47k).

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	**354**	375
	Bonus	**200**	150
	Benefits in kind	**15**	14
		569	539

The highest paid director had an accrued annual pension entitlement of £270,516 at 30 June 2006 (2005 - £329,229).

		Year to 30.06.06 £m	Year to 30.06.05 £m
5	**Net interest payable**		
	On bank loans	**63.7**	65.4
	On finance leases	**3.8**	4.5
	Total interest payable	**67.5**	69.9
	Inter company interest receivable	**(2.5)**	(2.4)
	Other interest receivable	**(1.8)**	(0.9)
	Total interest receivable	**(4.3)**	(3.3)
	Net interest payable	**63.2**	66.6
6	**Taxation**		restated
a.	Analysis of charge in the period		
	Current year corporation tax:		
	UK corporation tax at 30%	**25.6**	10.8
	Advance corporation tax utilised relating to prior years	**(17.1)**	(7.2)
		8.5	3.6
	Prior year corporation tax:		
	Adjustments in respect of previous years	**-**	0.3
	Total corporation tax charge	**8.5**	3.9
	Deferred tax – current year:		
	Origination and reversal of timing differences	**15.9**	7.1
	(Increase)/decrease in discount	**(9.6)**	5.1
		6.3	12.2
	Deferred tax – prior year:		
	Origination and reversal of timing differences	**1.0**	(6.1)
	(Increase) in discount	**(0.9)**	(1.5)
		0.1	(7.6)
	Total deferred tax charge	**6.4**	4.6
	Taxation charge on profit on ordinary activities	**14.9**	8.5

	Year to 30.06.06 £m	Year to 30.06.05 £m restated
b. Current tax reconciliation		
Profit on ordinary activities before tax	**93.9**	66.4
Current tax at 30%	**28.2**	20.0
Expenses not deductible for corporation tax purposes	**-**	0.1
Group relief for nil consideration	**(3.7)**	(4.3)
Adjustments in respect of previous years	**-**	0.3
Capital allowances for the year lower/(greater than) depreciation	**3.3**	(2.8)
Payment of lease creditor capital	**(1.9)**	(1.9)
Subsidiary company losses	**0.3**	0.1
Advance corporation tax written back	**(17.1)**	(7.2)
Other timing differences	**(0.6)**	(0.4)
Total corporation tax charge (note 6a)	**8.5**	3.9

7 Dividends

Ordinary shares		restated
Final dividend in respect of a prior year but not recognised as a liability in that year	**15.8**	13.5
Interim dividends	**43.5**	33.4
	59.3	46.9

In accordance with FRS 21 "Events after Balance Sheet Date" the final dividend for 2005/06 declared and paid in July 2006 of £27.0m was not recognised in these financial statements.

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 2005	605.7	910.4	789.6	75.2	46.3	2,427.2
Additions	3.6	24.1	21.7	3.0	64.4	116.8
Transfers on commissioning	2.1	1.5	3.8	1.4	(8.8)	-
Disposals	(0.5)	-	(8.0)	0.1	-	(8.4)
Grants and contributions	-	(6.9)	-	-	-	(6.9)
At 30 June 2006	**610.9**	**929.1**	**807.1**	**79.7**	**101.9**	**2,528.7**
Depreciation						
At 1 July 2005	128.7	226.8	337.4	45.5	-	738.4
Charge for the year	11.6	25.1	42.2	4.5	-	83.4
Disposals	(0.3)	-	(5.7)	0.1	-	(5.9)
At 30 June 2006	**140.0**	**251.9**	**373.9**	**50.1**	-	**815.9**
Net Book Value						
At 30 June 2006	**470.9**	**677.2**	**433.2**	**29.6**	**101.9**	**1,712.8**
At 1 July 2005	477.0	683.6	452.2	29.7	46.3	1,688.8

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 £83.7m (2005 - £90.1m).

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

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

Included in the cost of infrastructure assets is £244.0m (2005 - £225.1m) of expenditure on maintaining the network, and £252.0m (2005 - £226.8m) of depreciation included in the profit and loss account.

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

9 Investments

	Group	Company	Company	Company
	Associated undertakings	Subsidiary companies	Associated undertakings	Total
	£m	£m	£m	£m
Cost				
At 1 July 2005	0.1	102.6	0.1	102.7
Transfer to fixed assets	(0.1)	-	(0.1)	(0.1)
At 30 June 2006	-	**102.6**	-	**102.6**
Amounts written off				
At 1 July 2005	-	21.6	-	21.6
Written off in the year	-	-	-	-
At 30 June 2006	-	**21.6**	-	**21.6**
Carrying value at 30 June 2006	-	**81.0**	-	**81.0**
Carrying value at 1 July 2005	0.1	81.0	0.1	81.1

The investments comprise shares in the subsidiary and associated undertakings. The principal subsidiary companies and associated undertakings are listed in note 30.

10 Stock

	Group	
	30.06.06	30.06.05
	£m	£m
Raw materials and consumables	**1.4**	1.0
Work in progress	**3.7**	1.8
	5.1	2.8

11 Debtors

	Group		Company	
	30.06.06	30.06.05	**30.06.06**	30.06.05
Amounts falling due within one year	**£m**	£m restated	**£m**	£m restated
Trade debtors	**45.0**	41.3	-	-
Amounts owed by subsidiary companies	-	-	**24.6**	15.9
Amounts owed by immediate parent company	**0.1**	9.4	-	-
Loan to immediate parent company	**57.6**	48.1	**57.6**	48.1
Corporation tax debtor	-	-	**0.1**	-
Other debtors	**4.4**	5.5	-	-
Prepayments and accrued income	**48.4**	35.3	**9.9**	9.3
	155.5	139.6	**92.2**	73.3
Amounts falling due after more than one year				
Deferred tax asset - advance corporation tax recoverable	-	-	**15.3**	31.4
Total debtors	**155.5**	139.6	**107.5**	104.7

A loan of £57.6m was made to YTL Utilities (UK) Limited and is repayable in October 2008.

12 Creditors - amounts falling due within one year

	Group		Company	
	30.06.06	30.06.05	**30.06.06**	30.06.05
	£m	£m restated	**£m**	£m restated
Bank overdraft repayable on demand	**9.1**	-	**7.2**	4.7
Loans repayable	**0.6**	78.4	**-**	-
Obligations under finance leases	**3.2**	2.7	**-**	-
Trade creditors	**3.3**	6.2	**-**	-
Amounts owed to subsidiary company	**-**	-	**12.6**	10.9
Amounts owed to parent company	**0.6**	0.6	**-**	-
Other creditors	**2.2**	1.7	**-**	-
Corporation tax	**6.7**	4.3	**-**	(0.1)
Other taxation and social security	**2.5**	1.4	**-**	-
Accruals and deferred income	**84.6**	93.3	**0.7**	0.9
	112.8	188.6	**20.5**	16.4

13 Creditors - amounts falling due after more than one year

Loans repayable	- in more than 1 year, but not more than 2 years	**0.6**	1.2
	- in more than 2 years, but not more than 5 years	**98.4**	23.3
	- in more than 5 years	**103.4**	78.9
		202.4	103.4
Finance lease repayable	- in more than 1 year, but not more than 2 years	**3.7**	3.2
	- in more than 2 years, but not more than 5 years	**15.0**	13.0
	- in more than 5 years	**65.4**	71.1
		84.1	87.3
Bonds	- in more than 2 years, but not more than 5 years	**299.0**	298.7
	- in more than 5 years	**597.9**	596.0
Other		**2.4**	3.3
		1,185.8	1,088.7

The bonds are issued by a subsidiary company Wessex Water Services Finance Plc. A bond of £299.0m is at an interest rate of 5.875% repayable in March 2009, another is a £55.1m index linked bond at an interest rate of 3.52% plus inflation repayable in July 2023, another is a £345.1m bond issued at an interest rate of 5.75% and repayable in October 2033, and a £197.7m bond is at an interest rate of 5.38% repayable in March 2028.

14 Provisions for liabilities and charges

	Deferred tax £m	Restructuring costs £m	Group Total £m
At 1 July 2005 (restated)	73.2	4.5	77.7
Utilised during year	-	(0.3)	(0.3)
Additional amounts provided	-	1.3	1.3
Origination and reversal of timing differences	16.1	-	16.1
(Decrease) in discount	(10.2)	-	(10.2)
At 30 June 2006	**79.1**	**5.5**	**84.6**

	Company			
	at 1 July 2005 £m	Provided £m	Utilised £m	**at 30 June 2006 £m**
Restructuring costs	0.6	(0.3)	(0.1)	**0.2**

Deferred tax is provided as follows:	Group **30.06.06 £m**	30.06.05 £m restated
Accelerated capital allowances	**307.0**	307.4
Other timing differences	**(1.6)**	(1.1)
Advance corporation tax recoverable	**(15.8)**	(32.8)
Undiscounted provision for deferred tax	**289.6**	273.5
Discount	**(210.5)**	(200.3)
Provision for deferred tax	**79.1**	73.2

15 Pensions

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

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.

Liabilities for an unfunded arrangement and a compensatory payment for added years' service are held outside the defined benefit scheme.

b. The total pension cost for the year under FRS 17, including amounts set aside for early retirees and other finance income, was £9.3m (2005 - £5.3m under SSAP 24).

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 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. The actuarial valuation described above has been updated at 30 June 2006 by a qualified actuary using revised assumptions that are consistent with the requirements of FRS 17. Investments have been valued, for this purpose, at fair value. The major assumptions used by the actuary were:

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

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

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

The expected rates of return were as follows:

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

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

f. Additional analysis:

	30.06.06	30.06.05
	£m	£m
Amount charged to operating profit		
Current service cost	**(6.7)**	(5.6)
Past service cost (augmentations and early retirement costs)	**(1.0)**	(0.5)
Total operating charge	**(7.7)**	(6.1)
Amount credited to other finance income		
Expected return on pension scheme assets	**14.0**	13.2
Interest on pension scheme liabilities	**(15.6)**	(15.2)
Net return / (cost)	**(1.6)**	(2.0)

	30.06.06 £m	30.06.05 £m
Amount recognised in statement of recognised gains and losses		
Actual return less expected return on pension scheme assets	**5.1**	18.7
Experience gains and losses arising on the scheme liabilities	**(0.2)**	(9.7)
Changes in assumptions underlying the present value of the scheme liabilities	**(5.5)**	(25.2)
Actuarial (loss)/gain recognised in statement of recognised gains and losses	**(0.6)**	(16.2)
Analysis of the movement in scheme surplus/(deficit) during the year		
Surplus/(deficit) in scheme at the start of the year	**(71.4)**	(51.9)
Current service cost	**(6.7)**	(5.6)
Contributions paid	**11.0**	4.8
Past service costs	**(1.0)**	(0.5)
Other finance income	**(1.6)**	(2.0)
Actuarial gains/(losses)	**(0.6)**	(16.2)
Surplus/(deficit) in scheme at the end of the year	**(70.3)**	(71.4)

History of experience gains and losses

	30.06.06	30.06.05	30.06.04	30.06.03
Difference between expected and actual return on scheme assets:				
Amount £m	**5.1**	18.7	4.3	(10.2)
Percentage of scheme assets	**2.0%**	7.8%	2.0%	(5.2)%
Experience gains/(losses) on scheme liabilities:				
Amount £m	**(0.2)**	(9.7)	(6.3)	(0.3)
Percentage of the present value of the scheme liabilities	**(0.1)%**	(3.1)%	(2.4)%	(0.1)%
Total amount recognised in STRGL:				
Amount £m	**(0.6)**	(16.2)	5.3	(36.6)
Percentage of the present value of the scheme liabilities	**(0.2)%**	(5.2)%	2.0%	(14.6)%

		30.06.06 £m	30.06.05 £m
16	**Deferred income**		
	Grants and contributions		
	At 1 July	**21.7**	21.1
	Received in the year	**1.0**	1.4
	Less amortisation	**(0.8)**	(0.8)
	At 30 June	**21.9**	21.7
17	**Called up equity share capital**	Group and Company	
	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
18	**Share premium account**	Group and Company	
	Share premium	**28.8**	28.8
19	**Profit and loss account**		
	Group		
	At 1 July	**328.3**	322.1
	Restated for dividend accounting under FRS 21	**15.8**	13.5
	Restated for pension accounting under FRS 17	**(79.3)**	(70.6)
	Restated 1 July	**264.8**	265.0
	Profit attributable to shareholders	79.0	57.9
	Dividends (note 7)	(59.3)	(46.9)
	Exchange movement on translation of overseas results and net assets	(0.1)	0.1
	Actuarial gains / (losses) net of taxation	(0.4)	(11.3)
	At 30 June	**284.0**	264.8
	Company		
	At 1 July	**6.3**	3.5
	Restated for dividend accounting under FRS 21	**1.9**	-
	Restated 1 July	**8.2**	3.5
	Retained for the year	**(1.0)**	4.7
	At 30 June	**7.2**	8.2

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 £58.3m (2005 - £51.6m) after dividends from subsidiary companies of £56.3m (2005 - £46.9m).

20 Reconciliation of movements in equity shareholders' funds

	Group		Company	
	30.06.06	30.06.05	**30.06.06**	30.06.05
	£m	£m	**£m**	£m
At 1 July	**488.9**	482.7	**166.9**	164.1
Restated for dividend accounting under FRS 21	**15.8**	13.5	**1.9**	-
Restated for pension accounting under FRS 17	**(79.3)**	(70.6)	**-**	-
Restated 1 July	**425.4**	425.6	**168.8**	164.1
Profit attributable to shareholders	**79.0**	57.9	**58.3**	51.6
Dividends (note 7)	**(59.3)**	(46.9)	**(59.3)**	(46.9)
Exchange movement on translation of overseas results and net assets	**(0.1)**	0.1	**-**	-
Actuarial gains / (losses) net of taxation	**(0.4)**	(11.3)	**-**	-
At 30 June	**444.6**	425.4	**167.8**	168.8

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

	Year to 30.06.06 £m	Year to 30.06.05 £m restated
Operating profit	**158.7**	135.0
Depreciation	**83.4**	82.0
Amortisation of grants and contributions	**(0.8)**	(0.8)
Provisions	**(7.0)**	1.0
Loss/(profit) on disposal of fixed assets	**1.8**	(0.3)
(Increase) / decrease in stocks	**(2.3)**	0.7
(Increase) in debtors	**(0.5)**	(4.1)
(Decrease) in creditors	**(4.4)**	(5.1)
	228.9	208.4

22 Returns on investments and servicing of finance

Interest received	**3.8**	7.8
Interest paid	**(63.4)**	(63.1)
Interest element of finance lease rentals	**(3.8)**	(4.5)
	(63.4)	(59.8)

23 Capital expenditure and financial investment

Purchase of tangible fixed assets	**(124.3)**	(159.2)
Sale of tangible fixed assets	**0.7**	1.7
Investment in associated undertaking	**0.1**	-
Connection charges, grants and deferred income	**7.8**	14.7
	(115.7)	(142.8)

24 Financing

Loans and finance leases	**11.2**	70.9
	11.2	70.9

25 Movement in net debt

	1 July 2005 £m	Cash Flow £m	Non cash items £m	**30 June 2006 £m**
Short term cash investments	22.0	4.7	-	**26.7**
Bank overdraft	-	(9.1)	-	**(9.1)**
Short term loans	(78.4)	77.8	-	**(0.6)**
Loans repayable after one year	(103.4)	(99.0)	-	**(202.4)**
Amounts owed by parent company	48.1	9.5	-	**57.6**
Finance leases repayable within one year	(2.7)	(0.5)	-	**(3.2)**
Finance leases repayable after one year	(87.3)	3.2	-	**(84.1)**
Bonds repayable after one year	(894.7)	-	(2.2)	**(896.9)**
	(1,096.4)	(13.4)	(2.2)	**(1,112.0)**

26 Financial instruments

Short term debtors and creditors have been excluded from the financial instrument disclosure other than £12.9m (2005 - £81.1m) of short term borrowings, £26.7m of short term cash investments (2005 – £22.0m), and £57.6m (2005 - £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 2006 there were £250.0m (2005 - £250.0m) 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 2006 £m	**Floating rate borrowings 2006 £m**	**Total borrowings 2006 £m**	Fixed rate borrowings 2005 £m	Floating rate borrowings 2005 £m	Total borrowings 2005 £m
Sterling	**907.7**	**204.3**	**1,112.0**	965.5	130.9	1,096.4

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

	Interest rate % 2006	**Period years 2006**	Interest rate % 2005	Period years 2005
Sterling	**5.59**	**17.1**	5.55	17.0

Floating rate borrowings with interest rates moving in line with LIBOR comprise £12.3m (2005 - £21.1m) of short term borrowings, £276.3m (2005 - £179.9m) of long term borrowings, £57.6m (2005 - £48.1m) owed to immediate parent company and £26.7m of short term debtors (2005 – £22.0m).

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 2006	**Fair value £m 2006**	Book value £m 2005	Fair value £m 2005
(Cash) / borrowings less than 1 year	**(13.8)**	**(13.8)**	59.1	59.1
Amounts owed by immediate parent company	**(57.6)**	**(57.6)**	(48.1)	(48.1)
Floating rate borrowings over 1 year	**275.7**	**275.7**	179.9	179.9
Fixed rate borrowings over 1 year	**907.7**	**953.1**	905.5	976.0
	1,112.0	**1,157.4**	1,096.4	1,166.9

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.

27 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 2006 the group had interest rate and currency instrument agreements outstanding with commercial banks with a principal value of £10.8m (2005 - £70.8m).

c. Capital expenditure contracted but not provided at 30 June 2006 was £84.0m (2005 - £48.7m).

28 Prior year adjustment

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

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

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

29 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 2006 was £1.2m (2005 - £1.3m).

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

30 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 & Construction Services Ltd **	United Kingdom	Engineering services
Wessex Promotions Ltd	United Kingdom	Concert promotion
Wessex Water Enterprises Ltd	United Kingdom	Unregulated water and waste water services

* 100% owned by Wessex Water Services Ltd
** Change of name from Wessex Engineering Services Ltd on 14 March 2006
Other subsidiary companies are dormant or not material to the group.

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

31 Related party transactions

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

32 Wessex Water Services Ltd - dividend policy

The policy adopted by the board of Wessex Water Services Ltd up to 31 March 2006 was 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.

33 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. Consolidated accounts of YTL Corporation Berhad are available on request from this address.

34 Post balance sheet event

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