WESSEX WATER LTD GROUP

CONSOLIDATED ACCOUNTS

For the year to
30 June 2011

Registered in England and Wales No 2366633

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CONTENTS

DIRECTORS' REPORT

The directors present their report and the audited accounts for the year to 30 June 2011

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, a wholly owned subsidiary company, undertakes unregulated water and waste water activities in the Wessex Water region SC Technology GmbH, a wholly owned subsidiary company which is registered in Switzerland, installs and operates sludge drying equipment with the principal contracts being in the Netherlands

FINANCIAL AND OPERATIONAL REVIEW

OVERVIEW

The last year brought new challenges to which Wessex Water, as always, responded positively and successfully We continue to be one of the most efficient and profitable water and sewerage companies and the savings we have made over the past five years mean that customers' bills were £21, or 5%, lower in 2010-11 than they otherwise would have been

Once again our compliance with drinking water standards exceeded 99 9% and compliance with sewage discharge consents continued to be 100% Overall, Wessex Water provides the highest levels of service in the industry and we are the industry leader in Ofwat's new league table for overall customer satisfaction Last year, 98% of customers who contacted us rated our service as either good or very good

FINANCIAL PERFORMANCE

Profit after tax increased by £14 9m from £111 8m to £126 7m, due to the factors shown below

Turnover increased by £10 9m or 2 4% to £467 4m, mainly driven by the increase in the regulated turnover of WWSL

Operational costs excluding depreciation increased by £3 1m from £133 0m to £136 1m because of the upward cost pressures from debt collection, business rates and new standards, but these increases were limited by savings made across the business, especially in respect of power

Depreciation charges (including the infrastructure maintenance charge and the disposal of assets) have increased by £5 4m as a result of the depreciation on the capital investment programme of £3 2m and a £2 2m increase in the infrastructure maintenance charge

Interest charges, including other finance charges, increased by £10 7m from £57 6m to £68 3m, a result of inflation on index linked bonds There was a decrease in net debt of £6 6m from £1,445 9m to £1,439 3m

The cash inflow of £6 6m comprised

- cash flow from operating activities of £321 0m, less
- interest payments of £65 3m
- tax payments of £34 6m
- net capital investment of £112 9m
- dividend payments of £101 6m

There was a tax charge in the year of £29 1m, a decrease of £23 2m over £52 3m charged last year, comprising

- a corporation tax increase of £1 2m because of a reduction in capital allowances claimed, there was a special 40% rate in the prior year and the Industrial Buildings Allowance rate reduced from 2% to 1%
- deferred tax moving from a £20 1m charge last year to a £4 3m credit this year because of the reduction in tax rates

Dividends declared in the year amounted to £145 1m compared to £146 0m last year The final dividend for the year of £23 1m 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"

Under FRS 17 'Retirement Benefits' the pension scheme deficit of £99 8m at the start of the year has reduced to £71 8m at 30 June 2011, the increase in the liabilities of £20 2m being less than the £48 2m increase in asset values

The key performance indicators for WWSL are measured for the regulatory year to 31 March and are included in the Regulatory Accounts of WWSL that are available from Wessex Water Operations Centre, Claverton Down, Bath BA2 7WW

Group operating profit as a percentage of turnover was 47 9% (2010 – 48 6%) as cost increases were proportionately more than the increase in turnover, and interest cover (excluding pensions finance charge) decreased to 3 4 times (2010 – 4 0 times) as net interest costs increased substantially

WESSEX WATER SERVICES LTD

HIGHLIGHTS

Over the past year (some indicators are measured for the regulatory year to March 2011) we have

- topped Ofwat's new league table for overall customer satisfaction
- seen 98% of customers who contacted us rating our service as either good or very good
- delivered all customer demands for water without restriction
- cut leakage and met our new leakage target despite the major increase in bursts caused by the very cold winters this year and last
- increased our renewable electricity generation by a further 16%
- saved 7% against regulatory expectations of operating expenditure
- been the first water company in the country to publish information that shows when storm overflows affecting bathing waters have been in use, through a new facility on our website
- gained recertification for PAS55, the independent asset management standard
- beaten our water efficiency target
- published initial results from the country's biggest trial of innovative metered tariff structures using smart meters
- received the Green Apple Award for our partners' programme, which supports environmental organisations in our region

A SUSTAINABLE FUTURE

Recently the industry emphasis has been on reform, with the government promising to incorporate the findings of several reviews into a Water White Paper, and Ofwat looking at how it should set future price limits

Additionally, Defra has been reviewing regulation more generally, including David Gray's review of Ofwat and the Consumer Council for Water We have engaged in the reform debate and are working to provide evidence to ensure the right decisions are reached for the future This includes our research work on catchment management, including engagement with farmers and the National Farmers Union, our metering and tariffs study that has involved more than 6,000 customers, and research on affordability and debt

The overall aim is a sustainable water sector that can deal with changes in population, water use and the climate

Based on our work to date we believe the following key areas are ready for reform

- fair and sustainable charging – we want to see a fair and sustainable charging system that makes water affordable for all and encourages customers to use it wisely
- long-term investment – the existing five-year price reviews must be set in the context of a longer term, 10-20 year investment plan with broad costings to bring greater continuity and enable the pace of investment to be set at an affordable rate
- engaging with customers – customers should have the main say in how their water company is performing on a day-to-day basis and be able to influence prices and discretionary investment at price controls
- incentives for sustainable water options – incentives should be improved and refocused to encourage more sustainable approaches, such as catchment management, renewable energy and cross-border supplies
- funding new development – change is needed to ensure the infrastructure required to meet new demand is funded by those creating the extra demand
- integrated drainage and resilience – reform is required in the scope of ownership and responsibility for UK drainage assets to deliver an integrated approach and attract the necessary investment to accommodate future development and climate change

PRINCIPAL RISKS AND UNCERTAINTIES

Over the past year we have taken our approach to risk management still further A risk committee, comprising the executive directors, has reviewed the major risks to the business, the mitigations already in place and the potential for further mitigation to reduce risks The board also reviews risk at least annually The latest price review period (AMP5) poses a number of uncertainties, notably

- continuing downward pressure on capital price inflation
- the potential impact of drought and more severe weather events
- worsening customer debt as a result of the fragile economy
- continuing uncertainty over pension deficits

We are managing and responding to these risks in a way that minimises the impact on our business and on our customers

We must also accommodate the transfer of private sewers in October 2011 and potential structural and/or legislative changes to the sector, including the separation of wholesale and retail activities The transfer of private sewers is likely to result in an interim determination to cover the significant cost impacts, although clearly we are working to minimise these

DELIVERING FOR CUSTOMERS

Customer service

This year we aimed to deliver the best service possible to all our customers We lead Ofwat's new service incentive mechanism (SIM) independent survey of customer experience – the qualitative element of the mechanism Our high satisfaction score owes much to prompt, warm voice telephone answering, rapid response, first time resolution of problems and keeping customers informed of what we are doing at all times

Our quantitative SIM score has also improved and we were placed first in Ofwat's league table of water and sewerage companies

Billing complaints fell by just under a half and total complaints were down by 39% as a result of our ongoing work to reduce service failures and a change in reporting to bring us into line with other companies

We are making wider use of customer feedback and where this has identified hotspots we have changed our processes, improved customer information, or proposed changes to our systems

Once again we retained our government standard Customer Service Excellence award for our approach to customer services We continue to have the best overall package of customer guarantees in the industry

Affordability, tariffs and debt recovery

The continuing fragile economic climate and marked increase in unemployment over the year have together brought growing affordability problems Last year we introduced a new credit management system which has allowed us to improve segmentation of our customer base, enabling more accurate targeting of customers and ultimately more productive and successful debt recovery

Our commitment to work on affordability continues unabated and is reflected in our strong links to and partnership with the Citizens Advice Bureau (CAB) We have also formed a partnership with the Money Advice Trust, in particular National Debtline, and are advising customers keen to take a more self-help approach to use this service

Around 7,000 customers continue to benefit from our Assist tariff, which enables those with the greatest difficulty in paying to make a modest contribution towards the costs of water and sewerage services Our measures to help customers adopt an affordable payment routine have seen cash collection increase by 30% despite cutting charges by around 50%

Similarly, our Restart schemes, designed to get customers who are having difficulty paying back on track, continue to work well and evidence suggests 14 out of 15 people on the schemes will not fall into arrears again

We have now published the interim findings of our tariff trial to test the effectiveness and customer response to metering and to three different sophisticated metered tariffs We found that fitting a meter when the occupier changes reduced customer demand for water by 17% without causing adverse customer reaction

However, it is also clear that metering could result in a greater proportion of our charges falling on those with lower incomes and we believe measures need to be put in place

• to protect low-income customers so that individually no-one has their basic water use rationed by ability to pay, and
• so that as a group they do not bear an additional burden in water charges overall

Seasonal charging structures appear to encourage a further step change in water conserving behaviour and improve the affordability of charges compared to both flat-rate and rising block charging structures However, such structures suffer from a perception problem and customers wrongly assume water companies are profiteering during the summer – particularly when the weather is dry

To overcome this we want to

• consider further the role that smart technology can play in allowing customers to engage with and feel in control of their water use and bill
• investigate the impact of more positive reward-based seasonal charging structures that operate at both individual and community levels
• and consider how customers may react to a choice of price structure

We are continuing work on all of these issues through a new Smart Meter Community project in the south of our region

Encouraging water efficiency

While our customers have now enjoyed 34 consecutive years without hosepipe bans or other restrictions, we are working hard to encourage them to save water This year we beat our target to help customers save one litre per property per day

Over the year we have

- provided educational information for customers through our website and various publications (including leaflets and the customer magazine)
- provided educational classes and materials for schoolchildren, including our Waterwatch pack
- distributed free WaterSave packs, Save-a-Flushes and self audit packs
- promoted water saving devices such as water butts and other water saving devices through our online shop
- set up a partnership with housing associations to install EcoBETA dual flush devices in some of their properties
- promoted the benefits of saving water to our commercial customers
- improved our own use of water such as treatment process optimisation, leakage management and reducing water wastage in offices

We intend to continue with these measures throughout the next five years while additionally incorporating emerging technology and third-party initiatives

Customer consultation and engagement

We undertook a wide range of customer consultation and engagement this year These included our tracking and monthly satisfaction surveys, customer feedback cards, focus groups and research questionnaires related to our metering and tariffs study, and a range of public consultations, roadshows and workshops

Our monthly satisfaction survey to March 2011 showed that of the 2,000 customers surveyed, 98% rated our overall service as good or very good Alongside this our proactive calling, within 24 hours of us leaving site, of customers who had reported an operational problem also showed 98% rated our service as good or very good

This year we have reviewed our stakeholder engagement and replaced our two customer liaison panels with three new ones– these cover customers and community, services and planning, and environment The membership of each panel has been widened so, for example, the customer and community panel now includes representatives of key customer stakeholders such as the Consumer Council for Water, RNIB, RNID, Citizens Advice and Money Advice Trust as well as local councillors

Our partnerships with local authorities and the Environment Agency (EA) continue to provide a forum for discussing and resolving any issues related to our services They have proved particularly fruitful in the case of flooding where various bodies have differing responsibilities and working in partnership can deliver more favourable solutions than working in isolation

DELIVERING CAPITAL INVESTMENT

In the year to March 2011 we delivered gross capital expenditure of £115 3m (£109 0m net), which is 76% of the Final Determination allowance for the first year of AMP5 During that year we met all regulatory outputs required in our determination, while successfully moving to our workstream-based delivery process and also releasing the technical briefs to the workstream partners for much of the AMP programme Furthermore, the Drinking Water Inspectorate reviewed all the AMP5 quality projects and was satisfied that project planning and progress is as expected The EA has also signed off all year one outputs required under the National Environment Programme (NEP)

The capital underspend was due to a combination of changes to the five-year profile of spend and savings in capital delivery The changes in profile were principally due to

- a slower start to investment in circumstances where we were not allowed an early-start programme
- the time taken to implement our new workstream procurement
- lower levels of customer-led investments, such as flooding and metering
- a review of our risk-based prioritisation to ensure we were targeting our investment in the right areas having overspent capital maintenance against determination in AMP4

In addition, there is continuing uncertainty around capital price inflation and this has a significant effect on our spend against determination

DELIVERING FOR THE ENVIRONMENT

We continue to do our best to protect the environment in all that we do Our compliance with drinking water standards continues to exceed 99 9% and compliance with sewage discharge consents remains at 100%

Once again our compliance with the EU's mandatory bathing water standards stands at 100% while compliance with the guideline, stricter, standard that will come into force in 2015, is 87 2%

Drinking water

Avoiding discoloured water problems remains a high customer priority and in AMP5 we have a major programme of mains rehabilitation to reduce the number of customer reports of discoloured water

The work in the Bridgwater zone is well advanced and scheduled for completion in summer 2011 and we have also made good progress on design and procurement for the work in other zones

Work has also begun at Sutton Bingham water treatment works, near Yeovil, to deal with deteriorating raw water quality due to pesticides, algae and manganese

Quality and environmental programme

We have made very good progress delivering the early phases of the AMP5 quality and environmental programme Wherever possible we continue to be innovative by developing lowest whole-life cost sustainable solutions rather than building conventional end-of-pipe treatment

Catchment management
Our catchment management activities have expanded to cover 15 catchments where nitrate or pesticide pollution is having an impact on raw water quality

We now have a team of six professionals providing advice and working in partnership with farmers to help reduce the impact of agriculture on our aquifers and reservoirs We continue to believe that dealing with the problem at source is a more sustainable and economic approach than energy and chemical intensive end-of-pipe treatment

Storm overflows
We met all our year one obligations and have completed schemes to reduce pollution from storm overflows in Weymouth We also installed equipment at 45 sites to record when combined sewer overflows are operating

Our website now provides up-to-date information for sites that may affect water quality at designated bathing beaches

Bathing water directive
Work has begun at Weston-super-Mare sewage treatment works on a £26m scheme to improve secondary treatment and storm storage to meet the requirements of the revised Bathing Water Directive The improvement work will be completed two years in advance of the new bathing water directive and involves increasing the secondary treatment and ultraviolet disinfection capacity which will improve the quality of discharges from the works

Work is also ongoing at Bishops Lydeard in Somerset to improve the quality of effluent discharged to the river

Environmental investigations
We have a significant programme of investigations in AMP5 aimed at ensuring sound science is applied to the identification of possible future work and in addition are investigating the development of more sustainable solutions

All investigations are progressing well and to programme These include

- investigating the impact of discharges from Wessex Water assets on bathing water quality in North Somerset
- trialling reed beds as a more sustainable process for phosphorus removal
- assessing the impact of discharges from Wessex Water assets and other sources on the nutrient levels in Poole Harbour, River Frome, and Bere Stream, all of which are Sites of Special Scientific Interest (SSSI) in Dorset
- investigating the presence and fate of certain priority hazardous substances through different types of treatment processes

Biodiversity

We have now exceeded the Defra Public Service Agreement target for our SSSI landholding 96% of our SSSIs are now either in favourable or unfavourable-recovering status We agreed with Natural England during the year to remove a number of very small parcels of land from the assessment and are working with them and our tenants to maintain our SSSI performance

The first year of phase 4 of our Biodiversity Action Plan partners programme is underway with £70,000 a year being divided among seven projects focusing on partnership working, science and research and specific biodiversity benefits that support our core business

Our innovation and technology forum continues to grow and prove successful at trialling ideas, equipment and technologies which may provide the treatment solutions of the future

Waste management
We are continuing with efforts to improve waste management and recycling and have a waste and recycling forum with good representation from key staff across the company

Abstraction impact
In order to reduce the environmental impact of our abstractions we have submitted licence variations to the Environment Agency for the Chitterne, Alton Pancras and Wimbleball sources These licence changes will formalise the revised source operations that have been in place for a number of years under the Statement of Intent process to protect river flows in the River Wylye and River Piddle catchments

Carbon management

Carbon management and accounting is a fundamental part of our central aspiration to become a genuinely sustainable water company, reflected in our long-term goal to become carbon neutral

We continued with action to reduce our emissions through avoidance measures, energy efficiency and increasing renewable energy generation There are more than 300 efficiency projects in our energy management database, with an increasing number coming from the water production and supply side of our activities

As part of the pumping efficiency programme we have taken the WRc base pump optimisation tool and developed a focused programme to identify and rectify inefficient pumping plant and systems in al parts of the business Increased adoption of automated meter reading has helped to ensure that accurate data is available to identify problem sites early and minimise inefficient operation

An advanced process control system has been operating successfully at Holdenhurst sewage treatment works and is producing excellent power reduction results The possibility of adapting similar control principles at other sites is being investigated and further projects are likely to be implemented this year We have refurbished the aeration system at Weymouth sewage treatment works with significant power savings as a result

We are currently installing a micro turbine on one of our water supply sites and actively looking at the possibility of using solar PV systems on some of our current buildings as part of our renewable energy generation portfolio

Our investment in advanced digestion and work to maximise biogas production continues to benefit our renewable energy production Bristol sewage treatment works continues to export surplus electricity to the national grid when generation exceeds on-site demand

DELIVERING THROUGH OUR ASSETS

Asset management

We are committed to maintaining our assets to ensure our infrastructure remains in best possible working order We continue to strengthen our approach to risk and asset management, ensuring that risks are understood and managed throughout the business

During the year we gained recertification for PAS55, the independent asset management standard The auditor commented that " [our] approach to risk has become well established across the business many of the processes are geared towards achieving an optimal combination of costs and risk mitigation "

We have invested in extending a new work and asset management system across all parts of the business This is enabling us to continue the development of our asset knowledge processes Improvements have also been made using best practice from a number of sectors And we have used PAS55 to ensure our processes are integrated throughout the company, and to continue developing our capability

Using Ofwat's serviceability toolkit we assess our serviceability as stable

Water supply

Planning for our water supply grid, a multi-purpose regional project that will be the largest ever carried out by the company, progresses well It will include new trunk mains, new service reservoirs and new and refurbished pumping stations across Dorset, Somerset and Wiltshire Construction is expected to start in 2013 and continue through to 2018

Once complete it will

- improve the security of supply to customers, even in the event of a catastrophic source failure
- meet our customers' demand for water over the next 25 years
- meet the reductions in abstraction licences required by the Environment Agency to improve flows in some rivers and protect their ecology
- deal with deteriorating raw water quality, particularly increasing concentrations of nitrates at some of our groundwater sources

Sewage flooding

At the end of the first year of AMP5 there was a lower number of properties on the flooding registers than ever before Our external flooding programme has also removed 36 properties or areas at risk of external flooding

Our work with local councils on their development of surface water management plans continues and we have now signed data sharing agreements with nine of the 10 upper-tier authorities in our licence area who are developing plans

Leakage

Despite the prolonged sub-zero conditions and snow cover during December 2010 we have cut leakage from 74ML/d and met our new target of 71ML/d This is despite the Boxing Day thaw which caused an unprecedented overnight increase in leakage with the instantaneous minimum night flow rising by 90ML/d – a doubling of leakage overnight Following the thaw, we stepped up leakage detection significantly, doubling night work and weekends

Our staff and contractors worked for a prolonged period in demanding conditions with the result that bursts and leaks were identified and repaired as quickly as possible By the end of February minimum night flows had returned to November levels

Financing new development

We remain concerned over the way new development is financed The principle of development being self financing should be backed by a legal framework which ensures developers cannot connect to sewers where capacity is not available and they contribute their fair share of the costs of any necessary improvements to infrastructure

First-time sewerage

We have provided three communities with a public sewerage system for the first time and continued our work to identify and reduce the number of misconnections to the sewerage system that give rise to stream pollution

Meeting demands

We maintained supplies to customers throughout the year without restrictions for the 34th consecutive year and will not be imposing restrictions in the coming year

At the start of 2011-12 water resources were lower than normal due to the dry winter, particularly in March and April, but still considerably above levels in 1975-76 Our resilience to drought is considerably better than in 1975-76 due to lower leakage and higher levels of metering

Indications from our metering and tariff study suggest that metering considerably reduces peak demands, although the trial period has yet to cover a very dry summer

We installed just under 9,000 meters which is broadly in line with our expectations in our business plan of 49,000 meters over the whole of the AMP

Low levels of house building and commercial development resulted in relatively low demand for new distribution mains

Although there is some evidence of a recovery in new building, it remains to be seen whether this will be sustained bearing in mind the general economy and cutbacks in public sector investment

A major pumping station upgrade has been completed at Newstead Road in Weymouth to increase capacity and improve the security of supply to Weymouth and Portland, including the site of the 2012 Olympic saling events

DELIVERING THROUGH OUR PEOPLE

Over the past year the challenging economic and climatic conditions have proved not only how much the success of Wessex Water depends on its employees, but also that we have the best in the business Throughout this period they have continued to provide outstanding service to our customers, in particular working for prolonged periods to deal with the sub-zero temperatures and then the subsequent thaw of December 2010

During the year a package of terms and conditions, including a three-year pay deal, was agreed with the trade unions, staff and management

Health and safety

The health and safety of employees remains paramount and maintaining high standards is an essential measure of the successful operation of our business Our health and safety team advise on health and safety policy, the development of company targets and monitoring compliance with company standards

Dedicated health and safety advisers work with the management teams responsible for individual business areas to ensure the safety of our employees and others, while promoting and maintaining the company's standards and strategy for health and safety

There were 14 reportable incidents in 2010, which is below the five-year average of 22 but still higher than the 12 reportable incidents in 2009 The increase was caused by one occurrence of a reportable disease (hand arm vibration syndrome) and an increase in the number of injuries longer than three days from eight to nine

Training

Technical and regulatory training are our main training priorities and over the year there were 113 NVQs and approximately 200 individuals carried out plant and equipment training or reassessment

More than 400 people undertook a programme of best-practice training and managers delivered a series of toolbox talks to a total of 1,674 people across the company covering approximately 80 different subjects

During the year, as part of the Wessex Water Academy, we launched the Leadership Capability Programme in partnership with ACUA – Coventry University's business arm The overall aim was to identify and develop our potential future leaders

WESSEX WATER ENTERPRISES LTD

The company generated turnover of £13 7m (£13 7m last year) from a number of unregulated activities in the Wessex Water Services Ltd region The principal unregulated activities were the treatment of organic waste, power generation, solicitors' searches and sale of industrial cooling water

SC TECHNOLOGY GmbH

Trading under the name Swiss Combi the turnover of the company for the year was £8 7m (down from £9 6m last year) The principal subsidiary in Holland operates two sludge drying plants and has long term contracts with two major customers

DIRECTORS

The directors of the company during the year and subsequently were

C F Skellett
M T Watts
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
M T Watts	240,000	1 32	13/12/2002	13/12/2005	29/11/2011	-	-	240,000

No options were exercised in the year 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 THE AUDITOR

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

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

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

Company law requires the directors to prepare financial statements for each financial year Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006 They 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

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 while 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, televisual communication, conferences and the wide availability of the company intranet

SUSTAINABILITY

WWSL has a sustainability vision that guides its progress towards being a sustainable water company The sustainability vision is reviewed bi-annually The company's sustainability panel monitors progress and discusses major issues of current and future concern

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 The environment policy is reviewed annually

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 2011

CHARITABLE DONATIONS

During the year £356,000 was donated to UK charities (2010 – restated to include payments to Citizens Advice Bureau - £424,000)

SUPPLIER 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 2011 trade creditors represented approximately 31 days trade purchases (2010 - 32 days) The group does not follow any specific external code or standard on payment policy

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 UK Corporate Governance 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

RE-APPOINTMENT OF AUDITOR

Pursuant to section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG Audit Plc will therefore continue in office

Andrew J Phillips

By order of the board
A J Phillips
Company secretary
21 September 2011

KPMG

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WESSEX WATER LTD

We have audited the financial statements of Wessex Water Ltd for the year ended 30 June 2011 set out on pages 14 to 36 The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice)

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

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 11, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www frc org uk/apb/scope/private cfm

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the group's and the parent company's affairs as at 30 June 2011 and of the group's profit for the year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

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

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

A C Campbell

AC Campbell-Orde (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc,
Statutory Auditor
Chartered Accountants
100 Temple Street
Bristol, BS1 6AG
21 September 2011

GROUP PROFIT AND LOSS ACCOUNT
For the year to 30 June 2011

	NOTE	Year to 30 06 11 £m	Year to 30 06 10 £m
Turnover	2	**467 4**	456 5
Operating costs	3	**(243 3)**	(234 8)
Operating profit	2	**224.1**	221 7
Interest payable and similar charges	5	**(67 6)**	(57 4)
Interest receivable	5	**2 2**	2 1
Other finance charge	16	**(2 9)**	(2 3)
Profit on ordinary activities before taxation		**155 8**	164 1
Taxation on profit on ordinary activities	6	**(29 1)**	(52 3)
Profit for the financial year		**126 7**	111 8

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

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

BALANCE SHEETS
30 June 2011

	NOTE	Group 30 06 11 £m	Group 30 06 10 £m	Company 30 06 11 £m	Company 30 06 10 £m
Fixed assets					
Tangible assets	8	**2,027.3**	2,011 8	**-**	-
Investments	9	**-**	-	**82.5**	82 5
		2,027.3	2,011 8	**82.5**	82 5
Current assets					
Stock	10	**6 8**	6 0	**-**	-
Debtors	11	**214 8**	210 8	**149 9**	105 9
Cash at bank and in hand	12	**1 2**	56 2	**-**	-
		222.8	273 0	**149 9**	105 9
Creditors – amounts falling due within one year	13	**(212 8)**	(195 0)	**(66 7)**	(22 7)
Net current assets		**10.0**	78 0	**83 2**	83 2
Total assets less current liabilities		**2,037.3**	2,089 8	**165.7**	165 7
Creditors – amounts falling due after more than one year	14	**(1,489.8)**	(1,506 6)	**-**	-
Provisions for liabilities and charges	15	**(96.8)**	(104 6)	**-**	-
Retirement benefit obligations	16	**(54 3)**	(73 0)	**-**	-
Deferred income	17	**(18 5)**	(19 3)	**-**	-
Net assets	2	**377.9**	386 3	**165 7**	165 7
Capital and reserves					
Called up equity share capital	18	**131.8**	131 8	**131.8**	131 8
Share premium account	19	**28 8**	28 8	**28 8**	28 8
Profit and loss account	20	**217 3**	225 7	**5 1**	5 1
Equity shareholders' funds	21	**377.9**	386 3	**165 7**	165 7

The accompanying notes are an integral part of this balance sheet
Registered in England and Wales No 2366633
These accounts were approved by the board of directors on 21 September 2011 and signed on its behalf by

M T Watts
Director

GROUP CASH FLOW STATEMENT
For the year to 30 June 2011

	NOTE	Year to 30 06.11 £m	Year to 30 06 10 £m
Net cash inflow from operating activities	22	**321.0**	304 9
Returns on investments and servicing of finance	23	**(65.3)**	(55 0)
Taxation		**(34 6)**	(22 9)
Capital expenditure and financial investment	24	**(112 9)**	(100 9)
Equity dividends paid		**(101 6)**	(146 0)
Cash inflow / (outflow) before financing		**6.6**	(19 9)
Financing	25	**(61.6)**	40 7
(Decrease) / increase in cash		**(55.0)**	20 8

Reconciliation of cash movement to the movement in net debt

(Decrease) / increase in cash - above		**(55 0)**	20 8
Movement in loans and leases		**80 6**	(31 9)
Non cash items	26	**(19 0)**	(8 8)
Movement in net debt	26	**6.6**	(19 9)
Opening net debt	26	**(1,445.9)**	(1,426 0)
Closing net debt	26	**(1,439 3)**	(1,445 9)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
For the year to 30 June 2011

	NOTE	Year to 30.06.11 £m	Year to 30 06 10 £m
Profit for the financial year		**126 7**	111 8
Total recognised gains relating to the financial year		**126 7**	111 8
Actuarial gains / (losses) net of taxation	20	**10 6**	(45 1)
Foreign currency adjustment	20	**(0 6)**	0 1
Total gains recognised since last annual report		**136.7**	66 8

NOTES TO THE ACCOUNTS
For the year to 30 June 2011

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 1f) in accordance with the Companies Act 2006

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

b **Basis of consolidation**

The consolidated financial statements include the financial statements of the company and its subsidiary undertakings made up to 30 June 2011 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 408 of the Companies Act 2006 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, the 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 **Turnover**

Turnover for the group represents income receivable in the ordinary course of business, excluding VAT, for services provided to third party customers Turnover is recognised to the extent that it is probable that economic benefits will flow to the company The company has chosen not to recognise as turnover the bills raised for customers who have a record of at least two years' non payment

d **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

e **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

f 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 17)

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 the Companies Act 2006 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

g 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

h Stock

Stock and work in progress are stated at cost less any diminution in 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

i 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

j Interest rate instruments

Interest rate instruments may be 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

k 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

l Research and development

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

m 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

The group also operates a defined contribution pension scheme Contributions to the scheme are charged to the profit and loss account in the period to which they relate n **Fınance costs**

Fınance costs of debt are recognısed ın the profit and loss account over the term of the ınstrument at a constant rate on the carryıng amount

o **Debt**

Debt ıs ınıtıally stated at the amount of the net proceeds after the deductıon of ıssue costs The carryıng amount ıs ıncreased by the finance costs ın respect of the accountıng year and reduced by payments made ın the year

p **Cash and lıquıd resources**

Cash, for the purpose of the cash flow statement, comprıses cash ın hand and deposıts repayable on demand, less overdrafts payable on demand

q **Dıvıdends on shares presented wıthın shareholders' funds**

Dıvıdends are proposed by the Board and ımmedıately afterwards are authorısed by the shareholder and therefore are recognısed as a lıabılıty ın the accounts untıl paıd

2 Segmental analysis

	Year to 30.06.11 £m	Year to 30 06 10 £m

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 30.06.11 £m	Year to 30 06 10 £m
a. Turnover		
Regulated	**446.7**	434 6
Unregulated	**20.7**	21 9
	467.4	456 5
b Operating profit		
Regulated	**219.9**	215 1
Unregulated	**4.2**	6 6
	224.1	221 7
c Net assets		
Regulated	**300 2**	308 3
Unregulated	**77 7**	78 0
	377 9	386 3

3 Operating costs

	Year to 30.06.11 £m	Year to 30 06 10 £m
Manpower costs (note 4b)	**42.1**	43 2
Materials and consumables	**27.8**	31 7
Other operational costs	**66.2**	58 1
Depreciation of fixed assets	**108 2**	102 2
Amortisation of grants and contributions	**(0.9)**	(1 0)
(Profit) / loss on disposals of fixed assets	**(0.1)**	0 6
	243.3	234 8
Operating costs include		
Operating leases for plant and machinery	**1.4**	1 0
Research and development	**0.1**	0 1
Directors' remuneration (note 4d)	**0.8**	1 8

	Year to 30 06.11 £000	Year to 30 06 10 £000
Auditor's remuneration		
Audit of these financial statements	**85**	80
Audit of financial statements of subsidiaries pursuant to legislation	**136**	125
All other services	**10**	6
	231	211

		Year to 30 06 11 £m	Year to 30 06 10 £m
4	**Employment costs**		
a.	Total employment costs of the group		
	Wages and salaries	**58.7**	60 2
	Social security costs	**5.1**	4 8
	Other pension costs	**2.5**	6 3
		66.3	71 3
b	Total employment costs are charged as follows		
	Capital schemes	**17 2**	21 3
	Infrastructure renewals expenditure	**7.0**	6 8
	Manpower costs (note 3)	**42 1**	43 2
		66 3	71 3

			30 06 11 number	30 06 10 number
c	Monthly average number of employees during the year	- Billing services	**344**	334
		- All other staff	**1,674**	1,727
		- Total	**2,018**	2,061

		Year to 30 06.11 £000	Year to 30 06 10 £000
d	Total directors' remuneration		
	Salary and fees	**551**	624
	Compensation for loss of office	**-**	476
	Bonuses	**235**	689
	Benefits in kind	**40**	40
		826	1,829

The above remuneration is in respect of two executive directors (2010 – three) Executive directors have one year rolling contracts of employment In addition executive directors received £100k (2010 - £100k) remuneration from other group companies One director has benefits accruing under a defined benefit pension schemes (2010 – one) The aggregate amount of contributions to pension schemes in respect of directors was £34k (2010 - £53k)

e	Remuneration of highest paid director		
	Salary	**390**	199
	Compensation for loss of office	**-**	476
	Bonus	**150**	578
	Benefits in kind	**24**	10
		564	1,263

There is a different highest paid director in each year and respectively they had an accrued annual pension entitlement of £150,337 at 30 June 2011 (2010 - £158,996)

		Year to 30 06 11 £m	Year to 30 06 10 £m
5	**Net interest payable**		
	On bank loans	**66 4**	55 9
	On finance leases	**1 2**	1 5
	Total interest payable	**67 6**	57 4
	Inter company interest receivable	**(1 4)**	(1 5)
	Interest receivable on short term deposits	**(0 8)**	(0 6)
	Total interest receivable	**(2 2)**	(2 1)
	Net interest payable	**65 4**	55 3
6	**Taxation**		
a	Analysis of charge in the period		
	Current year corporation tax		
	UK corporation tax at 27 5% (2010 - 28 0%)	**36.0**	34 5
	Adjustments in respect of previous years	**(2.6)**	(2 3)
	Total corporation tax charge	**33 4**	32 2
	Deferred tax – current year		
	Origination and reversal of timing differences	**(15 0)**	8 6
	Decrease in discount	**9 6**	6 6
		(5 4)	15 2
	Deferred tax – prior year		
	Origination and reversal of timing differences	**2 0**	2 4
	(Increase) / decrease in discount	**(0 9)**	2 5
		1 1	4 9
	Total deferred tax (credit) / charge	**(4.3)**	20 1
	Taxation charge on profit on ordinary activities	**29.1**	52 3

	Year to 30.06 11 £m	Year to 30 06 10 £m
b Current tax reconciliation		
Profit on ordinary activities before tax	**155.8**	164 1
Current tax at 27 5% (2010 - 28 0%)	**42 8**	45 9
Group relief for nil consideration	**(3 1)**	(1 9)
Adjustments in respect of previous years	**(2 6)**	(2 3)
Capital allowances for the year less / (greater) than depreciation	**2 0**	(3 8)
Payment of lease creditor capital	**(1 8)**	(1 8)
Subsidiary company profits	**(0 1)**	-
Other timing differences	**(3 8)**	(3 9)
Total corporation tax charge (note 6a)	**33 4**	32 2

c On 23 March 2011 the Chancellor announced the reduction in the corporation tax rate from 28% to 26% with effect from 1 April 2011 This change reduced the corporation tax rate to 27 5% for the year to June 2011 and reduced the deferred tax liability (note 15) and the deferred tax asset (note 16)

The Chancellor also announced a reduction in the corporation tax rate by 1% per annum to 23% by 1 April 2014, but these changes were not substantially enacted by 30 June 2011, and the impact has not been included above Had this change been enacted at the balance sheet date the deferred tax provision (note 15) would have decreased by £13 2m to £83 5m, and the deferred tax asset (note 16) would have decreased by £2 2m to £16 5m

7 Dividends

Ordinary shares

Final dividend in respect of a prior year but not recognised as a liability in that year	**34 5**	27 4
Interim dividends	**110 6**	118 6
	145 1	146 0

In accordance with FRS 21 "Events after Balance Sheet Date" the final dividend for 2010/11 declared and paid in July 2011 of £23 1m 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 2010	676 4	1,163 9	1,119 2	92 4	34 6	3,086 5
Additions	1 5	46 5	31 1	3 8	48 6	131 5
Exchange differences	0 1	-	1 7	-	-	1 8
Transfers on commissioning	1 6	5 9	13 1	3 0	(23 6)	-
Disposals	(1 3)	-	(10 2)	(0 4)	-	(11 9)
Grants and contributions	-	(5 9)	-	-	-	(5 9)
At 30 June 2011	**678.3**	**1,210.4**	**1,154 9**	**98 8**	**59.6**	**3,202.0**
Depreciation						
At 1 July 2010	189 3	369 3	491 6	24 5	-	1,074 7
Charge for the year	13 7	34 3	54 8	5 4	-	108 2
Exchange differences	-	-	0 9	-	-	0 9
Disposals	(0 6)	-	(8 3)	(0 2)	-	(9 1)
At 30 June 2011	**202 4**	**403.6**	**539 0**	**29 7**	-	**1,174 7**
Net Book Value						
At 30 June 2011	**475 9**	**806.8**	**615 9**	**69.1**	**59 6**	**2,027 3**
At 1 July 2010	487 1	794 6	627 6	67 9	34 6	2,011 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 £51 5m (2010 - £58 0m)

The depreciation charge for the year on assets held under finance leases is £6 5m (2010 - £6 4m)

The net book value of infrastructure assets at 30 June 2011 is stated after the deduction of grants and contributions amounting to £122 0m (2010 - £116 1m) in order to give a true and fair view (see note 1f)

Included in the cost of infrastructure assets is £406 7m (2010 - £369 2m) of expenditure on maintaining the network, and £403 7m (2010 - £369 4m) of depreciation included in the profit and loss account

Included in freehold land and buildings above is an amount of £10 5m (2010 - £10 3m) in respect of land which is not depreciated

9 Investments

Company	Subsidiary companies £m
Cost	
At 1 July 2010	104 1
Additions	-
At 30 June 2011	**104.1**
Amounts written off	
At 1 July 2010	21 6
Written off in the year	-
At 30 June 2011	**21.6**
Carrying value at 30 June 2011	**82 5**
Carrying value at 1 July 2010	82 5

The investments comprise shares in the subsidiary and associated undertakings The principal subsidiary companies and associated undertakings are listed in note 31

10 Stock

	Group	
	30 06 11	30 06 10
	£m	£m
Raw materials and consumables	**3 0**	2 9
Work in progress	**3 8**	3 1
	6 8	6 0

11 Debtors

	Group		Company	
	30.06 11	30 06 10	**30 06.11**	30 06 10
	£m	£m	**£m**	£m
Trade debtors	**48 8**	45 6	**-**	-
Amounts owed by subsidiary companies	**-**	-	**50.7**	6 8
Amounts owed by immediate parent company	**0 1**	0 1	**0.1**	0 2
Loan to immediate parent company	**89 4**	89 4	**89 4**	89 4
Other debtors	**3 0**	2 3	**-**	-
Prepayments and accrued income	**73.5**	73 4	**9 7**	9 5
	214 8	210 8	**149.9**	105 9

A loan of £89 4m (2010 - £89 4m) was made to YTL Utilities (UK) Limited and is repayable in October 2011

12 Cash at bank and in hand

Short term cash investments	**-**	52 0
Cash at bank	**1 2**	4 2
	1.2	56 2

13 Creditors - amounts falling due within one year

	Group 30 06 11 £m	Group 30 06 10 £m	Company 30 06 11 £m	Company 30 06 10 £m
Bank overdraft repayable on demand	-	-	-	0 9
Loans repayable	5 5	80 4	5.1	4 9
Obligations under finance leases	35 6	5 6	-	-
Trade creditors	12.7	3 3	-	-
Amounts owed to subsidiary company	-	-	18 0	16 8
Amounts owed to parent company	0 6	0 6	-	-
Amounts owed to associate companies	0 4	0 4	-	-
Dividend	43 5	-	43 5	-
Other creditors	3 1	3 2	-	-
Corporation tax	18.5	19 6	-	-
Other taxation and social security	2.0	1 8	-	-
Accruals and deferred income	90.9	80 1	0.1	0 1
	212 8	195 0	66.7	22 7

14 Creditors - amounts falling due after more than one year

		30 06 11	30 06 10
Loans repayable	- in more than 1 year, but not more than 2 years	50 4	0 4
	- in more than 2 years, but not more than 5 years	102 0	52 1
	- in more than 5 years	140 0	240 0
		292.4	292 5
Finance lease repayable			
	- in more than 1 year, but not more than 2 years	3.6	6 3
	- in more than 2 years, but not more than 5 years	13 3	24 0
	- in more than 5 years	12 5	34 7
		29 4	65 0
Bonds	- in more than 5 years	1,167 0	1,148 0
Other		1 0	1 1
		1,489 8	1,506 6

The bonds were issued by a subsidiary company Wessex Water Services Finance Plc as follows

Bond at 5 375% repayable in March 2028	198 2	198 1
Bond at 5 75% repayable in October 2033	346 0	345 8
Index linked bond at 3 52% plus inflation repayable in July 2023	63 6	62 3
Index linked bond at 2 186% plus inflation repayable in June 2039	54 3	51 0
Index linked bond at 1 75% plus inflation repayable in July 2046	85 5	83 8
Index linked bond at 1 75% plus inflation repayable in July 2051	85 6	83 8
Index linked bond at 1 369% plus inflation repayable in July 2057	85 6	83 8
Index linked bond at 1 374% plus inflation repayable in July 2057	85.6	83 8
Index linked bond at 1 489% plus inflation repayable in November 2058	54 2	51 9
Index linked bond at 1 495% plus inflation repayable in November 2058	54.2	51 9
Index linked bond at 1 499% plus inflation repayable in November 2058	54.2	51 8
	1,167 0	1,148 0

15 **Provisions for liabilities and charges**

	Deferred tax £m	Restructuring costs £m	Group Total £m
At 1 July 2010	104 2	0 4	104 6
Provided in year	-	0 7	0 7
Utilised during year	-	(1 0)	(1 0)
Origination and reversal of timing differences	(16 2)	-	(16 2)
Decrease in discount	8 7	-	8 7
At 30 June 2011	**96 7**	**0 1**	**96.8**

Restructuring costs relate to the severance costs of a redundancy programme in WWSL

Deferred tax is provided as follows	Group 30 06.11 £m	Group 30 06 10 £m
Accelerated capital allowances	**274 1**	290 5
Other timing differences	**(0.6)**	(0 8)
Undiscounted provision for deferred tax	**273.5**	289 7
Discount	**(176 8)**	(185 5)
Provision for deferred tax	**96 7**	104 2

16 **Pensions**

FRS 17 pension liability (see note 16f)	**71.8**	99 8
FRS 17 deferred tax asset	**(18.7)**	(27 9)
Unfunded and compensatory added years pension	**1.2**	1 1
	54.3	73 0

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 separate trustee administered funds The pension cost charged to the profit and loss account has been determined on the advice of independent qualified actuaries and is such as to spread the cost of pensions over the service lives of the members of the scheme The scheme has been closed to new members

Liabilities for an unfunded arrangement and a compensatory payment for added years' service are held outside the defined benefit scheme The group also operates a defined contribution section within the main pension scheme

b The total pension cost for the year under FRS 17, including amounts set aside for early retirees and other finance income, was £8 0m (2010 - £10 6m) Actuarial gains and losses have been recognised in the period in which they occur through the Statement of Total Recognised Gains and Losses

c The latest actuarial valuation for WWPS was undertaken at 31 December 2010 The assumptions which have the most significant effect on the results of a valuation are those relating to the discount rate for scheme liabilities and the rate of increase in salaries and pensions It was assumed that the pre retirement discount rate would be 6 3% and the post retirement discount rate 5 3%, that salary increases would be 3 5% per annum in year 1, 3 0% in years 2 and 3 and 4 3% thereafter and that present and future pensions would increase between 2 2% and 3 3% per annum The market value of the WWPS assets as at 31 December 2010 was £345 3m which represented 81 2% of the actuarial value of the accrued benefits of £425 2m, a deficit of £79 9m The next actuarial valuation will be at 31 December 2013

In response to this valuation the company agreed to pay additional contributions of £8 6m per annum at 31 March 2012, and at 31 March for a further 9 years d Following the UK Government's announcement in summer 2010, the inflation index to be used to derive statutory pension increases has been changed from the Retail Prices Index (RPI) to the Consumer Prices Index (CPI) The effect of this change on the benefits provided by the Wessex Water Pension Scheme is that MIS members receive CPI inflation increases in deferment and payment, and that post 88 GMP increases in payment are based on CPI inflation up to 3% each year Due to a number of differences between the indices, including both constituents and construction, CPI is expected to be less than RPI over the long-term which means that the defined benefit obligation has reduced The reduction has been recognised as an assumption change on 30 June 2011

e The actuarial valuation described above has been updated at 30 June 2011 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 11	30 06 10
Rate of increase in salaries – short term	**3.1% to 3 5%**	3 3%
Rate of increase in salaries – long term	**4.4%**	3 3%
Rate of increase in pensions in payment	**2 7% or 3.3%**	3 2%
Rate of increase in pensions in payment – reduced level members	**2 2%**	2 2%
Discount rate	**5 6%**	5 4%
Inflation assumption - RPI	**3.6%**	3 3%
Inflation assumption - CPI	**2 7%**	-

The mortality assumptions are based upon the recent actual mortality experience of members within the scheme, and the assumptions also allow for future mortality improvements The assumptions are that a member currently aged 60 will live, on average, for a further 27 0 years if they are male, and for a further 28 7 years if they are female For a member who retires in 2031 at age 60 the assumptions are that they will live, on average, for a further 28 5 years after retirement if they are male, and a further 30 3 years after retirement if they are female

f The value of the assets and liabilities at 30 June 2011 and the previous year was as follows

	30 06.11	30 06 10
	£m	£m
Equities	**170.6**	141 5
Property	**23.7**	20 1
Government Bonds	**146.7**	125 5
Corporate Bonds	**18.4**	9 8
Other	**0 4**	14 7
Total fair value of the assets	**359 8**	311 6
Present value of defined benefit obligations	**(431 6)**	(411 4)
Deficit in the scheme	**(71 8)**	(99 8)

The expected rates of return were as follows

	%	%
Equities	**8 3**	8 3
Property	**8 0**	8 8
Government Bonds	**4.3**	4 3
Corporate Bonds	**5 0**	5 3
Other	**1 5**	0 8
	6 5	6 3

Narrative description of the basis used to determine expected value

Wessex Water Services Ltd employs a building block approach in determining the long-term rate of return on pension plan assets Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles The assumed long-term rate of return of each asset class is set out within this note The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation of the scheme as at 30 June 2011 g Additional analysis

	30.06.11 £m	30 06 10 £m
Analysis of profit and loss charge		
Current service cost	9 9	7 9
Past service cost	(4.8)	0 4
Interest cost	22.0	19 9
Expected return on scheme assets	(19.1)	(17 6)
Expense recognised in profit and loss account	8 0	10 6
Changes to the present value of defined benefit obligations during the year		
Opening present value of defined benefit obligations	411.4	323 6
Current service cost	9.9	7 9
Interest cost	22 0	19 9
Contributions by scheme participants	0 6	0 9
Actuarial losses on scheme liabilities	8 0	73 4
Net benefits paid out	(15.5)	(14 7)
Past service cost	(4.8)	0 4
Closing present value of defined benefit obligations	431 6	411 4
Changes to the fair value of scheme assets during the year		
Opening fair value of scheme assets	311 6	277 7
Expected return on scheme assets	19 1	17 6
Actuarial gains on scheme assets	24 7	10 8
Contributions by the employer	19 3	19 3
Contributions by scheme participants	0 6	0 9
Net benefits paid out	(15 5)	(14 7)
Closing fair value of scheme assets	359 8	311 6
Actual return on scheme assets		
Expected return on scheme assets	19 1	17 6
Actuarial gains on scheme assets	24 7	10 8
Actual return on scheme assets	43 8	28 4
Analysis of amounts recognised in Statement of Total Recognised Gains and Losses		
Total actuarial gains / (losses)	16.7	(62 6)
Cumulative amount of losses recognised	(92 7)	(109 4)

History of asset values, defined benefit obligations, deficit in the scheme and experience gains and losses

	30 06 11 £m	30 06 10 £m	30 06 09 £m	30 06 08 £m	30 06 07 £m
Fair value of scheme assets	359.8	311 6	277 7	295 1	289 5
Present value of scheme liabilities	(431 6)	(411 4)	(323 6)	(358 6)	(334 2)
Deficit in the scheme	(71.8)	(99 8)	(45 9)	(63 5)	(44 7)
Experience gains / (losses) on scheme assets	24 7	10 8	(45 7)	(19 6)	5 4
Experience gains / (losses) on scheme liabilities	0 8	2 8	10 5	(5 2)	(4 9)

		30 06.11 £m	30 06 10 £m
17	**Deferred income**		
	Grants and contributions		
	At 1 July	**19 3**	20 0
	Received in the year	**0 1**	0 3
	Less amortisation	**(0 9)**	(1 0)
	At 30 June	**18.5**	19 3
18	**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
19	**Share premium account**	Group and Company	
	Share premium	**28 8**	28 8
20	**Profit and loss account**		
	Group		
	At 1 July	**225 7**	304 9
	Profit attributable to shareholders	**126 7**	111 8
	Dividends (note 7)	**(145 1)**	(146 0)
	Foreign currency adjustment	**(0 6)**	0 1
	Actuarial gains / (losses) net of taxation	**10 6**	(45 1)
	At 30 June	**217 3**	225 7
	Company		
	At 1 July	**5 1**	6 9
	Profit attributable to shareholders	**145 1**	144 2
	Dividends	**(145 1)**	(146 0)
	At 30 June	**5 1**	5 1

As permitted by Section 408 of the Companies Act 2006, a profit and loss account of the parent company is not presented The profit attributable to the company in the year is £145 1m (2010 - £144 2m) after dividends from subsidiary companies of £145 1m (2010 - £144 6m)

21 Reconciliation of movements in equity shareholders' funds

	Group		Company	
	30 06 11	30 06 10	30.06.11	30 06 10
	£m	£m	£m	£m
At 1 July	**386 3**	465 5	**165 7**	167 5
Profit attributable to shareholders	**126.7**	111 8	**145.1**	144 2
Dividends (note 7)	**(145 1)**	(146 0)	**(145 1)**	(146 0)
Foreign currency adjustment	**(0 6)**	0 1	**-**	-
Actuarial gains / (losses) net of taxation	**10 6**	(45 1)	**-**	-
At 30 June	**377.9**	386 3	**165.7**	165 7

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

	Year to 30.06.11 £m	Year to 30 06 10 £m
Operating profit	**224 1**	221 7
Depreciation	**108.2**	102 2
Amortisation of grants and contributions	**(0.9)**	(1 0)
Provisions	**(14.5)**	(13 7)
(Profit) / loss on disposal of fixed assets	**(0.1)**	0 6
(Increase) in stocks	**(1.2)**	(0 5)
Decrease / (increase) in debtors	**6 6**	(3 2)
(Decrease) in creditors	**(1.2)**	(1 2)
	321.0	304 9

23 Returns on investments and servicing of finance

Interest received	**2 1**	2 2
Interest paid	**(66 2)**	(55 7)
Interest element of finance lease rentals	**(1 2)**	(1 5)
	(65.3)	(55 0)

24 Capital expenditure and financial investment

Purchase of tangible fixed assets	**(122.2)**	(107 4)
Sale of tangible fixed assets	**2 9**	0 9
Connection charges, grants and deferred income	**6 4**	5 6
	(112 9)	(100 9)

25 Financing

Loans and finance leases received	**19.2**	109 2
Loans and finance leases repaid	**(80.8)**	(68 5)
	(61.6)	40 7

26 Movement in net debt

	1 July 2010 £m	Cash Flow £m	Non cash items £m	**30 June 2011 £m**
Short term cash investments	52 0	(52 0)	-	**-**
Cash at bank	4 2	(3 0)	-	**1.2**
Short term loans	(80 4)	74 9	-	**(5 5)**
Loans repayable after one year	(292 5)	0 1	-	**(292 4)**
Amounts owed by parent company	89 4	-	-	**89.4**
Finance leases repayable within one year	(5 6)	(30 0)	-	**(35 6)**
Finance leases repayable after one year	(65 0)	35 6	-	**(29.4)**
Bonds repayable after one year	(1,148 0)	-	(19 0)	**(1,167.0)**
	(1,445 9)	25 6	(19 0)	**(1,439 3)**

27 Financial instruments

Short term debtors and creditors have been excluded from the financial instrument disclosure other than £41 1m (2010 - £86 0m) of short term borrowings, £1 2m of short term cash (2010 - £56 2m), and £89 4m (2010 - £89 4m) 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 2011 there were £100 0m (2010 - £100 0m) of undrawn facilities There are no securities attributed to any of the borrowings

a Interest rate and currency exposure

	Fixed rate borrowings 2011 £m	**Floating rate borrowings 2011 £m**	**Total borrowings 2011 £m**	Fixed rate borrowings 2010 £m	Floating rate borrowings 2010 £m	Total borrowings 2010 £m
Sterling	**1,167 0**	**272 3**	**1,439 3**	1,148 0	297 9	1,445 9

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

	Interest rate % 2011	**Period years 2011**	Interest rate % 2010	Period years 2010
Sterling	**3.8**	**30 6**	3 7	31 1

Floating rate borrowings with interest rates moving in line with LIBOR comprise £41 1m (2010 - £86 0m) of short term borrowings, £321 8m (2010 - £357 5m) of long term borrowings, £89 4m (2010 - £89 4m) owed by immediate parent company and £1 2m of short term debtors (2010 – £56 2m)

b Fair values

	Book value £m 2011	**Fair value £m 2011**	Book value £m 2010	Fair value £m 2010
Borrowings less than 1 year	**39.9**	**39.9**	29 8	29 8
Amounts owed by immediate parent company	**(89 4)**	**(89 4)**	(89 4)	(89 4)
Floating rate borrowings over 1 year	**321.8**	**321 8**	357 5	357 5
Fixed rate borrowings over 1 year	**1,167 0**	**1,284.8**	1,148 0	1,219 2
	1,439.3	**1,557.1**	1,445 9	1,517 1

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 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

28 Commitments

a There were £0 1m of operating lease payments under leases on land and buildings due within the next year, which expire after 5 years (2010 – £0 1m) There are no commitments under other operating leases

b Capital expenditure contracted but not provided at 30 June 2011 was £65 2m (2010 - £35 5m)

29 Share based payments

YTL Power International Berhad (a subsidiary of the ultimate parent company YTL Corporation Berhad) operates a share option scheme "YTL Power ESOS" under which options were granted to employees of the group The terms of the scheme are specified under the YTL Power ESOS (UK part) known as the "UK Plan"

The majority of options have been issued under terms approved by the Inland Revenue, the "Approved" scheme, but some have been issued to senior employees under an "Unapproved" scheme

The options are for ordinary shares of YTL Power International Berhad of Malaysian Ringgit RM0 50 each, and the exercise price and fair value of the ordinary shares are as follows

Granted – Ordinary shares of RM0 50 each	Vesting date	Expiry date	Exercise price RM	Fair value RM
13/12/2002 Unapproved	13/12/2005	29/11/2011	1 32	n/a
26/12/2002 Approved	26/12/2005	29/11/2011	1 39	n/a
12/12/2003 Unapproved	12/12/2006	29/11/2011	1 53	0 51
12/12/2003 Approved	12/12/2006	29/11/2011	1 70	0 34
16/05/2005 Unapproved	16/05/2008	29/11/2011	1 82	0 04
16/05/2005 Approved	16/05/2008	29/11/2011	2 02	0 01
07/08/2006 Unapproved	07/08/2009	29/11/2011	1 74	0 07
07/08/2006 Approved	07/08/2009	29/11/2011	1 93	0 01
20/08/2007 Unapproved	20/08/2010	29/11/2011	2 04	0 03
20/08/2007 Approved	20/08/2010	29/11/2011	2 27	0 00
26/06/2008 Unapproved	20/08/2010	29/11/2011	1 80	0 02
28/11/2008 Unapproved	28/11/2011	29/11/2011	1 61	0 22
28/11/2008 Approved	28/11/2011	29/11/2011	1 78	0 16

Under FRS 20 equity settled share-based payments are measured at the fair value at the date of the grant, and the fair value is expensed on a straight line basis through to the exercise date

For the options granted on 16 May 2005, 7 August 2006, 20 August 2007, 26 June 2008 and 28 November2008 the fair value was calculated using a trinomial model For the options granted on 12 December 2003 with an exercise date of 12 December 2006 the market price at the exercise date was used as the fair value The options granted in 2002 did not fall within the scope of FRS 20 since they were exercisable prior to the adoption of the standard

The assumptions used in the calculation of the fair values from the trinomial model were as follows

Scheme	Weighted ave share price at grant RM	Expected volatility %	Expected option life years	Risk free rate %	Dividend yield %
16/05/2005 Unapproved	2 03	3 5	5	3 15	5 6
16/05/2005 Approved	2 03	3 5	3	2 91	5 6
07/08/2006 Unapproved	1 92	3 5	4	4 10	5 8
07/08/2006 Approved	1 92	3 5	3	4 06	5 8
20/08/2007 Unapproved	2 30	3 5	4	3 63	6 9
20/08/2007 Approved	2 30	3 5	3	3 60	6 9
26/06/2008 Unapproved	1 93	3 5	3	3 43	7 8
28/11/2008 Unapproved	1 85	21 0	3	3 23	7 3
28/11/2008 Approved	1 85	21 0	3	3 23	7 3

The following options were outstanding at 30 June 2010 and 2011

Granted – Ordinary shares of RM0 50 each	Outstanding at 30 June 2010	Granted	Forfeited	Exercised	Outstanding at 30 June 2011
13/12/2002 Unapproved	9,633,750	-	(100,000)	(1,850,000)	7,683,750
26/12/2002 Approved	3,673,000	-	-	(845,000)	2,828,000
12/12/2003 Unapproved	634,000	-	-	-	634,000
12/12/2003 Approved	1,384,000	-	(34,000)	(370,000)	980,000
16/05/2005 Unapproved	3,745,400	-	-	(485,500)	3,259,900
16/05/2005 Approved	4,177,000	-	(34,000)	(635,000)	3,508,000
07/08/2006 Unapproved	500,000	-	-	-	500,000
07/08/2006 Approved	4,674,500	-	(170,000)	(408,850)	4,095,650
20/08/2007 Unapproved	800,000	-	-	-	800,000
20/08/2007 Approved	3,100,000	-	(204,000)	(27,000)	2,869,000
26/06/2008 Unapproved	80,000	-	-	-	80,000
28/11/2008 Unapproved	6,080,000	-	(360,000)	-	5,720,000
28/11/2008 Approved	9,310,000	-	(250,000)	-	9,060,000
TOTAL	47,791,650	-	(1,152,000)	(4,621,350)	42,018,300

Of the above options 27,238,300 were exercisable at 30 June 2011 A charge of £0 2m was recognised in the profit and loss account for FRS 20

30 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 2011 was £0 3m (2010 - £0 3m)

31 Principal subsidiary companies and associated undertakings

a Subsidiary companies

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

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

* 100% owned by Wessex Water Services Ltd
** 100% owned by Wessex Water Enterprises Ltd
Other subsidiary companies are dormant or not material to the group

b Joint arrangements

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

32 Related party transactions

There are no related party transactions requiring disclosure in these financial statements

33 Wessex Water Services Ltd - dividend policy

The policy adopted by the board of Wessex Water Services Ltd from 1 April 2006 was to declare dividends consistent with the company's performance and prudent management of the economic risk of the business

34 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 financial statements of YTL Corporation Berhad are available on request from this address