

WESSEX WATER SERVICES LTD

Accounts for the year to
30 June 2005

Registered in England and Wales No. 2366648



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COMPANIES HOUSE 04/11/2005

DIRECTORS' REPORT

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

PRINCIPAL ACTIVITIES

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

PROFIT AND DIVIDEND

The profit for the year after taxation was £46.4m (2004 - £70.1m). Dividends of £29.9m (2004 - £29.7m) were declared in the period, and the directors propose a final dividend of £12.7m (2004 - £12.2m).

OPERATIONAL REVIEW

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

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

EMPLOYMENT

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

ENVIRONMENT POLICY

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

ETHICAL POLICY

We are determined to maintain our reputation as a company that observes the highest standards of personal and corporate integrity by adhering to a strict code of business ethics. We aim to be the best and value everyone's contribution in our pursuit of excellence. We are honest in the way we conduct our business. We treat one another, our customers and the environment with respect.

RESEARCH AND DEVELOPMENT

The company carried out research and development in support of existing activities to improve the reliability and effectiveness of water and waste water services.

MARKET VALUE OF LAND AND BUILDINGS

In the opinion of the directors, the market value of land and buildings of the company exceeds the book value of these assets at 30 June 2005.

CHARITABLE DONATIONS

During the year £70,000 was donated to UK charities (2004 - £37,000).

SUPPLIER PAYMENT POLICY

The company does not follow any specific external code or standard on payment policy. The policy in respect of its suppliers is to agree the payment terms for transactions in advance and to make payments in accordance with those terms. At 30 June 2005 trade creditors represented approximately 30 days trade purchases (2004 - 30 days).

CORPORATE GOVERNANCE

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

The Board

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

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

Board Committees

Three formal committees have been established:

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

Risk Management & Audit Committee

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

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

Members: P L M Sherwood (Chairman), Mrs L C S Bennett, P J Costain and J E Porritt.

Remuneration Committee

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

The Remuneration Committee is exclusively comprised of independent non-executive directors of the board and meets during the year as necessary. Members of the Remuneration Committee do not participate in decisions concerning their own remuneration.

Members: H Yeoh (Chairman), P J Costain, J E Porritt, P L M Sherwood, F Yeoh and M Yeoh.

Nomination Committee

The Nomination Committee's duty is to ensure that appropriate procedures are in place for the nomination, selection, training and evaluation of directors and for succession planning. It reviews board structure, size, composition and successional needs. Jonathon Porritt was appointed a non executive director on 1 June 2005 and replaced Karen Morgan who retired from the board at the end of July. A tailored induction programme is provided for all new directors.

Members: H Yeoh (Chairman), C F Skellett, F Yeoh and M Yeoh.

Internal Control

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

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

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

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

DIRECTORS

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

C F Skellett – Executive Chairman
S M Allen – resigned 30 September 2004
Mrs L C S Bennett **
Kathleen Chew +
P J Costain *
P J L Dennis
T K Harris
Mrs K J Morgan OBE * - resigned 31 July 2005
J E Porritt * – appointed 1 June 2005
D A Randle
P L M Sherwood *
Francis Yeoh #
Hong Yeoh #
Mark Yeoh #

* Independent non-executive director

** Independent customer director

Non-executive director

+ Alternate director to Francis Yeoh

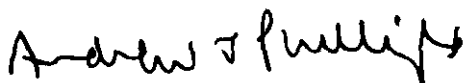
The following directors have been granted ordinary share options of Malaysian Ringgit RM0.50 each in YTL Power International Berhad.

	number	Exercise price RM	Date of grant	Exercise date	Expiry date
T K Harris	2,000,000	1.32	13 December 2002	13 December 2005	12 December 2012
D A Randle	600,000	1.32	13 December 2002	13 December 2005	12 December 2012
	1,400,000	1.53	12 December 2003	12 December 2006	11 December 2013
P J L Dennis	2,000,000	1.82	16 May 2005	16 May 2008	15 May 2015

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

AUDITORS

A resolution to re-appoint KPMG Audit Plc as auditors of the Company will be proposed at the Annual General Meeting.



By order of the Board
A J Phillips - Company Secretary
19 September 2005

DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company and of the company's profit or loss for the period. In preparing those financial statements, the directors are required to:

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

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

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

We have audited the financial statements on pages 5 to 18.

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

Respective responsibilities of directors and auditors

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the group is not disclosed.

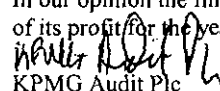
Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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 of the state of affairs of the company as at 30 June 2005 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


KPMG Audit Plc
Chartered Accountants
Registered Auditor
19 September 2005

PROFIT AND LOSS ACCOUNT
For the year to 30 June 2005

	NOTE	Year to 30.06.05 £m	Year to 30.06.04 £m
Turnover	2	313.0	288.1
Operating costs	3	(183.3)	(167.6)
Operating profit	2	129.7	120.5
Net interest payable	4	(68.6)	(62.3)
Profit on ordinary activities before taxation		61.1	58.2
Taxation on profit on ordinary activities	5	(14.7)	11.9
Profit attributable to shareholders		46.4	70.1
Dividends paid and proposed	7	(42.6)	(41.9)
Transfer to reserves	17	3.8	28.2

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

There were no gains or losses in either year other than the profit for each year.

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

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

BALANCE SHEET
30 June 2005

	NOTE	30.06.05 £m	30.06.04 £m
Fixed assets			
Tangible assets	8	1,674.5	1,612.5
Investments	9	-	-
		1,674.5	1,612.5
Current assets			
Stock and work in progress	10	2.5	2.8
Debtors	11	136.3	133.8
Short term cash investments		24.2	0.7
		163.0	137.3
Creditors - amounts falling due within one year	12	(206.9)	(139.2)
Net current liabilities	25	(43.9)	(1.9)
Total assets less current liabilities		1,630.6	1,610.6
Creditors - amounts falling due after more than one year	13	(1,081.9)	(1,078.0)
Provisions for liabilities and charges	14	(114.7)	(103.0)
Deferred income	15	(21.7)	(21.1)
Net assets	2	412.3	408.5
Capital and reserves			
Called up equity share capital	16	81.3	81.3
Profit and loss account	17	331.0	327.2
Equity shareholders' funds	18	412.3	408.5

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

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


T K Harris
Director

NOTES TO THE ACCOUNTS
For the year to 30 June 2005

1 Accounting policies

a. Basis of preparation

The financial statements have been prepared on a basis consistent with the last financial period, under the historic cost convention, in accordance with applicable accounting standards in the United Kingdom and, except for the treatment of certain grants and contributions (see note 1e) in accordance with the Companies Act 1985. The company has adopted all applicable accounting standards up to and including FRS19 "Deferred Tax".

The company has followed the transitional arrangements of FRS 17 "Retirement Benefits" in these financial statements. Group accounts have not been prepared as under section 228 of the Companies Act 1985 the company and its subsidiary are included in the consolidated financial statements of Wessex Water Ltd (see note 24).

b. Turnover

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

c. Tangible fixed assets and depreciation

Tangible fixed assets comprise infrastructure assets and other assets.

i Infrastructure assets comprise a network of systems of mains and sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines, sea outfalls and infrastructure investigations and studies. Expenditure on infrastructure assets relating to enhancements of the network is treated as additions which are included at cost after deducting connection charges and grants.

The depreciation charge for infrastructure assets is the estimated level of average annual expenditure required to maintain the operating capability of the network, based upon the company's independently certified asset management plan. No other depreciation is charged on infrastructure assets because the network of systems is required to be maintained in perpetuity and therefore has no finite economic life.

ii Other assets include properties, plant and equipment and are shown at cost less accumulated depreciation. Freehold land is not depreciated. Other assets are depreciated evenly over their estimated economic lives, which are principally as follows:

Buildings and operational structures	15 - 80 years
Plant, machinery and vehicles	3 - 30 years
Other assets	4 - 15 years

d. Leased assets

Where assets are financed by leasing arrangements which transfer substantially all the risks and rewards of ownership of an asset to the lessee (finance leases), the assets are treated as if they had been purchased and the corresponding capital cost is shown as an obligation to the lessor. Leasing payments are treated as consisting of a capital element and finance costs, the capital element reducing the obligation to the lessor and the finance charge being written off to the profit and loss account over the period of the lease in reducing amounts in relation to the outstanding obligations. The assets are depreciated over the shorter of their estimated useful lives and the period of the lease. All other leases are regarded as operating leases. Rental costs arising under operating leases are written off in the year they are incurred.

e. Grants and contributions

Grants and contributions in respect of specific expenditure on non-infrastructure fixed assets are treated as deferred income and recognised in the profit and loss account over the expected useful economic lives of the related assets (note 15). Grants and contributions relating to infrastructure assets have been deducted from the cost of those assets. This is not in accordance with the Companies Act 1985 which requires assets to be stated at their purchase price or production cost, without deduction of grants and contributions which would be accounted for as deferred income. The departure from the requirement of the Act is, in the opinion of the directors, necessary to give a true and fair view. This is because infrastructure assets are not depreciated directly and accordingly the related grants and contributions would not be recognised through the profit and loss account. The effect on the value of fixed assets is disclosed in note 8.

f. **Investments**

Investments held as fixed assets are stated at cost less any provisions for impairment. Those held as current assets are stated at the lower of cost and net realisable value.

g. **Stock**

Stock and work in progress are stated at the lower of cost and net realisable value. In respect of work in progress, cost includes labour, materials and attributable overheads.

h. **Foreign currency**

All transactions of UK companies denominated in foreign currencies are translated into sterling at the actual rates of exchange ruling at the dates of the transactions. Foreign currency balances are translated into sterling at the rates of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account. Gains and losses on these translations are taken to reserves net of exchange differences arising on related foreign currency borrowings.

i. **Research and development**

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

j. **Taxation**

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised with discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

k. **Pensions**

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

l. **Cash flow**

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

m. **Joint arrangements**

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

n. **Finance costs**

Finance costs of debt are recognised in the profit and loss account over the term of the instrument at a constant rate on the carrying amount.

o. **Debt**

Debt is initially stated at the amount of the net proceeds after the deduction of issue costs. The carrying amount is increased by the finance cost in respect of the accounting period and reduced by payments made in the period.

p. **Interest rate instruments**

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

2 Segmental analysis	Year to 30.06.05 £m	Year to 30.06.04 £m
Substantially all of the turnover, operating profit and net assets derive from regulated activities within the United Kingdom.		
a. Turnover		
Regulated	309.6	285.4
Unregulated	-	-
Intra group	3.4	2.7
	<u>313.0</u>	<u>288.1</u>
b. Operating profit		
Regulated	129.7	120.5
Unregulated	-	-
	<u>129.7</u>	<u>120.5</u>
c. Net assets		
Regulated	412.3	408.5
Unregulated	-	-
	<u>412.3</u>	<u>408.5</u>
3 Operating costs		
Manpower costs (note 6b)	34.8	24.9
Materials and consumables	16.5	18.0
Other operational costs	52.1	49.5
Depreciation	80.6	75.4
Amortisation of grants and contributions	(0.8)	(0.8)
Loss on disposals of fixed assets	0.1	0.6
	<u>183.3</u>	<u>167.6</u>
Operating costs include:		
Operating leases for plant and machinery	3.0	1.4
Research and development	0.1	0.1
Directors' remuneration (note 6c)	1.0	0.7
Audit fees	0.1	0.1
	<u>4.2</u>	<u>2.3</u>
4 Net interest payable		
Interest payable:		
To group companies	45.0	36.4
On bank loans	19.9	24.5
On finance leases	4.5	2.4
	<u>69.4</u>	<u>63.3</u>
Total interest payable	69.4	63.3
Interest receivable	(0.8)	(1.0)
	<u>68.6</u>	<u>62.3</u>
Net interest payable	68.6	62.3

5 Taxation	Year to 30.06.05 £m	Year to 30.06.04 £m
a. Taxation on profit on ordinary activities		
Current year corporation tax:		
UK corporation tax at 30%	3.5	1.6
Advance corporation tax due to parent company	7.2	3.2
	<u>10.7</u>	<u>4.8</u>
Prior year corporation tax: adjustments in respect of previous periods	(7.6)	(15.8)
	<u>3.1</u>	<u>(11.0)</u>
Total corporation tax charge/(credit)		
Deferred tax – current year:		
Origination and reversal of timing differences	5.2	10.3
Decrease/(increase) in discount	6.7	(14.2)
	<u>11.9</u>	<u>(3.9)</u>
Deferred tax – prior year:		
Origination and reversal of timing differences	1.8	7.1
(Increase) in discount	(2.1)	(4.1)
	<u>(0.3)</u>	<u>3.0</u>
Total deferred tax charge/(credit)	<u>11.6</u>	<u>(0.9)</u>
Taxation charge/(credit) on profit on ordinary activities	<u>14.7</u>	<u>(11.9)</u>
b. Current tax reconciliation		
Profit on ordinary activities before tax	61.1	58.2
Current tax at 30%	18.3	17.5
Group relief for nil consideration	(2.1)	(3.0)
Adjustments in respect of previous periods	(7.6)	(15.8)
Capital allowances for the year in excess of depreciation	(2.5)	(7.0)
Payment of lease creditor capital	(1.9)	(1.1)
Other timing differences	(1.1)	(1.6)
Total corporation tax charge/(credit) - as above	<u>3.1</u>	<u>(11.0)</u>
6 Directors and employees		
a. Total employment costs of the company were:		
Wages and salaries	41.4	34.3
Social security costs	3.5	2.9
Other pension costs	3.9	3.5
	<u>48.8</u>	<u>40.7</u>
b. Total employment costs are charged as follows:		
Capital schemes	12.2	14.2
Infrastructure renewals expenditure	1.8	1.6
Manpower costs	34.8	24.9
	<u>48.8</u>	<u>40.7</u>

	Year to 30.06.05 £000	Year to 30.06.04 £000
c. Total directors' remuneration		
Salary and fees	557	577
Bonuses	148	120
Benefits in kind	42	44
	<hr/>	<hr/>
	747	741
Compensation for loss of office	222	-
	<hr/>	<hr/>
	969	741
	<hr/> <hr/>	<hr/> <hr/>

The remuneration above is in respect of five executive directors (2004 – six) and eight non executive directors (2004 – seven).

Executive directors have one year rolling contracts of employment. In addition the executive directors received £512k (2004 - £414k) remuneration from other group companies. Five directors have benefits accruing under defined benefit pension schemes (2004 - six). The aggregate amount of company contributions to pension schemes in respect of directors was £94k (2004 - £152k).

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

d. Highest paid director

Salary	113	127
Bonus	50	31
Benefits in kind	13	11
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	176	169
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The highest paid director had an accrued annual pension entitlement of £67,619 at 30 June 2005 (30 June 2004 - £42,438).

	30.06.05 number	30.06.04 number
e. Monthly average number of employees during the period		
- Billing Services	275	299
- All other staff	1,441	1,307
	<hr/>	<hr/>
- Total	1,716	1,606
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7 Dividends

The dividend policy of the company is to declare as an ordinary 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.

	Year to 30.06.05 £m	Year to 30.06.04 £m
Interim dividends of 36.75p per share on 81,350,000 ordinary shares (2004 – 36.51p)	29.9	29.7
Final dividend of 15.61p per share on 81,350,000 ordinary shares (2004 – 15.00p)	12.7	12.2
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	42.6	41.9
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8 Tangible fixed assets

	Freehold land & buildings	Infra- structure assets	Plant machinery & vehicles	Other assets	Payments on account & assets in course of construction	Total
	£m	£m	£m	£m	£m	£m
Cost						
At 1 July 2004	565.6	836.0	694.5	66.2	107.3	2,269.6
Additions	20.5	53.7	48.9	4.0	30.5	157.6
Transfers on commissioning	17.6	34.8	32.8	5.0	(90.2)	-
Disposals	(0.6)	-	(6.9)	-	-	(7.5)
Grants and contributions	-	(13.2)	-	-	-	(13.2)
At 30 June 2005	603.1	911.3	769.3	75.2	47.6	2,406.5
Depreciation						
At 1 July 2004	116.5	202.6	298.1	39.9	-	657.1
Charge for the period	12.3	24.2	38.5	5.6	-	80.6
Disposals	(0.2)	-	(5.5)	-	-	(5.7)
At 30 June 2005	128.6	226.8	331.1	45.5	-	732.0
Net book value						
At 30 June 2005	474.5	684.5	438.2	29.7	47.6	1,674.5
At 1 July 2004	449.1	633.4	396.4	26.3	107.3	1,612.5

Infrastructure assets comprise a network of systems of mains and sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines, sea outfalls and infrastructure investigations and studies.

Other assets include furniture and fittings, laboratory and other equipment.

The net book value of assets held under finance leases is £90.1m (2004 - £96.4m).

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

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

Included in the cost of infrastructure assets is £225.3m (2004 - £205.2m) of expenditure on maintaining the network, and £226.8m (2004 - £202.6m) of depreciation included in the profit and loss account.

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

9 Investments

The company has an investment of £13,000 (2004 - £13,000) in 100% of the £1 ordinary shares of a subsidiary company, Wessex Water Services Finance Plc.

	30.06.05 £m	30.06.04 £m
10 Stock and work in progress		
Raw materials and consumables	1.0	1.5
Work in progress	1.5	1.3
	<u>2.5</u>	<u>2.8</u>
11 Debtors - amounts falling due within one year		
Trade debtors	39.6	39.5
Owed by other group companies	19.5	16.6
Pension fund prepayment	42.6	42.6
Prepayments and accrued income	34.4	33.9
Other debtors	0.2	1.2
	<u>136.3</u>	<u>133.8</u>
12 Creditors - amounts falling due within one year		
Loans repayable	78.4	11.9
Obligations under finance leases	2.7	2.3
Trade creditors	5.2	1.7
Amounts owed to parent company	8.5	9.3
Amounts owed to subsidiary undertaking	23.0	19.6
Amounts owed to other group companies	0.6	0.6
Dividend	12.7	19.9
Other creditors	1.6	1.0
Corporation tax	5.4	3.2
Taxation and social security	1.4	1.3
Accruals and deferred income	67.4	68.4
	<u>206.9</u>	<u>139.2</u>
13 Creditors - amounts falling due after more than one year		
Loans repayable - in more than 1 year, but not more than 2 years	-	75.7
- in more than 2 years, but not more than 5 years	21.6	37.8
- in more than 5 years	75.0	175.5
	<u>96.6</u>	<u>289.0</u>
Finance lease repayable - in more than 1 year, but not more than 2 years	3.2	2.7
- in more than 2 years, but not more than 5 years	13.0	16.2
- in more than 5 years	71.1	71.1
	<u>87.3</u>	<u>90.0</u>
Inter company loans - in more than 2 years, but not more than 5 years	298.7	298.3
Inter company loans - in more than 5 years	596.0	396.7
Other	3.3	4.0
	<u>1,081.9</u>	<u>1,078.0</u>

The inter company loans are due to a subsidiary company Wessex Water Services Finance Plc in respect of the proceeds of four bond issues lent to the company. A bond of £298.7m at an interest rate of 5.875% is repayable in March 2009, a £53.5m index linked bond at an interest rate of 3.83% plus inflation repayable in July 2023, a £344.9m bond issued at an interest rate of 5.75% and repayable in October 2033, and a £197.6m bond at an interest rate of 5.375% repayable in March 2028.

14 Provisions for liabilities and charges

	Deferred tax £m	Restructuring costs £m	Total £m
At 1 July 2004	102.4	0.6	103.0
Provided in year	-	0.2	0.2
Utilised during year	-	(0.1)	(0.1)
Origination and reversal of timing differences	7.0	-	7.0
Decrease in discount	4.6	-	4.6
	<hr/>	<hr/>	<hr/>
At 30 June 2005	114.0	0.7	114.7
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
		30.06.05	30.06.04
		£m	£m
Deferred tax is provided as follows:			
Accelerated capital allowances		306.7	304.2
Other timing differences		10.3	5.8
		<hr/>	<hr/>
Undiscounted provision for deferred tax		317.0	310.0
Discount		(203.0)	(207.6)
		<hr/>	<hr/>
Discounted provision for deferred tax		114.0	102.4
		<hr/> <hr/>	<hr/> <hr/>
15 Deferred income			
Grants and contributions:			
At 1 July		21.1	21.9
Received in the period		1.4	-
Less amortisation		(0.8)	(0.8)
		<hr/>	<hr/>
At 30 June		21.7	21.1
		<hr/> <hr/>	<hr/> <hr/>
16 Called up equity share capital			
81,350,000 ordinary shares of £1 each:			
Authorised, allotted, called up and fully paid		81.3	81.3
		<hr/> <hr/>	<hr/> <hr/>
17 Profit and loss account			30.06.05
			£m
At 1 July 2004			327.2
Retained profit for the year			3.8
			<hr/>
At 30 June 2005			331.0
			<hr/> <hr/>
18 Equity shareholders' funds			
At 1 July 2004			408.5
Retained profit for the year			3.8
			<hr/>
At 30 June 2005			412.3
			<hr/> <hr/>

19 Financial instruments

Short term debtors and creditors have been excluded from the financial instruments disclosure other than £81.1m (2004 - £14.2m) of short term borrowings and £24.2m of short term debtors (2004 - £0.7m).

The company has financed its activities through a combination of short term borrowings, long term loans and leases and bonds issued by its subsidiary company Wessex Water Services Finance Plc. At 30 June 2005 there were £250.0m (2004 - £346.0m) of undrawn facilities.

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

a. Interest rate and currency exposure

	Fixed rate borrowings 2005 £m	Floating rate borrowings 2005 £m	Total borrowings 2005 £m	Fixed rate borrowings 2004 £m	Floating rate borrowings 2004 £m	Total borrowings 2004 £m
Sterling	965.5	170.0	1,135.5	515.9	571.6	1,087.5

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

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

£3.1m of floating rate net deposits (2004 - £13.5m net borrowings) are short term, and £173.1m (2004 - £558.1m) are long term borrowings with interest rates moving in line with LIBOR.

b. Fair values

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

	Book value £m 2005	Fair value £m 2005	Book value £m 2004	Fair value £m 2004
Borrowings less than 1 year	56.9	56.9	13.5	13.5
Floating rate borrowings over 1 year	173.1	173.1	558.1	553.8
Fixed rate borrowings over 1 year	905.5	976.0	515.9	520.8
	1,135.5	1,206.0	1,087.5	1,088.1

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.

20 Commitments and guarantees

- 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.
- At 30 June 2005 the company had interest rate and currency instrument agreements outstanding with commercial banks with a principal value of £70.8m (2004 - £730.8m).
- Capital expenditure contracted but not provided at 30 June 2005 was £48.7m (2004 - £66.4m).
- The company has guaranteed Bonds of £298.7m, £344.9m and £197.6m, and a £53.5m index linked Bond, issued by its wholly owned subsidiary company Wessex Water Services Finance Plc.

21 Contingent liabilities

There are no material contingent liabilities at 30 June 2005 for which provision has not been made in these accounts.

22 Pensions

- a. The defined benefit scheme operated by the group, which covers the majority of staff, is the Wessex Water Pension Scheme (WWPS). The assets are held in a separate trustee administered fund. The pension cost charged to the profit and loss account has been determined on the advice of independent qualified actuaries and is such as to spread the cost of pensions over the service lives of the members of the scheme.
- b. The pension cost for the year, including amounts set aside for early retirees, was £5.3m (2004 - £3.9m).
- c. The latest actuarial valuation for WWPS was undertaken at 31 December 2004. The assumptions which have the most significant effect on the results of a valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions. It was assumed that the investment returns would be 5.5%, that salary increases would average 3.9% per annum and that present and future pensions would increase at the rate of 3.0% per annum. The smoothed market value of the WWPS assets as at 31 December 2004 was £219.9m which represented 79% of the actuarial value of the accrued benefits, a deficit, after smoothing of £60.0m. The next actuarial valuation will be at 31 December 2007.

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

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

The actuarial valuation described above has been updated at 30 June 2005 by a qualified actuary using revised assumptions that are consistent with the requirements of FRS 17. Investments have been valued, for this purpose, at fair value. The major assumptions used by the actuary were:

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

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

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

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

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

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

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

	30.06.05 £m	30.06.04 £m	30.06.03 £m
Balance sheet presentation			
Net assets per statutory accounts	412.3	408.5	380.3
Remove SSAP 24 pension asset	(37.9)	(40.8)	(40.2)
FRS 17 pension liability (net of deferred tax asset)	(50.0)	(36.3)	(37.8)
	<hr/>	<hr/>	<hr/>
Net assets including pension liability	324.4	331.4	302.3
	<hr/>	<hr/>	<hr/>
Profit and loss account presentation			
Profit and loss reserves per statutory accounts	331.0	327.2	299.0
Remove SSAP 24 pension asset	(37.9)	(40.8)	(40.2)
FRS 17 pension liability (net of deferred tax asset)	(50.0)	(36.3)	(37.8)
	<hr/>	<hr/>	<hr/>
Profit and loss reserves including pension liability	243.1	250.1	221.0
	<hr/>	<hr/>	<hr/>

- f. Additional analysis required by FRS 17.

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

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

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

History of experience gains and losses

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

23 Related parties

There are no related party transactions requiring disclosure in these accounts. As the company is a wholly owned subsidiary of Wessex Water Ltd (see note 24), the company has taken advantage of the exemption contained in FRS 8 'Related Party Disclosures' and has therefore not disclosed transactions or balances with entities which form part of the group.

24 Ultimate parent company

The smallest group into which the accounts of the company are consolidated is that headed by Wessex Water Ltd a company incorporated in England whose registered address is Wessex Water Operations Centre, Claverton Down, Bath BA2 7WW. The ultimate parent company is YTL Corporation Berhad, which is incorporated in Malaysia under the Companies Act 1965, whose registered address is Yeoh Tiong Lay Plaza, 55 Jalan Bukit Bintang, 55100 Kuala Lumpur, Malaysia.

25 Going concern

The current liabilities of the company exceed its current assets. The directors have considered the financial position of the company and have concluded that it will be able to meet its 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.