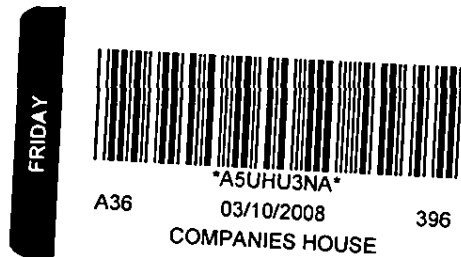


WESSEX WATER SERVICES LTD

Accounts for the year to
30 June 2008

Registered in England and Wales No 2366648



DIRECTORS' REPORT

The directors present their report and the audited accounts for the year to 30 June 2008

PRINCIPAL ACTIVITIES

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

FINANCIAL AND OPERATIONAL REVIEW

Over the past year Wessex Water has,

- achieved our highest-ever score in Ofwat's service league table, scoring 418 points (96% of maximum)
- continued to top Ofwat's telephone satisfaction survey and a record 98% of customers who contacted us rated our service as either good or very good
- delivered our largest-ever capital investment programme
- maintained our position as the most efficient operating company
- increased the proportion of energy generated from renewable sources
- received a number of awards, including Utility Week's Customer Care award and the award as best creditor of the year at the Citizens Advice Bureau's Social Policy Oscars, and received the Queen's Award for Enterprise
- re-invested financial efficiencies we have made in improving the security of our service to customers through a customer dividend programme, in particular
 - improved the resilience of our asset network, reducing the number of customers served by single sources and further cutting those at risk of sewage flooding
 - improved support to customers who are struggling to pay their bills through the award winning Assist and Restart Plus programmes
- increased profit after tax and delivered the highest return on capital value of any water and sewerage company
- consulted customers on their aspirations for the 2009 Price Review
- published our Strategic Direction Statement, setting out how we will deliver those aspirations in a long term, sustainable context

FINANCIAL PERFORMANCE

Operating performance

We are currently outperforming the targets used by Ofwat in setting price limits. Last year, historic cost profit after tax increased by £12.1m to £105.0m and the return on Regulatory Capital Value (RCV) at March 2008 was 6.8%

We have produced out-performance through a combination of

- good financing deals (our financing costs represented 5.5% of debt)
- efficient capital investment, so improving gearing and hence interest charges
- improved operating efficiency and higher levels of income

Turnover

Turnover increased by £27.9m or 7.4% to £403.0m, largely as a result of the April 2007 price increase, but offset to some extent by customers switching to meters and reductions in volumes. The reduction in volume was due in part to 2007-08 being wetter than 2006-07, but also to a continuing reduction in commercial demands.

Operating costs

We continue to face rising operating costs due to market conditions for power, chemicals and wage inflation. Despite this operating costs reduced from £117.0m to £115.8m, a reduction of £1.2m, through internal efficiencies. Depreciation charges (including the infrastructure maintenance charge and disposal of assets) increased from £84.9m to £87.7m.

There is a diminishing scope for future efficiency improvements in the sector, particularly for frontier companies like Wessex Water. Recent regulatory determinations from the Civil Aviation Authority, the Office of Rail Regulation, Ofgem and the Competition Commission all suggest zero, or even positive frontier shifts relative to Retail Price Index (RPI). Primarily this is because ongoing productivity improvements in the regulated utility sector are offset by input price inflation above RPI.

This situation is likely to become worse given the predictions of rising costs of energy, materials and consumables. Predicting future energy prices is fraught with difficulty but we do not anticipate the return of cheap power. It is widely predicted that the fundamentals of energy markets will change in favour of structurally higher prices, if this has not already happened.

In response to these challenges we

- are introducing clear commercial arrangements between business units making them more accountable for service delivery and profitability
- have formed a small internal team to focus on asset management and planning
- are continuing investment in renewable energy and energy efficiency
- are investing in new technology and systems to further reduce costs and risk post 2010

Interest, tax and dividends

Interest charges increased from £65.8m last year to £70.0m this year as net debt increased over the year, and the cost of debt rose slightly from 5.4% to 5.5%

The corporation tax charge in the year was £28.7m, an increase of £6.7m over last year, being a combination of a reduction in the current year corporation tax of £0.3m and a reduction of £7.0m in the prior year credits. Deferred tax moved from a credit of £7.5m last year to a credit of £4.2m this year.

Wessex Water's dividend policy is to declare dividends consistent with the company's performance and prudent management of the economic risk of the business. The benefits during the five-year period are shared between customers in the form of investment in added services and the shareholder in the form of additional dividends.

Dividends declared in the year amounted to £104.0m in the year to June 2008 compared to £87.6m last year.

Pensions

Following the actuarial valuation in December 2004, which showed a deficit of £60.0m, the employer contribution rates were increased to 17.5% and the company has made special contributions of £4.9m in December 2005, 2006 and 2007.

The actuarial valuation at December 2007 shows a deficit of £66.8m. As a result both the employee and employer contribution rates will be increased and the special annual contribution will increase to £9.0m.

In the balance sheet the pension deficit is calculated using the FRS 17 accounting assumptions, on this basis, the deficit has increased from £44.7m at June 2007 to £63.5m at June 2008.

Customer dividend

In 2006 we established our own construction company to further improve delivery of our investment programme. This proved to be very successful and we continue to make savings against the predicted costs.

We also recognise that our large investment programme has resulted in increases in customers' bills.

With this in mind we have started a 'customer dividend' programme funded from the efficiencies made in our wider capital programme. This initiative is aimed at improving the resilience of our services and providing extra help to those in financial difficulty who are struggling to pay their water bills.

We began investment in these key areas in earnest this year and will continue to support this programme until the start of the next price review in 2010. Our programme to improve the resilience of our services and to make them more affordable will not be complete by then, so we intend to make these key objectives of our next business plan.

Service resilience

Last summer's experience in Yorkshire and Gloucestershire demonstrated the serious impact on services that can result from widespread flooding.

In addition, we continue to see the quality of water in some of our reservoirs and groundwaters deteriorating due to levels of nitrates and pesticides. This means that during some periods of the year some sources may not meet our stringent water quality standards.

We have evaluated the impact of losing a water source due to either water quality problems or flooding and are determined to ensure this should not lead to restrictions in service to customers. Consequently, we have initiated a policy of ensuring two points of supply for every community so that if one source of water supply fails, service to our customers will be maintained through alternative sources.

We continue to invest in reducing leakage, particularly in customers' service pipes, beyond our regulatory target of 74MI/d. This initiative has seen leakage reduce to 72MI/d with a further reduction to 71MI/d achievable by 2010.

During the past few years we have also invested significantly in reducing the risk of internal flooding from sewers. Our policy of flood protection followed the industry standard of protection up to a one in 30 year storm.

It is clear that the impact of climate change is increasing the severity of the storms we experience and to ensure our customers are not put at greater risk of flooding, we have increased the level of our protection up to one in 50 year storms.

Affordability, tariffs and debt recovery

We remain committed to our work on affordability and during 2007-08 we have won several awards in recognition of this, including

- the Citizens Advice Bureau Social Policy Oscar
- Utility Week's Customer Care Award

Our innovative Assist tariff has completed its first year with very promising results.

Assist is aimed at enabling those with the greatest difficulty in paying to make at least a modest contribution towards the costs of water and sewerage services. If successful, as seems to be the case, the cost carried by all other customers will also be reduced.

We have begun a tariff study with 5,000 customers to investigate the impact of three innovative tariffs: a rising block tariff, a seasonal tariff and a peak-seasonal tariff. The study will enable us to understand the impact of both metering and innovative tariffs on customers' consumption and affordability.

These trials will be assisted by the installation of smart meters so readings can be collected remotely by our customers and ourselves. This will allow us all to see how and when customers use water, help them manage the amount they use and so have greater control over their bills.

Restart Plus, which runs alongside our existing Restart scheme, continues to perform well. Both schemes are designed to get customers who are having difficulty paying back on track. Evidence suggests that 14 out of 15 people on the schemes will not fall into arrears again.

CUSTOMER SERVICE

Wessex Water continues to deliver ever higher standards of customer service and we remain at the top of Ofwat's independent survey of customer satisfaction for our telephone service. Of the 2,400 customers surveyed in our independent monthly satisfaction service last year, a record 98% rated our service as good or very good.

We are not, however, complacent and are continuing our work to improve customers' overall satisfaction with our services. We have been part of an industry group working with Ofwat to develop new measures of customer experience and are working across our business to raise awareness of customers' expectations.

We are installing a new work and asset management system, including a customer contact module that will enable us to deliver significant improvements in customer service. It provides a one-stop-shop with the ability to solve more issues in one call and at first contact. It will allow us to schedule timed appointments for customers and will also give us the ability to understand what is driving customer contacts.

Through our Wessex Water Promise we continue to provide customer guarantees and compensation well in excess of the statutory guaranteed standards scheme, with the best overall package of guarantees in the industry.

We are continuing our work with organisations that come into contact with vulnerable customers, and on wider water and sewerage issues, eg, through our education advisers and schools programme.

Our community partnership programme, the Wessex Partnership, brings together all our community involvement including the Wessex Water Promise and Restart Plus.

Meeting demands

Once again we have maintained supplies to our customers throughout the year without restrictions. Wessex Water customers have now enjoyed 32 consecutive years of supply without hosepipe or other restrictions.

The year was characterised by a very wet summer and between May and July rainfall was 200% of long term average, leading to a healthy resource position. The wet summer reduced demand and water supplied to customers averaged 353 megalitres per day (MI/d), 3% below the previous year.

Work to improve the margin between demand and supply has progressed well. At Maundown in west Somerset, our major water treatment works is being rebuilt and upgraded to meet peak demands in a drought year. Associated upgrading of the Somerset spine main is also close to completion. Optional metering continues to grow and now 41% of our domestic customers pay on the basis of what they use.

The economy of the Wessex Water region remains buoyant with continuing high rates of development and we continue to take an active role. We liaise with planning authorities, the South West Regional Assembly and developers to ensure we can plan effectively to meet the needs of growth and avoid delays through lack of adequate infrastructure.

Water efficiency

Controlling leakage from our network of more than 11,400 km of mains and service pipes remains one of our highest priorities. It safeguards security of supplies and minimises our impact on the environment.

Leakage is currently 72MI/d beating the Ofwat target of 74MI/d. This year we have put further resources into detecting and repairing leaks, taking advantage of improvements in detection technology.

During the year we have implemented a range of measures to help our customers use water as efficiently as possible, including

- provision of water efficiency information to all our customers, for both metered and unmetered supplies, via literature in bills
- the provision of self audit packs and cistern devices
- maintaining up to date and relevant information on our website
- promotion of water butts through literature, at roadshows, on our website and through leaflets and fliers
- publicity campaigns such as our litre beater campaign and continuation of our frost campaign
- gardening roadshows and a speaker programme
- an extensive education programme both in schools and at our field centres across the region

We continue to work with business customers to reduce their water use and leakage. Through our water inspection and trade effluent visits we can provide traders with advice on recycling and water efficiency.

We are now offering business customers with significant consumption a service enabling them to view their 15 minute consumption profile over the internet. This allows them to understand and manage their water usage and so minimise waste.

During the year we hosted a water efficiency day, bringing together local authority planners, regulators and water efficiency experts to further promote water efficiency initiatives. And as part of our water resources management plan we have updated our water efficiency strategy. We believe that effective and persistent communication on water efficiency will bring sustainable benefits over the longer term.

Sewage flooding

During 2007-08 we have significantly reduced the number of properties at risk of internal flooding by a further 163, which beats our monitoring plan target. This was despite an exceptionally wet year, particularly June/July and January, which saw a 500% increase in incidents against the five-year average.

WATER SUPPLY AND SEWAGE TREATMENT

Water supply

Our compliance with drinking water standards remains at the highest levels – more than 99.9%. However, we are continuing work to improve this still further. Wherever possible we use innovative means to develop lowest whole life cost sustainable solutions rather than building conventional end-of-pipe treatment works.

Nitrates

At some groundwater sources the concentration of nitrates in the water is gradually increasing, mainly due to the historic use of fertilisers in agriculture. Consequently, we need to do work to ensure the quality of water put into supply continues to meet the required standards.

Where possible we are using sustainable catchment management, rather than constructing new treatment plants. Initial results are encouraging. Our specialists work alongside the local farming community to identify ways pollutants can get into the water and help find alternative land management practices that will protect and improve groundwater quality. Unfortunately, the current approach of Ofwat discourages this more sustainable approach, so we are pressing for a change.

Pesticides

Elevated pesticide levels have occasionally been found at water supply sources as a result of contamination of groundwater by farming practices. Rather than install treatment plant, we have again worked with farmers to reduce the risk of contamination.

At our Friar Waddon source near Weymouth, we have entered into agreements with three farms for a three-year trial to assess the effects of a total ban on spraying pesticides on land around the source. Results to date are encouraging and we have begun discussions with the largest landowner with a view to trialling the use of modern, more environmentally friendly, pesticides to enable cultivation to resume.

Water clarity

This year we have completed the final project in our programme of improvements to meet the stricter turbidity standard for water supply.

Mains relining/renewal

During the year we continued to reline and replace distribution mains to meet an undertaking with the DWI to overcome discoloured water problems. We have also continued to replace lead communication pipes on a reactive basis in accordance with the protocol set out by the DWI.

Sewage discharges

Our compliance with sewage discharge consents remains at a high level at 99.6%.

During 2007-08 we improved six unsatisfactory storm discharges that discharged diluted sewage to rivers following heavy rainfall so outperforming our monitoring plan target.

Bathing Water Directive

Compliance with the EU's mandatory bathing water standard remains at 100% for the fourth year running

Asset maintenance

Our strategic investment programme, designed to focus maintenance on reducing the risk of failures of service and improving asset stewardship, has made excellent progress

We have developed new methods of asset management that will improve our services to customers. These have been recognised through achieving accreditation to PAS55, the internationally recognised standard for Asset Management. Wessex Water is the first UK water company to have achieved this recognition.

Our water infrastructure remains stable with improving service to customers, reductions in leakage and a burst rate better than the industry norm and close to the lower quartile.

During the year we increased our mains replacement rate delivering an additional 17km of new mains. Wessex Water's sewerage infrastructure remained stable with a collapse rate 4% lower than the previous year.

ENVIRONMENTAL SUSTAINABILITY

Carbon management

Carbon management is a fundamental part of our central aspiration to become a genuinely sustainable water company and we are tracking our progress against the government's reduction path for greenhouse gas emissions.

CO2 emissions from our energy use have been climbing steadily in the last 10 years and emissions of methane (a greenhouse gas) have also been increasing as sludge quantities rise from enhanced treatment processes to meet tighter environmental standards.

Our carbon management plan involves the first three stages of the carbon hierarchy – avoidance, efficiency and renewable energy. As well as specific carbon-cutting initiatives, we are taking steps to ensure carbon management is built into decision making and operational activity.

At Bristol sewage treatment works we have installed new sludge treatment to increase our biogas production. This will enable us to generate more renewable electricity, so reducing the use of grid electricity and lower our methane emissions. We estimate the reduced emissions will equate to 16,000 tonnes of carbon dioxide.

Customers support a sustainable approach

To produce our Strategic Direction Statement we undertook a major programme of quantitative and qualitative customer research. This showed that customers want us to become more sustainable in our operations, in particular, to reduce our carbon footprint. The statement also mirrors our existing sustainability vision, which guides our strategy to become a truly sustainable water company.

In addition to investment at our Bristol treatment works we are pushing ahead with plans to install wind turbines at Avonmouth. Implementation would mean that our Bristol works will become a net exporter of energy and that 23% of the company's electricity will come from self-generated renewable sources, a further step towards our goal of carbon neutrality.

Wider sustainability initiatives

The third phase of our Biodiversity Action Plan partners programme is well underway. Projects receiving support aim to advance catchment management and river restoration within our region.

- Wiltshire Wildlife Trust's Chalk Streams project continues to demonstrate best practice in restoring sections of the Hampshire Avon and its tributaries. This project has helped secure £2m funding from the European Union and Heritage Lottery Fund.

- Avon Wildlife Trust has shown a strong correlation between land use and nitrate levels in St Catherine's Valley near Bath. The Trust has identified three hotspots and is developing incentives to encourage farmers to change practices.

Our own catchment management work to tackle nitrates and pesticides continues in south Dorset and south Wiltshire. Soil and water samples are providing clearer evidence of the precise locations where there is a higher risk of groundwater contamination from farming inputs. The quality of the assistance given by our expert staff has secured strong cooperation for this work from farmers and other interested parties.

We are also halfway through a major review of our waste management practice. Internal training is underway and methods for recording waste data have been improved. We have begun composting grit and screenings as an alternative to landfilling.

Finally we were delighted to receive a Queens Award for Enterprise in recognition of our approach to sustainability.

PEOPLE, HEALTH AND SAFETY

Our success as a company depends on the excellence of our employees and we aim to be open, honest and ethical in all our dealings with them

Employee research in 2007 showed a number of concerns that needed to be addressed. We made management and other changes to deal with these concerns and recent survey data shows a marked improvement.

With increasingly sophisticated water assets, access to the right skills is of growing importance. The shift from manual to technical work through training will be a continuing trend as will the need for individuals able to deliver high quality customer service, manage technical issues and risks, and at the same time begin to respond to the challenges of competition.

We are facing increasing competition from other sectors to attract and retain staff. To deal with all these challenges we have revised our recruitment and training strategies. All our employees are encouraged to have a personal development plan and our learning and development team are actively involved enabling this.

Our human resource department contains a training section offering a wide variety of programmes at all levels, ensuring ongoing learning opportunities. Regular monthly communication meetings take place within teams, along with personal appraisal or review meetings that are scheduled at least once a year.

Our owner, YTL Power, has introduced a 10 year employee share option scheme. New employees with more than 12 months service became eligible to join the scheme from August 2008.

We remain committed to achieving the highest possible health and safety standards and changes have been made to the management of health and safety to improve efficiency across the business. Individual business units now have dedicated health and safety advisers responsible for implementing health and safety strategy consistent with the company's goals.

We continue to review our health and safety policy, arrangements and safety documentation to ensure they remain best practice and will continue to support the Water UK occupational health and safety group in developing appropriate industry standards.

INVESTING IN OUR FUTURE SERVICES

During 2007-08 our investment programme has progressed well and is delivering the improvements in our services outlined in our business plan.

Water supply programme

Nitrates

We are taking a multifaceted approach to the problem of increasing concentrations of nitrates in groundwater sources that has been a result of the use of fertilisers in agriculture.

As well as our continuing work using catchment management, we have also put considerable effort into understanding the reasons behind the continuing rise in nitrates in our groundwater sources. A sophisticated process related model has been developed and we believe our approach is at the forefront of the industry.

Taste and odour

At Maundown, our largest water treatment works serving around 200,000 customers in west and central Somerset, there is an increasing incidence of algal blooms in the two large feeder reservoirs, which can cause taste and odour complaints.

We are making improvements to upgrade treatment, replace outdated assets and increase capacity to deal with a small shortfall in peak capacity in the west and north of the region. Work is due to be completed in 2009, with construction well advanced, civil engineering and building work complete and the majority of mechanical and electrical equipment installed. Commissioning will start in the summer.

Lead in drinking water

We are working to replace lead pipe in our network. When we replace our communication pipes we also include the customer's supply pipe up to the property wall. In three zones where we currently use phosphate dosing of the water to reduce uptake of lead from the pipes we are increasing the rate of lead pipe replacement. This should in time enable us to stop phosphate dosing.

Low river flows

During the year the low flow investigation and solution projects have been completed and reports were sent to the Environment Agency and English Nature in March 2008. Our draft water resources plan includes the possibility that we may have to reduce abstraction by 23.5 Ml/d (4% of our total reserves) during AMP5.

Security and Emergency Measures Direction

Work is progressing well to meet new standards for security and surveillance at our service reservoirs and water treatment works.

Sewerage and sewage treatment programme

Sewage discharges

During the five years ending in 2010 we are improving 25 unsatisfactory storm overflows that discharge very dilute sewage to rivers following heavy rainfall

Construction of a new storm overflow at Hotwells, Bristol, has progressed cautiously to minimise risks to the stability of the old river wall and a major highway, and the scheme will be completed in early 2009

First time sewerage

We are continuing with our programme of work to bring mains sewerage to rural communities to overcome public health or environmental problems due to septic tank, cesspool or other unsatisfactory forms of sewage disposal

During the five years ending in 2010 we are providing first time sewerage for 26 communities. This year we completed six schemes at Alderton, Lower Claverham, Reservoir Lane (Wells), Cleeve Hill Rd (Cleeve), Rooksbridge and Willow Close (Weston super Mare)

Urban Waste Water Treatment Directive

The sole outstanding project in our programme of improvements for the current five-year investment period is the scheme to remove nitrogen at Poole sewage treatment works. Construction work is now well advanced and the plant will come on stream this summer

Bristol tunnel flood alleviation scheme

Our largest flooding relief scheme in this period – an 850m long tunnel under Bristol city centre designed to remove 57 properties at risk of flooding – is well underway with completion scheduled for March 2009

Investigations

We have completed our investigations into the impact of treated sewage effluent on nature conservation sites in the Somerset Levels and Moors and at East Harptree near Bristol

We have also completed investigations into the influence of intermittent discharges from Black Rock pumping station on the bathing water quality at Weston super Mare. This work was completed early to inform our programme of improvements planned for the next price review period

Our programme to identify and reduce the number of misconnections to the sewerage system which give rise to stream pollution is continuing

Asset maintenance

Investigations have also taken place into alternative mains replacement strategies on an economic basis, looking at the social and environmental benefits and disbenefits and carbon costs associated with all activities related to bursts and mains replacement

We propose to continue our initiative of delivering additional mains replacement over the next two years

KEY ISSUES FACING THE COMPANY

Price review 2009

Next year's price review is an opportunity to deliver what customers want in the context of a long term, sustainable strategy. Very high levels of investment will be required for many years if we are to deliver the reliability, security and quality of services our customers require – and to deal with the impact of climate change

In our Strategic Direction Statement we set out our key success factors, reflecting customer priorities as well as the evolving environment and economy in which we operate. In summary we will

- continue to provide first class water and sewerage services
- operate and maintain the condition and capacity of our assets to the highest possible standards for future generations
- provide high levels of customer satisfaction by providing personal, knowledgeable and responsible customer service
- charge prices which encourage people to pay their bills and use water wisely
- ensure that our company has ready access to the capital markets
- deliver our services in a sustainable way

Our customers have told us that over the next five years the majority would prefer bills to rise by no more than inflation, accompanied by improvements in service. To help them plan their budgets we must avoid a rollercoaster of prices and the 2009 price review gives us just that opportunity

Our operating efficiencies can be used to fund the improvements in services that customers want without bills going up in real terms

Competition

Wessex Water regards competition and accounting separation, accompanied by intra-supply chain trading, as an opportunity to improve cost transparency and accountability through the value chain. Without progress in this area, we are sceptical about the extent to which the next step-change in efficiency improvements can be made. We are one of the companies working with Ofwat in piloting accounting separation and rather than viewing this as a desktop exercise, we see it as the first stage towards the management and operation of distinctive business units.

As the water services company with the lowest cost of billing and some of the highest standards of services, we welcome moves towards competition provided it creates real benefits for customers.

Financing

Spring 2008 saw some worrying events affecting the world economy – a more conservative position being taken by lenders, uncertainty in the banking sector and sharply rising prices for oil and food. While the medium to long term significance of these is not yet clear, we recognise the possibility of tighter credit and cost inflation being dominant features post-2010. At this stage we believe we will be able to continue accessing the capital markets, but at a higher price. Typical spreads have risen by 100 basis points since the onset of the credit crunch.

Private sewers transfer

The government is proposing to transfer responsibility for most private sewers to water companies. This would mean that the sewer lengths that we currently operate and maintain will approximately double, which would have a significant impact on bills. A timetable for transfer has not yet been set.

Climate change

The 2007 floods in Yorkshire and Gloucestershire underlined two important points. Firstly, the need for more resilience in our asset base to ensure that we can continue to deliver the services expected from us, even in difficult situations such as widespread flooding. This is even more important in the face of climate change.

Secondly, the floods highlighted the need for a more joined-up approach to surface water management. We have responded to Defra's consultation document 'Improving Surface Water Drainage', and believe that local councils are the right authorities to lead on surface water management plans and that water companies should be major contributors to these plans. It is a given that we will be expected to maintain current standards into the foreseeable future. Additionally, we do not expect customers to tolerate lapses in quality and availability of service during major disruptive weather events. It is apparent that climate change adaptation and asset resilience will be major issues and in the first instance we expect that we will be asked to demonstrate a suitable response to the government's climate change adaptation strategy.

In the short term, we are

- building on our existing partnership work with local authorities and other bodies sharing responsibilities on flooding
- assessing flooding risk to assets and
- building climate change into our risk assessment processes and using the output of the United Kingdom Climate Impacts Programme research in our planning

KEY OUTPUTS AND SERVICE DELIVERY

The board is pleased with the performance of Wessex Water. In particular

- we have achieved our highest-ever Ofwat OPA score of 418 points, 96% of the maximum
- we continue to top Ofwat's telephone satisfaction survey, and a record 98% of customers who contacted us rated our service as either good or very good
- we have delivered our largest-ever capital investment programme and met all outputs required under the monitoring plan
- we have improved the resilience of our asset network, in particular reducing the number of customers served by single sources and further cutting those at risk of sewage flooding
- we have further increased the proportion of energy generated procured from the group's renewable sources
- we are the most efficient operating company
- we have consulted customers on their aspirations for the 2009 Price Review and published our Strategic Direction Statement, setting out how we will deliver those aspirations in a long term, sustainable context
- we have received a number of awards, including the Queen's Award for Enterprise and Utility Week's Customer Care Award
- we have received accreditation to PAS55 and so become the first water company in the world to attain this independent recognition of good asset management practice

EMPLOYMENT

The company 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, televisual communication, conferences and the wide availability of the company intranet.

SUSTAINABILITY

The company 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

The company 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 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 2008.

CHARITABLE DONATIONS

During the year £183,000 was donated to UK charities (2007 - £120,000).

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 2008 trade creditors represented approximately 34 days trade purchases (2007 - 32 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 set 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 bimonthly.

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 and Audit Committee
- Remuneration Committee, and
- Nomination Committee

Risk Management and 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 to 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 three independent non-executive directors. The committee has access to the company's director of finance and policy, the financial controller and the company's external auditors.

Members: D M Barclay, chairman, Mrs L C S Bennett and P J Costain

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, D M Barclay, P J Costain, 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.

Members: Hong Yeoh, Francis Yeoh, CF Skellett and Mark 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 and 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
D M Barclay *
Mrs L C S Bennett **
S A Cater
Kathleen Chew +
P J Costain *
P J L Dennis
D J Elliott
T K Harris
J E Porritt *
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

	Opening number	Exercise price RM	Date of grant	Exercise date	Expiry date	Grant	Exercise	Closing number
SA Cater	360,000	1 32	13/12/2002	13/12/2005	29/11/2011	-	(120,000)	240,000
PJL Dennis	2,000,000	1 82	16/05/2005	16/05/2008	29/11/2011	-	-	2,000,000
DJ Elliott	360,000	1 32	13/12/2002	13/12/2005	29/11/2011	-	(120,000)	240,000
TK Harris	1,200,000	1 32	13/12/2002	13/12/2005	29/11/2011	-	(400,000)	800,000

The market price of share options exercised in the year was RM2 6407 and the gain on exercise was RM158,484 for SA Cater and DJ Elliott and RM528,280 for TK Harris

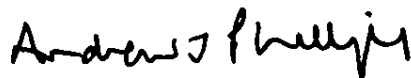
The interests in shares of Francis Yeoh, Hong Yeoh and Mark Yeoh are disclosed in the accounts of YTL Power International Berhad There were no other interests in shares of group companies that are disclosable in these accounts

DISCLOSURE OF INFORMATION TO AUDITORS

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are 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 Company's auditors are aware of that information

AUDITORS

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



By order of the Board
A J Phillips - Company Secretary
10 September 2008

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. Under Company law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The financial statements are required by law to 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 judgments 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, 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 that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

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

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

We have audited the financial statements of Wessex Water Services Ltd for the year ended 30 June 2008, which comprise the Profit and Loss Account, Balance Sheet, Statement of Total Recognised Gains and Losses and the related Notes to the Accounts. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 12. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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

Basis of audit opinion

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

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

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 30 June 2008 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc
Chartered Accountants and Registered Auditor
100 Temple Street
Bristol
BS1 6AG
10 September 2008

PROFIT AND LOSS ACCOUNT
For the year to 30 June 2008

	NOTE	Year to 30 06.08 £m	Year to 30 06 07 £m
Turnover	2	403.0	375.1
Operating costs	3	(203.5)	(201.9)
<hr/>			
Operating profit	2	199.5	173.2
Interest payable and similar charges	4	(90.8)	(76.7)
Interest receivable	4	18.6	10.8
Other finance income	16	2.2	0.1
<hr/>			
Profit on ordinary activities before taxation		129.5	107.4
Taxation on profit on ordinary activities	5	(24.5)	(14.5)
<hr/>			
Profit for the financial year		105.0	92.9
		<hr/> <hr/>	<hr/> <hr/>

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

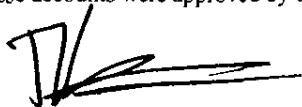
The accompanying notes are an integral part of this profit and loss account

BALANCE SHEET
30 June 2008

	NOTE	30 06 08 £m	30 06 07 £m
Fixed assets			
Tangible assets	8	1,930.1	1,768.3
Investments	9	-	-
		1,930.1	1,768.3
Current assets			
Stock and work in progress	10	4.5	4.2
Debtors	11	130.0	120.1
Short term cash investments	12	254.8	265.0
		389.3	389.3
Creditors - amounts falling due within one year	13	(459.0)	(146.3)
Net current (liabilities) / assets		(69.7)	243.0
Total assets less current liabilities		1,860.4	2,011.3
Creditors - amounts falling due after more than one year	14	(1,343.7)	(1,482.8)
Provisions for liabilities and charges	15	(77.9)	(84.9)
Retirement benefit obligations	16	(46.8)	(33.3)
Deferred income	17	(20.6)	(21.3)
Net assets	2	371.4	389.0
Capital and reserves			
Called up equity share capital	18	81.3	81.3
Profit and loss account	19	290.1	307.7
Equity shareholders' funds	20	371.4	389.0

The accompanying notes are an integral part of this balance sheet

These accounts were approved by the board of directors on 10 September 2008 and signed on its behalf by



T K Harris
 Director

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year to 30 June 2008

	NOTE	Year to 30 06 08 £m	Year to 30 06 07 £m
Profit for the financial year		105 0	92 9
<hr/>			
Total recognised gains relating to the financial year		105 0	92 9
Actuarial (losses) / gains net of taxation	19	(18.6)	14 5
<hr/>			
Total gains recognised since last annual report		86 4	107 4

NOTES TO THE ACCOUNTS
For the year to 30 June 2008

1 Accounting policies

a Basis of preparation

The financial statements have been prepared on a basis consistent with the last financial 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 1e) in accordance with the Companies Act 1985

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 26)

b Turnover

Turnover 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

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 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 schedule 4 of the Companies Act 1985 which requires assets to be stated at their purchase price or production cost, without deduction of grants and contributions which would be accounted for as deferred income. The departure from the 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 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.

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 year and reduced by payments made in the year.

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.

q **Dividends on shares presented within shareholders' funds**

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

2 **Segmental analysis**

	Year to 30.06.08 £m	Year to 30.06.07 £m
Substantially all of the turnover, operating profit and net assets derive from the United Kingdom		
a Turnover		
Regulated	399.2	369.1
Unregulated	-	-
Intra group	3.8	6.0
	<u>403.0</u>	<u>375.1</u>
b Operating profit		
Regulated	199.5	173.2
Unregulated	-	-
	<u>199.5</u>	<u>173.2</u>
c Net assets		
Regulated	371.4	389.0
Unregulated	-	-
	<u>371.4</u>	<u>389.0</u>
3 Operating costs		
Manpower costs (note 6b)	37.9	38.6
Materials and consumables	19.9	23.5
Other operational costs	58.0	54.9
Depreciation	86.7	87.0
Amortisation of grants and contributions	(0.9)	(0.9)
Loss / (profit) on disposals of fixed assets	1.9	(1.2)
	<u>203.5</u>	<u>201.9</u>
Operating costs include		
Operating leases for plant and machinery	1.6	1.3
Research and development	0.1	0.1
Directors' remuneration (note 6c)	1.1	0.8
	<u>2.8</u>	<u>2.2</u>
	Year to 30.06.08 £000	Year to 30.06.07 £000
Auditors' remuneration		
Audit of these financial statements	125	122
Other services pursuant to legislation	55	55
All other services	99	5
	<u>279</u>	<u>182</u>

4 Net interest payable	Year to 30 06 08 £m	Year to 30 06 07 £m
Interest payable		
To group companies	72.9	61.0
On bank loans	13.3	11.5
On finance leases	4.6	4.2
	<hr/>	<hr/>
Total interest payable	90.8	76.7
Interest receivable on short term deposits	(18.6)	(10.8)
	<hr/>	<hr/>
Net interest payable	72.2	65.9
	<hr/> <hr/>	<hr/> <hr/>
5 Taxation		
a Analysis of charge in the period		
Current year corporation tax		
UK corporation tax at 29.5% (2007 - 30%)	29.7	10.0
Advance corporation tax due to parent company	-	20.0
	<hr/>	<hr/>
	29.7	30.0
Prior year corporation tax adjustments in respect of previous years	(1.0)	(8.0)
	<hr/>	<hr/>
Total corporation tax charge	28.7	22.0
	<hr/> <hr/>	<hr/> <hr/>
Deferred tax – current year		
Origination and reversal of timing differences	1.9	(35.3)
(Increase) / decrease in discount	(6.5)	27.5
	<hr/>	<hr/>
	(4.6)	(7.8)
Deferred tax – prior year		
Origination and reversal of timing differences	1.5	1.3
Increase in discount	(1.1)	(1.0)
	<hr/>	<hr/>
	0.4	0.3
	<hr/>	<hr/>
Total deferred tax credit	(4.2)	(7.5)
	<hr/> <hr/>	<hr/> <hr/>
Taxation charge on profit on ordinary activities	24.5	14.5
	<hr/> <hr/>	<hr/> <hr/>
b Current tax reconciliation		
Profit on ordinary activities before tax	129.5	107.4
	<hr/>	<hr/>
Current tax at 29.5% (2007 - 30%)	38.2	32.2
Expenses not deductible for corporation tax purposes	(0.2)	(0.2)
Group relief for nil consideration	(2.9)	(3.4)
Adjustments in respect of previous years	(1.0)	(8.0)
Capital allowances for the year (greater) / lower than depreciation	(0.4)	6.0
Payment of lease creditor capital	(1.9)	(1.9)
Other timing differences	(3.1)	(2.7)
	<hr/>	<hr/>
Total corporation tax charge - as above	28.7	22.0
	<hr/> <hr/>	<hr/> <hr/>

- c A number of changes to the UK Corporation tax system were announced in the March 2007 Budget Statement which had been substantively enacted in the Finance Act 2007 at the balance sheet date. These included a reduction in the rate of corporation tax to 28% from 1 April 2008 and the abolition of balancing adjustments in relation to industrial buildings, which have been taken into consideration in computing the company's tax charge. The Budget Statement also announced changes to the rates of capital allowances in respect of plant and machinery which will apply from 1 April 2008, which it intends to incorporate in the Finance Act 2008. Had these changes been enacted at the balance sheet date the deferred tax provision (note 15) would have reduced by £5.4m to £7.2m, and the corporation tax liability (note 13) would have increased by £0.3m to £1.6m.

6 Directors and employees	Year to 30.06 08 £m	Year to 30 06 07 £m
a Total employment costs of the company were		
Wages and salaries	52.9	40.2
Social security costs	4.9	3.6
Other pension costs	6.9	7.0
Share-based payment	-	0.1
	<u>64.7</u>	<u>50.9</u>
b Total employment costs are charged as follows		
Capital schemes	24.0	10.1
Infrastructure renewals expenditure	5.0	2.3
Other finance income	(2.2)	(0.1)
Manpower costs (note 3)	37.9	38.6
	<u>64.7</u>	<u>50.9</u>
	Year to 30.06 08 £000	Year to 30 06 07 £000
c Total directors' remuneration		
Salary and fees	822	586
Bonuses	271	194
Benefits in kind	53	33
	<u>1,146</u>	<u>813</u>

The remuneration above is in respect of five executive directors (2007 – six) and seven non executive directors (2007 – seven). The increase in remuneration is because two of the executive directors were only appointed in the last month of last year.

Executive directors have one year rolling contracts of employment. In addition the executive directors received £534k (2007 - £540k) remuneration from other group companies. Four directors have benefits accruing under defined benefit pension schemes (2007 - five). The aggregate amount of company contributions to pension schemes in respect of directors was £162k (2007 - £117k).

In July 2007, C F Skellett entered into a 5 year Consultancy Agreement of £0.1m per annum, with YTL Utilities Limited (a parent company). The full £0.5m has been paid as a lump sum.

d Highest paid director		
Salary	162	118
Bonus	68	51
Benefits in kind	14	6
	<u>244</u>	<u>175</u>

The highest paid director had an accrued annual pension entitlement of £67,865 at 30 June 2008 (30 June 2007 - £133,894).

		30 06 08	30 06 07
		number	number
e	Monthly average number of employees during the year		
	- Billing Services	313	314
	- All other staff	1,767	1,347
		<hr/>	<hr/>
	- Total	2,080	1,661
		<hr/> <hr/>	<hr/> <hr/>

7 Dividends

The dividend policy is to declare dividends consistent with the company's performance and prudent management of the economic risk of the business

	Year to	Year to
	30.06 08	30 06 07
	£m	£m
Final dividend in respect of a prior year but not recognised as a liability in that year of 35 28p per share on 81,350,000 ordinary shares (2007 – 31 35p)	28 7	25 5
Interim dividends of 92 563p per share on 81,350,000 ordinary shares (2007 – 76 34p)	75 3	62 1
	<hr/>	<hr/>
	104 0	87 6
	<hr/> <hr/>	<hr/> <hr/>

In accordance with FRS 21 "Events after Balance Sheet Date" the final dividend for 2007/08 declared and paid in July 2008 of £25 3m (31 10p per share) was not recognised in these financial statements

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 2007	625.7	993.9	852.6	83.3	98.0	2,653.5
Additions	7.9	58.4	48.0	5.7	138.0	258.0
Transfers on commissioning	6.7	5.7	19.1	7.0	(38.5)	-
Disposals	(0.8)	-	(49.2)	(33.7)	-	(83.7)
Grants and contributions	-	(7.0)	-	-	-	(7.0)
At 30 June 2008	639.5	1,051.0	870.5	62.3	197.5	2,820.8
Depreciation						
At 1 July 2007	151.0	280.1	400.9	53.2	-	885.2
Charge for the year	13.7	26.8	42.9	3.3	-	86.7
Disposals	(0.4)	-	(47.1)	(33.7)	-	(81.2)
At 30 June 2008	164.3	306.9	396.7	22.8	-	890.7
Net book value						
At 30 June 2008	475.2	744.1	473.8	39.5	197.5	1,930.1
At 1 July 2007	474.7	713.8	451.7	30.1	98.0	1,768.3

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 £70.8m (2007 - £77.3m)

The depreciation charge for the year on assets held under finance leases is £6.5m (2007 - £6.4m)

The net book value of infrastructure assets at 30 June 2008 is stated after the deduction of grants and contributions amounting to £105.7m (2007 - £98.7m) in order to give a true and fair view (note 1e)

Included in the cost of infrastructure assets is £319.4m (2007 - £275.4m) of expenditure on maintaining the network, and £306.9m (2007 - £280.1m) of depreciation included in the profit and loss account

Included in freehold land and buildings above is an amount of £9.7m (2007 - £9.5m) in respect of land which is not depreciated

9 Investments

The company has an investment of £13,000 (2007 - £13,000) in 100% of the £1 ordinary shares of a subsidiary company, Wessex Water Services Finance Plc

	30 06.08 £m	30 06 07 £m
10 Stock and work in progress		
Raw materials and consumables	1.7	1.3
Work in progress	2.8	2.9
	<u>4.5</u>	<u>4.2</u>
11 Debtors		
Trade debtors	48.0	45.6
Owed by other group companies	25.2	23.4
Prepayments and accrued income	51.8	48.6
Other debtors	5.0	2.5
	<u>130.0</u>	<u>120.1</u>
12 Cash at bank and in hand		
Short term bank deposits	254.8	265.0
	<u>254.8</u>	<u>265.0</u>
£89.8m (2007 - £180.0m) of short term bank deposits mature within 1 month and £165.0m (2007 - £85.0) within 5 months		
13 Creditors - amounts falling due within one year		
Bank overdraft	4.9	3.3
Bond at 5.875% repayable in March 2009	299.7	-
Obligations under finance leases	4.8	5.3
Trade creditors	11.4	4.2
Amounts owed to parent company	-	15.2
Amounts owed to subsidiary undertaking	25.4	25.0
Amounts owed to other group companies	0.6	0.6
Other creditors	2.4	1.4
Corporation tax	15.7	5.9
Taxation and social security	1.8	1.6
Accruals and deferred income	92.3	83.8
	<u>459.0</u>	<u>146.3</u>
14 Creditors - amounts falling due after more than one year		
Loans repayable - in more than 1 year, but not more than 2 years	21.6	-
- in more than 2 years, but not more than 5 years	75.0	96.6
- in more than 5 years	100.0	100.0
	<u>196.6</u>	<u>196.6</u>
Finance lease repayable		
- in more than 1 year, but not more than 2 years	4.9	4.4
- in more than 2 years, but not more than 5 years	19.1	17.0
- in more than 5 years	51.5	59.0
	<u>75.5</u>	<u>80.4</u>
Inter company loans - in more than 1 year, but not more than 2 years	-	299.4
- in more than 5 years	1,070.0	904.6
Other	1.6	1.8
	<u>1,343.7</u>	<u>1,482.8</u>

	30 06 08 £m	30 06 07 £m
The inter company loans are due to a subsidiary company Wessex Water Services Finance Plc in respect of the proceeds of the following bond issues lent to the company		
Bond at 5.875% repayable in March 2009	-	299.4
Bond at 5.375% repayable in March 2028	197.9	197.8
Bond at 5.75% repayable in October 2033	345.5	345.3
Index linked bond at 3.53% plus inflation repayable in July 2023	59.0	56.7
Index linked bond at 1.75% plus inflation repayable in July 2046	79.3	76.2
Index linked bond at 1.75% plus inflation repayable in July 2051	79.3	76.2
Index linked bond at 1.369% plus inflation repayable in July 2057	79.3	76.2
Index linked bond at 1.374% plus inflation repayable in July 2057	79.3	76.2
Index linked bond at 1.489% plus inflation repayable in November 2058	50.2	-
Index linked bond at 1.495% plus inflation repayable in November 2058	50.1	-
Index linked bond at 1.499% plus inflation repayable in November 2058	50.1	-
	<u>1,070.0</u>	<u>1,204.0</u>

15 Provisions for liabilities and charges

	Deferred tax £m	Restructuring costs £m	Total £m
At 1 July 2007	84.0	0.9	84.9
Provided in year	-	(0.8)	(0.8)
Origination and reversal of timing differences	1.4	-	1.4
Increase in discount	(7.6)	-	(7.6)
	<u>77.8</u>	<u>0.1</u>	<u>77.9</u>

	30.06 08 £m	30 06 07 £m
Deferred tax is provided as follows		
Accelerated capital allowances	270.2	269.3
Other timing differences	(0.6)	(1.1)
	<u>269.6</u>	<u>268.2</u>
Undiscounted provision for deferred tax	269.6	268.2
Discount	(191.8)	(184.2)
	<u>77.8</u>	<u>84.0</u>

16 Pensions

FRS 17 pension liability (see note 16e)	63.5	44.7
FRS 17 deferred tax asset	(17.8)	(12.5)
Unfunded and compensatory added years pension	1.1	1.1
	<u>46.8</u>	<u>33.3</u>

- 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.

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

- b The total pension cost for the year under FRS 17, including amounts set aside for early retirees and other finance income, was £5.6m (2007 - £7.8m). 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 2007. 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 6.5% and the post retirement discount rate 5.5%, that salary increases would average 4.9% per annum and that present and future pensions would increase between 2.4% and 3.4% per annum. The market value of the WWPS assets as at 31 December 2007 was £307.8m which represented 82% of the actuarial value of the accrued benefits of £374.6m, a deficit of £66.8m. The next actuarial valuation will be at 31 December 2010.

In response to this valuation the company agreed to pay additional contributions of £9.0m per annum from 31 December 2008. The level of employer and employee contributions will also rise.

- d The actuarial valuation described above has been updated at 30 June 2008 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 08	30 06 07	30 06 06
Rate of increase in salaries	5.4%	4.1%	3.8%
Rate of increase in pensions in payment	3.9%	3.1%	2.8%
Rate of increase in pensions in payment – reduced level members	2.5%	2.3%	2.2%
Discount rate	6.7%	5.8%	5.2%
Inflation assumption	3.9%	3.1%	2.8%

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 25 years if they are male, and for a further 27 years if they are female. For a member who retires in 2028 at age 60 the assumptions are that they will live, on average, for a further 27 years after retirement if they are male, and a further 29 years after retirement if they are female.

- e The value of the assets and liabilities were as follows:

	30 06 08	30 06 07	30 06 06
	£m	£m	£m
Equities	124.5	145.6	109.5
Property	18.6	24.3	22.2
Government Bonds	147.4	116.3	86.5
Corporate Bonds	3.7	3.0	42.5
Cash	0.9	0.3	2.0
	<hr/>	<hr/>	<hr/>
Total fair value of the assets	295.1	289.5	262.7
Present value of defined benefit obligations	(358.6)	(334.2)	(333.0)
	<hr/>	<hr/>	<hr/>
Deficit in the scheme	(63.5)	(44.7)	(70.3)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The expected rates of return were as follows:

	%	%	%
Equities	9.1	9.25	8.9
Property	8.1	8.25	7.2
Government Bonds	5.0	5.1	4.6
Corporate Bonds	5.8	5.6	5.0
Cash	5.9	6.0	4.6
	<hr/>	<hr/>	<hr/>
	6.9	7.5	6.7
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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 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 2008.

f Additional analysis

	30.06 08 £m	30 06 07 £m
Analysis of profit and loss charge		
Current service cost	7 0	6 9
Past service cost	0 8	1 0
Interest cost	19 3	17 3
Expected return on scheme assets	(21 5)	(17 4)
	<hr/>	<hr/>
Expenses recognised in the profit and loss account	5.6	7 8
	<hr/> <hr/>	<hr/> <hr/>
Changes to the present value of defined benefit obligations during the year		
Opening present value of defined benefit obligations	334 2	333 0
Current service cost	7 0	6 9
Interest cost	19.3	17 3
Contributions by scheme participants	3 0	2 7
Actuarial losses / (gains) on scheme liabilities	6 2	(15 2)
Net benefits paid out	(11 9)	(11 5)
Past service cost	0 8	1 0
	<hr/>	<hr/>
Closing present value of defined benefit obligations	358 6	334 2
	<hr/> <hr/>	<hr/> <hr/>
Changes to the fair value of scheme assets during the year		
Opening fair value of scheme assets	289 5	262 7
Expected return on scheme assets	21.5	17 4
Actuarial (losses) / gains on scheme assets	(19.6)	5 4
Contributions by the employer	12.6	12 8
Contributions by scheme participants	3.0	2 7
Net benefits paid out	(11.9)	(11 5)
	<hr/>	<hr/>
Closing fair value of scheme assets	295 1	289 5
	<hr/> <hr/>	<hr/> <hr/>
Actual return on scheme assets		
Expected return on scheme assets	21.5	17 4
Actuarial (loss) / gain on scheme assets	(19.6)	5 4
	<hr/>	<hr/>
Actual return on scheme assets	1.9	22 8
	<hr/> <hr/>	<hr/> <hr/>
Analysis of amounts recognised in Statement of Total Recognised Gains and Losses		
Total actuarial (losses) / gains	(25.8)	20 6
	<hr/> <hr/>	<hr/> <hr/>
Cumulative amount of losses recognised	(59 0)	(33 2)
	<hr/> <hr/>	<hr/> <hr/>

History of asset values, present value of liabilities, deficit in the scheme and experience gains and losses

	30.06 08 £m	30 06 07 £m	30 06 06 £m	30 06 05 £m	30 06 04 £m
Fair value of scheme assets	295.1	289 5	262 7	240 3	211 0
Present value of scheme liabilities	(358 6)	(334 2)	(333 0)	(311 7)	(262 9)
Deficit in scheme	(63 5)	(44 7)	(70 3)	(71 4)	(51 9)
Experience (losses) / gains on scheme assets	(19 6)	5 4	5 1	18 7	4 3
Experience losses on scheme liabilities	(5 2)	(4 9)	(0 2)	(9 7)	(6 3)

	30.06 08 £m	30 06 07 £m
17 Deferred income		
Grants and contributions		
At 1 July	21.3	21.9
Received in the year	0.2	0.3
Less amortisation	(0.9)	(0.9)
	<u>20.6</u>	<u>21.3</u>
18 Called up equity share capital		
81,350,000 ordinary shares of £1 each		
Authorised, allotted, called up and fully paid	81.3	81.3
	<u>81.3</u>	<u>81.3</u>
19 Profit and loss account		
At 1 July	307.7	287.9
Profit attributable to shareholders	105.0	92.9
Dividends (note 7)	(104.0)	(87.6)
Actuarial (losses) / gains net of taxation	(18.6)	14.5
	<u>290.1</u>	<u>307.7</u>
20 Equity shareholders' funds		
Restated 1 July	389.0	369.2
Profit attributable to shareholders	105.0	92.9
Dividends (note 7)	(104.0)	(87.6)
Actuarial (losses) / gains net of taxation	(18.6)	14.5
	<u>371.4</u>	<u>389.0</u>
21 Financial instruments		

Short term debtors and creditors have been excluded from the financial instruments disclosure other than £309.4m (2007 - £8.6m) of short term borrowings and £254.8m of short term cash investments (2007 - £265.0m)

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 2008 there were £150.0m (2007 - £100.0m) of undrawn facilities

a Interest rate and currency exposure

	Fixed rate borrowings 2008 £m	Floating rate borrowings 2008 £m	Total borrowings 2008 £m	Fixed rate borrowings 2007 £m	Floating rate borrowings 2007 £m	Total borrowings 2007 £m
Sterling	1,369.7	27.0	1,396.7	1,204.0	20.6	1,224.6
	<u>1,369.7</u>	<u>27.0</u>	<u>1,396.7</u>	<u>1,204.0</u>	<u>20.6</u>	<u>1,224.6</u>

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

	Interest rate % 2008	Period years 2008	Interest rate % 2007	Period years 2007
Sterling	4.3	25.9	4.6	23.8
	<u>4.3</u>	<u>25.9</u>	<u>4.6</u>	<u>23.8</u>

Floating rate borrowings with interest rates moving in line with LIBOR comprise £254.8m of short term deposits (2007 - £265.0m), £9.7m of short term borrowings (2007 - £8.6m) and £272.1m (2007 - £277.0m) of long term borrowings

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 2008	Fair value £m 2008	Book value £m 2007	Fair value £m 2007
Borrowings / (cash) less than 1 year	54.6	52.8	(256.4)	(256.4)
Floating rate borrowings over 1 year	272.1	272.1	277.0	277.0
Fixed rate borrowings over 1 year	1,070.0	1,112.2	1,204.0	1,190.5
	<u>1,396.7</u>	<u>1,437.1</u>	<u>1,224.6</u>	<u>1,211.1</u>

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

22 Commitments and guarantees

- a There were operating lease payments of £0.1m (2007 – £0.1m) under leases on land and buildings due within the next year, which expire within 2 years. There are no commitments under other operating leases
- b Capital expenditure contracted but not provided at 30 June 2008 was £129.4m (2007 - £71.9m)
- c The company has guaranteed Bonds of £1,369.7m (2007 - £1,204.0m) issued by its wholly owned subsidiary company Wessex Water Services Finance Plc

23 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 company. 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	-
26/06/2008 Unapproved	20/08/2010	29/11/2011	1.80	0.02

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 over the vesting period.

For the options granted on 16 May 2005, 7 August 2006, 20 August 2007 and 26 June 2008 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

The following options were outstanding at 30 June 2007 and 2008

Granted – Ordinary shares of RM0.50 each	Outstanding at 30 June 2007	Granted	Forfeited	Exercised	Outstanding at 30 June 2008
13/12/2002 Unapproved	16,343,000	-	(200,000)	(2,963,750)	13,179,250
26/12/2002 Approved	5,070,000	-	-	(572,000)	4,498,000
12/12/2003 Unapproved	2,361,000	-	-	(542,000)	1,819,000
12/12/2003 Approved	1,518,000	-	-	-	1,518,000
16/05/2005 Unapproved	4,100,000	-	(200,000)	-	3,900,000
16/05/2005 Approved	4,850,000	-	(336,000)	-	4,514,000
07/08/2006 Unapproved	900,000	-	-	-	900,000
07/08/2006 Approved	5,486,000	-	(170,000)	-	5,316,000
20/08/2007 Unapproved	-	900,000	-	-	900,000
20/08/2007 Approved	-	3,768,000	(272,000)	-	3,496,000
26/06/2008 Unapproved	-	90,000	-	-	90,000
TOTAL	40,628,000	4,758,000	(1,178,000)	(4,077,750)	40,130,250

Of the above options 29,428,250 were exercisable at 30 June 2008

FRS 20 did not change the profit in the year (2007 – reduction of £0.1m)

24 Contingent liabilities

There are no material contingent liabilities at 30 June 2008 for which provision has not been made in these accounts

25 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 26), 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.

26 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. Consolidated accounts are available on request from both these addresses.